VALINOR

Valinor Public Limited
(incorporated as a public company with limited liability under Cypriot law)
Offering of not less than 20,000,000 ordinary shares with a nominal value of USD 0.01 each

This document (the "**Prospectus**") comprises a prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and the Council of the European Union as amended, including the amending Directive 2010/73/EU to the extent implemented in the relevant European Union Member State (the "**Prospectus Directive**") and has been prepared for the purpose of the offering and admission to trading and official listing on the main market of the Giełda Papierów Wartościowych w Warszawie S.A. (the "**Warsaw Stock Exchange**" or the "**WSE**") of: (i) not less than 10,000,000 new ordinary shares with a nominal value of USD 0.01 per share (the "**New Shares**") in Valinor Public Limited ("**Valinor**" or the "**Company**" and together with its consolidated subsidiaries, the "**Valinor Group**" or the "**Group**"), a public company with limited liability incorporated in Cyprus; and (ii) not less than 10,000,000 existing ordinary shares in the Company with a nominal value of USD 0.01 per share held by Valars Management Limited ("**VML**" or the "**Selling Shareholder**") (the "**Sale Shares**" and, together with the New Shares, the "**Offer Shares**") and the admission to trading and official listing on the WSE of not less than all of the other existing ordinary shares in the Company (the "**Other Existing Shares**" and, together with the Sale Shares, the "**Existing Shares**"). The New Shares and the Existing Shares are jointly referred to as the "**Shares**".

The Offering consists of: (i) a public offering in Poland to retail (the "**Retail Investors**") and institutional investors (the "**Polish Offering**"); and (ii) an offering to certain institutional investors (together with institutional investors in the Polish Offering, the "**Institutional Investors**") outside of the United States and Poland (the "**International Offering**"), each in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") ("**Regulation S**") and applicable securities regulations in each jurisdiction in which the Offer Shares are being offered. The Polish Offering and the International Offering are jointly referred to as the "**Offering**".

Retail Investors will be able to submit purchase orders for Offer Shares from 8 July 2011 until 14 July 2011. Following a book building process, Institutional Investors will be able to submit purchase orders from 15 July 2011 until 19 July 2011.

The maximum price per Offer Share is PLN [●] (the "**Maximum Price**"). The price per Offer Share (the "**Offer Price**") may not exceed the Maximum Price. The Offer Price will be determined by the Company and the Selling Shareholder, in agreement with Deutsche Bank AG, London Branch (a "**Joint Global Coordinator and Joint Bookrunner**") and CJSC "Investment Company "Troika Dialog"" and TD Investments Limited (together, "**Troika Dialog**", and a "**Joint Global Coordinator and Joint Bookrunner**"), and in consultation with Dom Maklerski BZ WBK S.A. (the "**Domestic Lead Manager**" or "**Offering Broker**" and together with the Joint Global Coordinators and Joint Bookrunners referred to as the "**Managers**") following the completion of a book building process among Institutional Investors.

The Company and the Selling Shareholder, in agreement with the Joint Global Coordinators and Joint Bookrunners and in consultation with the Domestic Lead Manager, will determine the final number of Offer Shares by no later than the date of determination of the Offer Price. The final number of Offer Shares to be offered to Retail Investors and Institutional Investors will be determined on the date of determination of the Offer Price. Information about the final number of Offer Shares, the final number of Offer Shares to be offered to Retail Investors and Institutional Investors and the Offer Price will be published in the form of an announcement in accordance with the Cypriot law entitled "Law providing for the conditions for making an offer to the public of securities, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and other incidental matters of 2005", Law 114 (I)/2005, as amended (the "**Public Offer and Prospectus Law**").

The Shares have not been and are not traded on any regulated market. The Company intends to apply to the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*) (the "**NDS**") for the registration of the Shares with the NDS as well as the Company intends to apply for the Shares to be admitted to trading and official listing on the WSE. It is the Company's intention that trading in the Shares on the WSE will commence not later than on 5 August 2011.

This Prospectus constitutes a prospectus in the form of a single document for the purposes of Section 9 of the Public Offer and Prospectus Law and has been prepared in accordance with the provisions of European Commission Regulation (EC) 809/2004 ("**Regulation 809/2004**"). This Prospectus has been approved by the Cyprus Securities and Exchange Commission (the "**Cyprus SEC**") in its capacity as the competent authority in Cyprus as the Company's home member state within the meaning of the Prospectus Directive. The Company will be authorised to carry out the Offering to the public in Poland once the Polish Financial Supervisory Authority (the "**Polish FSA**"), which is the competent authority in Poland, is notified of the approval of this Prospectus by the Cyprus SEC.

THE PUBLIC OFFERING IS MADE ONLY IN POLAND. THIS PROSPECTUS MAY NOT BE REGARDED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO PURCHASE THE OFFER SHARES OUTSIDE OF POLAND. SUBJECT TO CERTAIN LIMITED EXCEPTIONS, THE SECURITIES OFFERED IN THIS PROSPECTUS MAY NOT BE OFFERED OR SOLD OUTSIDE POLAND, INCLUDING IN THE UNITED STATES OF AMERICA. THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY U.S. STATE, AND SUBJECT TO CERTAIN LIMITED EXCEPTIONS, MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES, OR TO, OR FOR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT), EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND IN COMPLIANCE WITH ANY APPLICABLE U.S. STATE SECURITIES LAWS.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be illegal. Any person considering acquiring the Offer Shares in the Offering should read this Prospectus in its entirety and, in particular, the section "*Risk Factors*".

In connection with the Offering, Deutsche Bank AG, London Branch, acting as the stabilising manager (the "**Stabilising Manager**"), or any person acting as an agent for the Stabilising Manager, may effect transactions with a view to supporting the market price of the Offer Shares on the WSE at a level higher than that which might otherwise prevail in the open market for a limited period. However, there is no obligation on the part of the Stabilising Manager (or any agent of the Stabilising Manager) to take such action. Such transactions, if commenced, may be discontinued at any time and must be brought to an end within 30 days after the date of the first listing of the Offer Shares on the WSE. Such transactions will be carried out in compliance with all applicable laws, regulations and rules.

The Selling Shareholder has granted to the Stabilisation Manager an over-allotment option (the "**Over-Allotment Option**") exercisable for up to 30 days following the first listing date of the Offer Shares on the main market operated by the WSE to purchase up to an additional 2,000,000 Shares (the "**Over-Allotment Shares**"), the maximum number of which is equal to 10% of the number of the Offer Shares being offered in the Offering.

Joint Global Coordinator and Joint Bookrunner
Deutsche Bank

Joint Global Coordinator and Joint Bookrunner
Troika Dialog

Domestic Lead Manager and Offering Broker
Dom Maklerski BZ WBK

Underwriter responsible for drawing up the Prospectus
The Cyprus Investment and Securities Corporation

Consultant
InvestoHills

The date of this Prospectus is [●] July 2011

IMPORTANT INFORMATION

Offer Shares are being offered outside the United States in accordance with Regulation S and applicable securities regulations in each jurisdiction in which the Offer Shares are being offered.

The Company is providing this Prospectus to prospective investors. Prospective investors are authorised to use this Prospectus for the purpose of considering an investment in the Offer Shares offered in the Offering. Neither the Company, nor the Selling Shareholder nor any of the Managers make any representation to prospective investors as to the legality of an investment in the Offer Shares by the investor.

The Managers are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering, and will not be responsible to anyone other than the Company or the Selling Shareholder for providing the protections afforded to their respective clients, or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

The Cyprus Investment and Securities Corporation Limited ("**CISCO**") is acting as underwriter responsible for drawing up this Prospectus. CISCO has appointed independent parties to carry out a due diligence review of the Group in accordance with the Private Offer and Prospectus Law.

The distribution of this Prospectus and the offering of the Offer Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus may come are required to inform themselves about the restrictions on the distribution of this Prospectus that apply in their jurisdiction and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Neither this Prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. No action has been or will be taken at the date of this Prospectus, by the Company, the Selling Shareholder, the Managers or any other legal entity that would permit, otherwise than under the Offering, an offer of the Offer Shares or possession or distribution of this Prospectus (or any other offering or publicity materials or application form(s) relating to the Offer Shares) in any jurisdiction where action for that purpose may be required. Further information with regard to restrictions on offers and sales of the Offer Shares is set forth herein under "*Transfer and Selling Restrictions*".

This Prospectus does not constitute and may not be used for the purposes of an offer of, or a solicitation by or on behalf of the Company, the Selling Shareholder or the Managers to any person to subscribe for or purchase, any Offer Shares: (i) in any jurisdiction in which such offer or solicitation is not authorised; (ii) in any jurisdiction where it is unlawful for such person to make such an offer or solicitation; or (iii) to any person to whom it is unlawful to make such offer or solicitation. In any member state of the European Economic Area ("EEA") that has implemented the Prospectus Directive other than Poland (and subject to any limitations set out in the relevant regulations of such EEA member state) ("Relevant Member State"), no action has been undertaken or will be undertaken to make an offer to the public of securities requiring a publication of a prospectus in any Relevant Member State. This communication is only addressed to

and is only directed at qualified investors in that Relevant Member State within the meaning of the Prospectus Directive. Selling restrictions applicable in certain jurisdictions are set out below under "*Transfer and Selling Restrictions*".

The information contained in this Prospectus has been provided by the Company and other sources specifically identified herein. Apart from the responsibilities and liabilities, if any, which may be imposed on the Managers by the Cypriot regulatory regime or under the regulatory regime of any other jurisdiction where the absence of liability under the relevant regulatory regime would be illegal, void or unenforceable, neither the Managers nor any of their respective affiliates accept any responsibility whatsoever for the contents of this Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Company, the Offer Shares or the Offering. The Managers and each of their respective affiliates, each accordingly disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any Manager or any of its respective affiliates as to the accuracy, completeness or sufficiency of any of the information set forth in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Managers that any recipient of this document should subscribe for or purchase Offer Shares.

The Company, the directors of the Company (the "**Directors**", each being a "**Director**" and collectively the "**Board of Directors**") and the Selling Shareholder signing this Prospectus have exercised the necessary diligence in collecting and recording all the information required by the Public Offer and Prospectus Law and they take responsibility for the accuracy, correctness and completeness of the information and data contained in this Prospectus and declare, having exercised due care so as to form a responsible opinion, that the information contained in this Prospectus is true and correct and contains no omission likely to affect its import. The Company and the Directors signing this Prospectus accept, jointly and severally all responsibility for the accuracy and completeness of the information and facts contained in this Prospectus.

Prospective investors should rely only on the information in this Prospectus. No legal entity has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Selling Shareholder or the Managers.

Potential investors should read this Prospectus in its entirety and determine for themselves the relevance of the information contained in this Prospectus and their subscription for or purchase of Offer Shares should be based upon such investigation as they deem necessary. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this Prospectus, including the risks involved. The contents of this Prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser, business adviser or tax adviser for legal, financial, business or tax advice. If in any doubt about the contents of this Prospectus, prospective investors should consult their stockbroker, bank manager, legal adviser, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

The information contained in this Prospectus, subject to any supplements published in respect of this Prospectus, reflects the position as of its date. Neither the delivery of this Prospectus, nor any sale or offer made hereunder, including the Offering, must, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. The business, financial condition, results of operations and prospects of the Company could have changed since that date.

Pursuant to the Prospectus Directive, the Company is obliged to deliver to the Cyprus SEC information regarding any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Offering described herein and which arises or is noted between the date when this Prospectus is approved and the final closing of the Offering to the public or, as the case may be, the time when trading on the WSE begins. Such information should be delivered to the Cyprus SEC in the form of a supplement to this Prospectus (to be approved by the Cyprus SEC and notified by the Cyprus SEC to the Polish FSA), which will be published in the same manner as this Prospectus. In the event a supplement to this Prospectus is published as provided by articles14(1)(6) and 14(1)(7) of the Public Offer and Prospectus Law of 2005, investors who have agreed or have been bound in any manner prior to the publication of the supplement to the Prospectus to participate in the Offering, in respect of which this Prospectus refers to, based on the information therein, may withdraw and be released with no liability for them in respect of the promise and commitment they have undertaken. The withdrawal right and statement of release is exercised within three working days from the publication of the supplementary prospectus.

Unless stipulated otherwise, any representation of the Company's, the Group's or Management's belief, expectation, estimate or opinion reflects the belief, expectation, estimate and opinion of the Directors. For the purpose of this Prospectus, "**Management**" is defined as the Directors and those members of senior management listed in the section "*Management and Corporate Governance*".

In connection with the Offering, the Managers, and any of their respective affiliates acting as an investor for its or their own account(s) may acquire Offer Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the Offer Shares being issued, offered, acquired or otherwise dealt with should be read as including any issue or offer to, or acquisition or dealing by, the Managers or either of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Company, the Selling Shareholder and the Managers are not planning to conclude any offer of the Offer Shares separate from the Offering.

Deutsche Bank AG, London Branch ("**Deutsche Bank**"), in its capacity as a lender to the Company, currently holds 9.99% of the Existing Shares pursuant to the terms of a call option granted by the Selling Shareholder (the "**Deutsche Bank Call Option**"), see "*Business – Material Contracts – Arrangements with Deutsche Bank*". However, Deutsche Bank is required to return these Shares to the Selling Shareholder in circumstances where there is no exercise of the call option and it is further required to return any balance in circumstances where it is entitled to less than 9.99% of the Existing Shares upon exercise of the call option.

Pending exercise of the call option, Deutsche Bank holds economic and voting rights to the Shares, however it is Deutsche Bank's policy not to exercise the same.

Subject to the description in section "*Terms and Conditions of the Offering*" the Company, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the Offer Shares in whole or in part and to sell to any prospective investor less than the full amount of the Offer Shares requested by such investor.

In connection with the Offering, the Stabilising Manager (or any person acting as agent for the Stabilising Manager) may effect transactions with a view to supporting the market price of the Offer Shares on the WSE at a level higher than that which might otherwise prevail on the open market for a limited period. However, there is no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to take such action. Such transactions, if commenced, may be discontinued at any time and must be brought to an end within 30 days after the date of the first listing of the Offer Shares on the WSE. Such transactions will be carried out in compliance with all applicable laws, regulations and rules.

TABLE OF CONTENTS

PROSPECTUS 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" section, any supplements to this Prospectus required under applicable laws and the consolidated financial statements, financial information and related notes, before making any decision with respect to investing in the Offer Shares. No civil liability will attach to the Company 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 European Union Member State, the plaintiff may, under the national legislation of the European Union Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Overview

The Valinor Group is one of the largest agricultural businesses in the Commonwealth of Independent States (the "**CIS**") both in terms of cultivated land area and crops harvested. It focuses on the production and sale of agricultural products in Russia and Ukraine.

As at the date of this Prospectus, the Valinor Group controls approximately 358,000 hectares of land, of which approximately 238,000 hectares is located in Russia and approximately 120,000 hectares is located in Ukraine. The Group's land is located in Rostov, Stavropol and Krasnodar in Russia and Vinnytsia, Sumy, Poltava, Cherkasy, Mykolaiv and Kherson in Ukraine, which are characterised by highly fertile soil known as "chernozem" or "black earth" and, in 2010, approximately 91.5% of the Group's land was arable.

The Valinor Group produces a variety of agricultural commodities, principally cereals (wheat, barley and corn), oilseeds (sunflower and rapeseeds) and sugar beet. In the year ended 31 December 2010, it harvested approximately 1.2 million tonnes of crops, representing an 16% increase in crops harvested in the previous year. In addition to its production facilities, the Group has approximately 972,000 tonnes of storage capacity, including on-farm storage, three silos in Russia and four silos in Ukraine, and a modern fleet of agricultural machinery and trucks, which facilitate the Group's core business of growing, harvesting, storing and selling crops. For the year ended 31 December 2010, approximately half of the Company's revenues were derived from the sale of wheat.

Valinor has achieved significant revenue and production growth over the last two years. Its revenue was USD 224.4 million for the year ended 31 December 2010, which represents an increase of 35.9% over the year ended 31 December 2009. Adjusted EBITDA was USD 111.5 million for the year ended 31 December 2010, whereas Adjusted EBITDA for the year ended 31 December 2009 was USD 32.7 million, representing a 241.2% year-to-year increase. This increase was primarily due to an increase in production volumes and an increase in market prices for the Group's products. Adjusted EBITDA margin, calculated as Adjusted EBITDA divided by revenue, was 49.7% for the year ended 31 December 2010 and 19.8% for the year ended 31 December 2009.

History and Development of the Group

The foundations of the Group's business were formed in 2006 by the establishment of an agricultural trading, logistics and production business (the "**Former Group**") by certain members of the former management team of Yugtranzitservis Group (the "**YTS Group**"), one of the largest agricultural production and trading businesses in Russia. Mr. Kirill Podolskiy, who controls the majority of shares in the Company, established the YTS Group in 1997 together with certain other investors. In 2006, he left the YTS Group to establish the Former Group. In 2008, the Former Group assumed control of the YTS Group and, as a result, acquired an additional approximately 180,000 hectares of agricultural land formerly controlled by the YTS Group.

Until the end of 2010, the Group was part of the Former Group. Trading operations for cereals and oilseeds in the Former Group were carried out by Valars Holding Limited ("**VHL**"), Valars SA, LLC "Valary-Trade", LLC "Valary", LLC "Volary", LLC "Volary-Agro" and LLC "Volary Export". These companies purchased agricultural products from both Valinor-controlled farming companies and independent third parties. Certain companies in the Former Group were involved in production activities and some of these companies were under the direct or indirect control of companies involved in trading and logistic activities.

In order to separate the production and trading activities of the Former Group, at the end of 2010 a restructuring was commenced (the "**Restructuring**"). As a part of this restructuring, the Company was incorporated on 21 September 2010 and companies of the Former Group that were involved in production activities were, pursuant to a subscription agreement between the Selling Shareholder and the Company dated 9 December 2010, transferred to the Company for cash consideration or as an in kind contribution. Under the terms of this subscription agreement, the Selling Shareholder transferred to the Company the ownership of the Former Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 228,498,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 Shares. In order to give effect to the arrangements contemplated by the subscription agreement, a series of sale and purchase agreements, governed by either Cypriot, Russian or Ukrainian law, between various members of the Group, as purchaser, and various holding and sub-holding companies of the trading companies and other third parties, as sellers, were entered into.

As a result, the Company became the holding company of the Group and currently holds all the Former Group's agricultural production assets. Companies of the Former Group that were involved in trading activities are now owned separately by the Selling Shareholder, in a group referred to as the "Valars Group", and do not form part of the Group.

The Group's current portfolio of land was formed from three main sources. In addition to the approximately 180,000 hectares previously under the control of the YTS Group, a further approximately 152,000 hectares was acquired by members of the Former Group from various sources in 2008 and 2009 and a further approximately 27,000 hectares was acquired by the Group as a result of the Restructuring.

Competitive strengths

Management believes that Valinor benefits from the following competitive strengths which allow it to both enhance profitability and maintain its position as one of the leading agricultural producers in the CIS:

Principle focus on crop production: the Group's business activities are almost entirely related to crop production, with approximately 88% of its revenue attributable to crop production in 2010. Management intends to remain principally focused on crop production and to maintain only limited crop processing activities, which Management believes do not afford the Group the same advantages as a predominantly production focused business.

Good land quality and location: Valinor's land is located in regions of Russia and Ukraine with highly advantageous climate and soil conditions for crop production. All land under Valinor's control is characterised by "chernozem" or "black earth", which is highly fertile, and enjoys some of the highest production yields in both Russia and Ukraine. The land controlled by Valinor is also concentrated in seven compact clusters which affords the Group logistical advantages and economies of scale.

Optimal product mix: Valinor has developed a product mix and crop rotation policy which Management believes maximises both productivity and profitability. The Group's crop mix of cereals and oilseeds, including wheat, barley, corn, sunflower seeds and rapeseeds, is selected to match strong demand on both the domestic and international markets.

Efficiency of operations: Management seeks to streamline the Group's operations to ensure that both the productivity of its land and cost efficiencies are maximised. This is achieved through minimising fallow land, the use of modern farming techniques such as the effective use of crop protection products and GPS-aided harvesting, and updating the Group's domestically manufactured agricultural machinery with up-to-date imported equipment.

Economies of scale: The size of the Group's operations allows it to achieve significant economies of scale with respect to its production, logistics and raw material purchase activities.

Integrated distribution and storage capability: Management has increased its distribution efficiency through delivery by a fleet of trucks owned by the Group, which significantly decreases its transportation and haulage costs. The Group also has sufficient capacity in its silos and warehouses for its entire annual crop production, allowing it to store and sell harvested products when they can realise higher prices.

Experienced management: Management has extensive experience in the Russian and Ukrainian agricultural sectors and has expertise in all aspects of agricultural land acquisition, land lease rights and ownership management, crop production, distribution and trade. In addition, Management are also familiar with a majority of the Group's land since its acquisition.

Strategy

Management focuses on profitable growth through the production and sale of commercially viable crops and seeks to invest in new agricultural assets in the underdeveloped CIS and Ukrainian agricultural sectors. Key elements of this strategy include:

Maintain focus on crop production: Maintaining a focus on the production of cereals and oilseeds for which there is high demand on both the local and international commodity markets. In addition, the Group intends to reconstruct and improve existing but non-operational irrigation systems to enable the production of water intensive crops, such as potatoes, and to expand its production of soya bean or other water intensive vegetables.

Improve efficiency of operations: Ensuring that all its land operates at optimal production potential. In addition, Valinor intends to continue to consolidate farms to concentrate its resources and generate operating efficiencies. Furthermore, the Group intends to continue to reduce its levels of unskilled staff, staff costs and increase employee productivity.

Planned expansion of the Group's land under control: Investing in the acquisition of highly fertile agricultural land located in close proximity to its existing land in order to achieve optimal levels of production. In 2011, Management expects that up to an additional approximately 70,000 hectares, comprising up to 40,000 hectares in Russia and up to 30,000 hectares in Ukraine, will be acquired. In the period from 2012 to 2014, depending upon the price and availability of suitable land and prevailing market conditions, Management expects to be able to acquire and integrate at least 70,000 hectares of new land per annum.

Board of Directors

The following table sets out the current Directors of the Company:

Name	Position/Function
Kirill Podolskiy	Chairman of the Board of Directors, chief executive officer
Edward Kurochkin	Director and chief operating officer and general manager for Russia
Alexandr Lavrinenko	Director and general manager for Ukraine
Marina Barbarash	Director and chief financial officer
Mikhail Cherkasov	Director and chief executive officer for investor relations
Galina Ignatova	Director and deputy chief executive officer for legal and property
Andriy Volkov	Non-executive independent Director
Andrey Sizov	Non-executive independent Director
Elena Clerides	Non-executive Director
Alexey Ponomarenko	Non-executive Director

Other Members of Management

The Board of Directors is supported by the following key members of Management:

Name	Position/Function
Sergey Semenchko	Financial director, Russia
Natalya Chernetskaya	Financial director, Ukraine
Nickolay Sharganov	Chief operating officer, Russia
Gennady Doroshenko	Head of legal department, Russia
Anatoliy Kosovan	Head of legal department, Ukraine

Employees

Set out below is a table showing a breakdown of the Group's full time employees by function as at 20 June 2011:

Profession	**Number of employees**
Administrative	602
Crop production	4,677
Livestock	355
Industrial production	195
Total Russia	**3,710**
Total Ukraine	**2,119**
Total Number	**5,829**

Major Shareholder

The Company's major shareholder is the Selling Shareholder, holding 31,500,000 Shares representing approximately 90% of the issued share capital prior to the Offering. Approximately 85% of the shares in the Selling Shareholder are held by Mr. Kirill Podolskiy and other members of Management. Those Shares not held by members of Management are held by senior managers within the Valars Group.

Related Party Transactions

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Many of these transactions relate to transactions with members of the Valars Group. The Valars Group is principally engaged in agricultural trading activities and accordingly it has in the past been significantly involved, on an arm's length basis, in facilitating the sale of the Group's products. However Management intends that all of its 2011grain production will be sold on a tendering basis in which international grain traders will participate on the same terms as the Valars Group. For more information on the Group's related party transactions, see "*Related Party Transactions*".

Summary of Risk Factors

Before investing in the Offer Shares, potential investors should carefully consider, together with all of the information set out in this Prospectus, certain risk factors pertaining to the Group as set out in the section "*Risk Factors*".

The Company's business, prospects, financial condition or results of operations and consequently, the value of the Offer Shares may be adversely affected by the following risks:

Risks Relating to the Group's Business and Industry

- The Group's financial results are sensitive to fluctuations in the market prices of its products on the Russian, Ukrainian and international markets.
- Poor or unexpected weather conditions may disrupt the Group's production of crops.
- An increase in fertiliser, crop protection products, labour and fuel costs could reduce the Group's profitability.
- The Group has a substantial amount of indebtedness.
- Certain secured lenders may acquire control of the Company if they enforce pledges or other rights over Existing Shares owned by the Selling Shareholder.
- The ability of the Company's subsidiaries to export commodities may be limited.
- Governmental intervention in grain trading and other elements of the Group's business could affect the Group's business.
- The Group's future success depends in part on its ability to successfully identify and acquire additional land.
- The Group's financial performance and portfolio of land may be adversely affected by a lifting of the moratorium on the sale of agricultural land or an increase in its cadastral valuation in Ukraine.
- The Group's business could be materially adversely affected if its land lease agreements are not renewed upon expiry or invalidated or if zoning conditions are altered.
- If the Group's products became contaminated, the Group may be subject to product recalls and liability claims.
- The Group currently benefits from tax exemptions, which may be discontinued in the future.
- The Group benefits from state subsidies, which may be discontinued in the future.
- The Group is exposed to operational risks, including shortages of machinery, mechanical and technical failures and increases in maintenance costs.

- Insufficient access to, or an increase in the cost of, quality seeds may adversely affect the Group’s production levels and yield.

- Liquidity risks and a failure to generate or raise sufficient capital may adversely affect the Group’s expansion plans.

- The Group is exposed to currency exchange rate risk.

- The Group is dependent on key personnel.

- The Company has been, and will continue to be, controlled by a majority shareholder.

- A significant portion of the Group’s trade is with a limited number of customers.

- The Group is exposed to interest rate risk.

- The Group is exposed to credit risk.

- There are weaknesses in the Group’s accounting and reporting systems, accounting personnel and its internal controls and procedures relating to the preparation of IFRS financial statements.

- Valinor is a holding company and is, therefore, financially dependent on receiving distributions from its subsidiaries.

- The Group has grown through acquisitions and may face unforeseen liabilities and risks.

- The Group's acquisitions of certain Ukrainian subsidiaries may have breached applicable law.

- The Group’s insurance coverage may be insufficient for any losses incurred.

- Increased competition in the Russian and Ukrainian agricultural industry could adversely affect the Group’s business.

- The Group depends on permits and other administrative approvals.

- The Group is subject to environmental and health and safety laws and regulations, as well as potential environmental liabilities, which may require it to make substantial expenditures.

- Failure by the Group to properly manage its storage systems may result in damage to products in storage.

Risks Related to Russia and Ukraine

- Emerging markets such as Russia and Ukraine are subject to greater political, economic and conflict risk than more developed markets.

- Further deterioration of the global economy could have a material adverse effect on the Russian and Ukrainian economies and the Group’s business.

- Infrastructure in Russia and Ukraine is underdeveloped, which could increase costs or result in losses for the Group's business and/or disrupt normal business activities.

- Failure to maintain good relations with key markets could have a material adverse effect on the Russian and Ukrainian economies and the Group's business, results of operations and financial condition.

- Weaknesses relating to the Russian and Ukrainian legal systems and Russian and Ukrainian legislation create an uncertain environment for investment and for business activity.

- Foreign judgments may not be enforceable in Russia and Ukraine.

- Non-compliance with laws or other regulations can have significant consequences in Russia and Ukraine.

- The Group's intragroup transactions and other related party transactions are subject to Russian and Ukrainian transfer pricing regulations.

- Land lease registration is complicated and lengthy in Russia and Ukraine.

- Russian and Ukrainian legal entities are subject to tax audits by the Russian or Ukrainian tax authorities which may result in additional tax liabilities.

- The Russian and Ukrainian banking systems remain underdeveloped.

- Nationalisation, expropriation, government intervention and regulation could negatively impact the Group.

- Unlawful, selective or arbitrary government action may have an adverse effect on the Group.

- Crime, corruption and money laundering is prevalent in regions where the Group conducts business.

Risks Related to Russia

- Political and governmental instability.

- The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Group.

- Russian currency regulation has only recently been liberalised and may remain subject to change.

- The Group's ownership interest in agricultural land may be challenged under Russian law.

- Current Russian thin capitalisation rules could affect the ability of Russian subsidiaries to deduct interest on certain borrowings and give rise to withholding income tax liability on excess interest reclassified into dividends.

- The Company may become liable for the obligations of its subsidiaries under Russian legislation.

Risks Related to Ukraine

- The Ukrainian economy has been severely affected by the world financial and economic crisis.
- Ukraine is experiencing political uncertainty.
- Ukraine has limited external sources of public financing.
- Changes and inconsistencies in the Ukrainian tax system could have a material adverse effect on the Group's business.

Risks Relating to the Offering and Listing

- The Offering may be cancelled or suspended.
- There is no guarantee that active and liquid trading in the Shares will develop.
- Investment risk and volatility on the WSE.
- The Company may be unable to list its Shares on the WSE.
- Trading in the Shares on the WSE could be suspended.
- The Shares could be delisted or excluded from trading on the WSE.

Risks Relating to the Shares

- Exercise of certain shareholders' rights and tax treatment for non-Cypriot investors in a Cypriot company may be complex and costly.
- Future capital increases may lead to dilution of shareholders' holdings in the Company.
- The market value of the Shares may be adversely affected by future sales of Shares.
- Securities or industry analysts may cease to publish research or reports about the Company's business or may change their recommendations regarding the Shares.
- The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of the Shares.

A detailed description of all risk factors can be found in "*Risk Factors*" below.

Capitalisation and Indebtedness of the Group

The table below presents certain information on the consolidated capitalisation of the Company as at 28 February 2011:

(a) derived from the Company's unaudited consolidated financial statements as at 28 February 2011;

(b) on an adjusted basis to reflect (i) the drawdown of all amounts available under the Deutsche Bank First Facility Agreement and the Deutsche Bank Second Facility Agreement and their application to refinance existing indebtedness and to fund certain working capital needs (the "**Refinancing**"); and (ii) the subordination of certain arrangements entered into with related parties. For more information on the Refinancing and subordination, see "*Business – Material Contracts – Arrangements with Deutsche Bank*"; and

(c) on an adjusted basis to reflect the net proceeds received by the Company from the offering of the New Shares (based on the Maximum Price and assuming the issue of the minimum number of New Shares, being 10,000,000) after deduction of commissions for the Managers (assuming full payment of discretionary fees) and estimated offering costs payable by the Company.

This section should be read in conjunction with the section headed "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Group's audited consolidated financial statements.

CAPITALISATION AND INDEBTEDNESS[1]	**As at 28 February 2011 (USD'000)**	**Adjusted for the Refinancing (USD'000)**	**Adjusted for the Offering (USD'000)**
Equity and reserves attributable to owners of the parent	**311,390**	**311,390**	
Share capital	350	350	
Share premium	228,150	228,150	
Restructuring reserve	(24,670)	(24,670)	
Revaluation reserve	70,126	70,126	
Retained earnings	100,846	100,846	
Cumulative translation difference	(63,412)	(63,412)	
Total current debt	**186,806**	**91,233**	
Bank short-term loans and borrowings and accrued interest	85,535	33,696	
Current portion of long-term bank loans and borrowings	1,495	1,495	
Other current non-bank financial debt[2]	99,776	56,043	
Total non-current debt	**142,549**	**359,040**	
Bank long-term loans and borrowings[3]	125,172	288,930	
Long-term finance lease obligations and other	17,377	70,110	

non-bank debt		
- including long-term subordinated borrowing(4)		43,733
Total capitalisation and indebtedness	**640,745**	**761,663**

NET INDEBTEDNESS	**(USD'000)**	**(USD'000)**
Cash	1,507	1,507
Cash Equivalent	-	-
Trading Securities	-	-
Total Liquidity	**1,507**	**1,507**
Bank short-term loans and borrowings and accrued interest	85,535	33,696
Current portion of long-term bank loans and borrowings	1,495	1,495
Other current non-bank financial debt(2)	99,776	56,043
Current Financial Debt	**186,806**	**91,233**
Net Current Financial Assets (Indebtedness)	(185,299)	(89,726)
Bank long-term loans and borrowings(3)	125,172	288,930
Bonds issued	-	-
Long-term finance lease obligations and other non-bank debt	17,377	70,110
- including long-term subordinated borrowing(4)		43,733
Non Current Financial Indebtedness	(142,549)	(359,040)
Net Financial Indebtedness	(327,848)	(488,766)

Notes:

(1) The above table does not reflect any indirect or contingent indebtedness. For details relating to off-balance sheet arrangements, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements*".

(2) Including certain intercompany debt and receivables, see "*Related Party Transactions – Transactions with Valars Group – Financial Arrangements*".

(3) For further information concerning long term loans and borrowings, see "*Business – Material Contracts – Credit Agreements with Sberbank*", "*Business – Material Contracts – Credit Agreements with Petrocommerce Bank*", "*Business – Material Contracts – Credit Agreement with Vozrozhdenie Bank*" and "*Business – Material Contracts – Arrangements with Deutsche Bank*".

(4) Pursuant to the terms of the Deutsche Bank First Facility Agreement, certain related party loans entered into by Ukrainian and Cypriot members of the Group have been subordinated, on an interest free basis, for a term of up to five years with a prohibition for early repayment, see "*Business – Material*

Contracts – Arrangements with Deutsche Bank". The Company and the Selling Shareholder have each undertaken that none of the related party payables of the Group that fall outside the subordination arrangements entered into with Deutsche Bank under the Deutsche Bank First Facility Agreement shall be repaid from the proceeds of the Offering, cash from operating activities or from any additional debt or equity financing. All such related party payables will be extinguished by way of non-cash set-off against related party receivables as soon as practicable, but in any event, no later than 31 December 2012.

No material change

Save as disclosed in "- *Recent Developments*" below, no material change in the consolidated capitalisation and indebtedness of the Company has occurred from 28 February 2011 to the date of this Prospectus.

Recent developments

As part of the Company's recent strategy to develop its own in-house trading capability, it has designated a Russian member of the Group, LLC "Valinor-Management", to conduct grain trading operations in Russia, and has acquired a Ukrainian company, also named "Valinor-Management" LLC, to conduct grain trading operations in Ukraine. For further information regarding these developments, see "*Business – Sales and Marketing – Future Trading Strategy*".

On 10 May 2011, Deutsche Bank and the Company entered into a USD 65 million senior secured guaranteed term loan facility agreement, as amended on 3 June 2011. The funds were drawn down in one tranche on 16 May 2011 and were used for the repayment of certain indebtedness owed to Alfa Bank Ukraine, totalling the equivalent of approximately USD 21 million, and Russian Agricultural Bank, totalling approximately USD 4 million. The balance was applied to working capital needs relating to crop production in Russia and Ukraine, the payment of certain trade payables and applicable fees and commissions. This facility is secured by a pledge over 15% of the Existing Shares, a further 9.99% of the Existing Shares being held by Deutsche Bank under the terms of the Deutsche Bank Call Option and irrevocable and unconditional English law governed guarantees issued by certain members of the Group.

On 30 June 2011, Deutsche Bank and the Company entered into a further USD 200 million senior secured guaranteed amortising term loan facility agreement with Deutsche Bank. The funds, which are to be drawn down in one tranche on or about the date of this Prospectus, are intended to be used for:

- refinancing of a loan provided by Alfa Bank Ukraine to Valars Agro, in the total amount of up to USD 115 million and the release of associated security, including the acquisition by Dilpar of one class B share held by Fiduciaria Limited, a related party of Alfa Bank Ukraine, in Valars Agro, for USD 27.0 million, together with all and any relevant payments necessary for the acquisition of this share;

- refinancing of loans provided by Petrocommerce Bank to Valary, a member of the Valars Group, and the release of associated security, being a pledge over 20% of the Existing Shares, in the total amount of up to USD 22 million, together with all and any interest accrued and/or deferred in relation to these loans;

- refinancing of loans provided by OJSC "Russian Agricultural Bank" to various Russian members of the Group, in the total amount of up to RUB 5,807,304.47 (approximately USD 190,528) and USD 18,595,881.77, together with any interest accrued and/or deferred in relation to these loans;

- refinancing of loans provided by OJSC "Raiffeisen Bank Aval", PJSC "Bank Forum" and JSCIB "Ukrsibbank" to various Ukrainian members of the Group, in the total amount of up to UAH 34,212,319, (approximately USD 4,298,030 million) together with all and any interest accrued and/or deferred in relation to these loans;

- refinancing of a loan provided by JSC Commercial Bank LLC "Centre-Invest" to LLC "Petrovskoe", in the total amount of up to RUB 75,000,000 (approximately USD 2,460,630 million) together with all and any interest accrued and/or deferred in relation to this loan;

- refinancing of various other loans provided to members of the Group, in the total amount of up to RUB 5,806,135.40 (approximately USD 190,490), together with all and any interest accrued and/or deferred in relation to these loans; and

- general corporate purposes.

For more information on the Refinancing, see "*Business – Material Contracts – Arrangements with Deutsche Bank*".

Summary of Financial and Operating Information for the Group

The summary consolidated financial and operational information for the Group as at 31 December 2010, 2009 and 2008 and for the years then ended has been derived from the consolidated financial statements and the notes related thereto included elsewhere in this Prospectus.

This summary should be read together with the consolidated financial statements and the notes related thereto included elsewhere in this Prospectus and the section of this Prospectus entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	Year ended 31 December		
	2010	**2009**	**2008**
	(USD '000)	**(USD '000)**	**(USD '000)**
INCOME STATEMENT DATA: *Continuing Operations*			
Revenue	224,350	165,059	135,924
Net change in fair value of biological assets and agricultural produce	48,058	15,860	(21,032)
Cost of sales	(163,215)	(148,344)	(115,357)
Gross profit/(loss)	**109,193**	**32,575**	**(465)**
Administrative expenses	(18,681)	(13,752)	(14,761)
Selling expenses	(4,665)	(6,661)	(6,772)
Government grants recognised as income	10,176	6,849	7,859
Other operating expenses, net	(12,933)	(9,573)	(7,353)
Operating foreign exchange (losses)/gains, net	(474)	(839)	536
Operating profit/(loss) before loss on impairment	**82,616**	**8,599**	**(20,956)**
Impairment loss on goodwill and property, plant and equipment	--	(9, 591)	(671)
Operating profit/(loss)	**82,616**	**(992)**	**(21,627)**
Finance costs, net	(38,711)	(42,399)	(27,104)
Finance income	3,902	3,226	494
Non-operating foreign exchange gains/(losses), net	416	(296)	(6,101)
Gain realised from acquisitions of subsidiaries	--	28,006	112,710
Profit/(loss) before tax	**48,223**	**(12,455)**	**58,372**
Income tax benefit/ (expense)	1,385	(6,554)	13,899
Profit/(loss) for the year	**49,608**	**(19,009)**	**72,271**

	Year ended 31 December		
	2010	2009	2008
	(USD ’000)	(USD ’000)	(USD ’000)
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Effect of revaluation of property, plant and equipment	--	87,213	--
Income tax related to items of other comprehensive income	--	(11,392)	--
Other comprehensive income/(loss)	3,527	12,731	(95,079)
Total comprehensive income/(loss) for the year	**53,135**	**69,543**	**(22,808)**
Profit/(loss) for the year, attributable to:			
Equity holders of the Company	45,601	(16,943)	73,961
Non-controlling interests	4,007	(2,066)	(1,690)
Profit/(loss) for the year	**49,608**	**(19,009)**	**72,271**
BALANCE SHEET DATA (at end of period):			
Total non-current assets	457,691	475,705	371,039
Total current assets	286,243	210,436	197,165
Total assets	**743,934**	**686,141**	**568,204**
Total non-current liabilities	176,129	203,892	200,801
Total current liabilities	230,529	198,457	160,600
Total liabilities	**406,658**	**402,349**	**361,401**
CASH FLOW STATEMENT DATA:			
Net cash generated by/(used in) operating activities	78,100	(15,577)	(17,707)
Net cash used in investing activities	(10,063)	(37,854)	(89,009)
Net cash (used in)/ generated by financing activities	(61,650)	52,573	109,719
Cash and cash equivalents at the end of the year	7,758	1,321	2,211
OTHER FINANCIAL DATA:			
Adjusted EBITDA(1)	111,540	32,695	8,641

(1) Adjusted EBITDA is not a measure of performance under International Financial Reporting Standards (“**IFRS**”). The Company defines Adjusted EBITDA as profit or loss for the relevant period before: (i) income tax expense/benefit; (ii) gain realised from acquisitions of subsidiaries; (iii) non-operating foreign exchange gains/losses, net; (iv) finance income; (v) finance costs, net; (vi) impairment loss on goodwill and property, plant and equipment; (vii) depreciation and amortisation; and (viii) loss on disposals (“**Adjusted EBITDA**”). The Company has made these adjustments as Management believes that these line items are not operational in

nature and do not reflect the true nature of the business on a continuing basis and/or that these line items are either non-recurring or unusual in nature. As such, these adjustments present a clearer view of the performance of the Group's underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA in the Group's business operations to, among other things, assess the Group's operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating other companies, most of which present similar measures when reporting their results. Adjusted EBITDA does not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund future cash requirements. Further, because Adjusted EBITDA is not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The following table sets forth the reconciliation of profit/loss for the year to Adjusted EBITDA:

	Year ended 31 December		
	2010	**2009**	**2008**
	(USD '000)	**(USD '000)**	**(USD '000)**
Profit/(loss) for the year	49,608	(19,009)	72,271
Income tax (benefit)/expense	(1,385)	6,554	(13,899)
Gain realised from acquisitions of subsidiaries	--	(28,006)	(112,710)
Non-operating foreign exchange (gains)/losses, net	(416)	296	6,101
Finance income	(3,902)	(3,226)	(494)
Finance costs, net	38,711	42,399	27,104
Impairment loss on goodwill and property, plant and equipment	--	9,591	671
Operating profit/(loss) before loss on impairment	**82,616**	**8,599**	**(20,956)**
Depreciation and amortisation[(a)]	25,383	23,339	27,784
Loss on disposals[(b)]	3,541	757	1,813
Adjusted EBITDA	**111,540**	**32,695**	**8,641**

(a) Depreciation and amortisation consists primarily of depreciation of property, plant and equipment and amortisation of intangible assets in relation to cost of sales, administrative expenses, selling expenses, and other operating expenses.
(b) Loss on disposals relates primarily to the Group's regular operations with non-current assets, such as property, plant and equipment. The loss on disposals arises in circumstances where the cost of disposed items is greater than the cost of acquired items (i.e., acquired assets are recorded at fair value).

Independent Auditor

Deloitte Limited, independent auditors, with their address at Maximos Plaza, Tower 1, 3rd Floor, 213 Arch. Makariou III Avenue, CY-3030 Limassol, Cyprus, have audited the consolidated financial statements for the years ended 31 December 2010, 2009 and 2008.

Memorandum

The following is a brief summary of certain material provisions of the Company's Memorandum and Articles of Association in effect on the date of this Prospectus.

The Company was established in Cyprus on 21 September 2010 as a limited liability company by the Selling Shareholder. The Company is registered with the Cypriot companies registry under number HE 273907. On 21 March 2011, the Company was registered as a public limited company. The registered office of the Company is Stasandrou 8, 3rd floor, Office 301, P. C. 1060, Nicosia, Cyprus.

The Company was incorporated with a share capital of EUR 1,000 divided into 1,000 ordinary shares of nominal value of EUR 1.00 each. On 9 December 2010, the authorised and issued share capital of the Company was converted into USD and increased to USD 350,000 divided into 35,000,000 ordinary shares of USD 0.01 each. Following the increase, on 9 December 2010, the Selling Shareholder and the Company entered into a subscription agreement whereby the Selling Shareholder transferred to the Company the ownership of the Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 222,493,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 ordinary shares of USD 0.01 each at a premium of USD 6.54 per ordinary share thereby increasing the Company's issued share capital to USD 350,000 consisting of 35,000,000 ordinary shares of USD 0.01 each and creating a share premium of USD 222,150,000. On 9 May 2011, in preparation for the Offering, the authorised share capital of the Company was increased to USD 500,000 divided into 50,000,000 ordinary shares of USD 0.01 each. This remains the Company's authorised share capital as at the date of this Prospectus and it shall remain the Company's authorised share capital immediately following the Offering.

Articles of Association

The Articles of Association were adopted by a special resolution dated 7 March 2011. On an issue of Shares, each existing shareholder has a right of pre-emption to subscribe for shares (apart from shares issued for a non-cash consideration) in cash in proportion to the aggregate amount of their shareholding.

THE OFFER

The Company	Valinor Public Limited, a public company limited by shares and incorporated under the laws of Cyprus with registration number HE273907 with its registered office at Stasandrou 8, 3rd Floor, Office 301, P.C. 1060, Nicosia, Cyprus and with an authorised share capital amounting to USD 500,000 (five hundred thousand United States dollars) divided into 50,000,000 ordinary shares of USD 0.01 each.
The Offering	On the basis of this Prospectus, the Company is offering not less than 10,000,000 newly issued ordinary shares with a nominal value of USD 0.01 per share and the Selling Shareholder is offering not less than 10,000,000 existing ordinary shares with a nominal value of USD 0.01 per Share, in each case by way of (i) a public offering in Poland to retail and institutional investors; and (ii) an offering to certain institutional investors outside of the United States and Poland, each in accordance with Regulation S.
Polish Offering	In Poland, the Offer Shares are being offered to Retail Investors and Institutional Investors in a public offering on the basis of this Prospectus, which has been approved by the Cyprus SEC in its capacity as the competent authority in Cyprus being the Company's home member state within the meaning of the Prospectus Directive. The Company will be authorised to carry out the public offering in Poland once the Polish FSA, which is the competent authority in Poland, is notified of the approval of this Prospectus by the Cyprus SEC. The Polish Offering will be made in accordance with Regulation S and applicable securities regulations in Poland.
International Offering	In jurisdictions outside of Poland and the United States, the Offer Shares are being offered to Institutional Investors in accordance with Regulation S and applicable securities regulations in each jurisdiction in which the Offer Shares are being offered.
Maximum Price	The maximum price per Offer Share is PLN [●].
Offer Price	The Offer Price will not exceed the Maximum Price of PLN [●] per Offer Share. The Offer Price will be the same for both Retail Investors and Institutional Investors. The Offer Price will be determined by the Company

	and the Selling Shareholder, in agreement with the Joint Global Coordinators and Joint Bookrunners and in consultation with the Domestic Lead Manager, following the completion of the book building process among Institutional Investors. Information on the Offer Price will be published in the form of an announcement pursuant to section 13(4) of the Public Offer and Prospectus Law.
Proposed timetable for the Offering	4 July 2011 – Date of this Prospectus. 6 July 2011 – Commencement of the book building process for Institutional Investors. 8 July 2011 – Commencement of the the subscription period for Retail Investors. 14 July 2011 – End of the subscription period for Retail Investors. 14 July 2011 – Completion of the book building process among Institutional Investors (until 5.00 p.m. CET); determination of the final number of Offer Shares, the final number of Offer Shares to be offered to Retail Investors and Institutional Investors, as well as the Offer Price. On or about 15 July 2011 – Publication of the Offer Price, the final number of Offer Shares and the number of Offer Shares to be offered to Retail Investors and Institutional Investors. From 15 July 2011 to 19 July 2011 – Acceptance of purchase orders from Institutional Investors. Until 20 July 2011 – Submission of purchase orders, if any, by the Managers in performance of their obligations under the Placement Agreement; allotment of the Offer Shares in the Offering. On or about 25 July 2011 – Registration of the Offer Shares in the securities accounts of Retail Investors and Institutional Investors. On or about 27 July 2011 – First day of listing of the Shares on the WSE.
Offer Shares	Not less than 10,000,000 New Shares in the share capital of the Company with a nominal value of USD 0.01 per share and not less than 10,000,000 Sale Shares in the share capital of the Company with a nominal

	value of USD 0.01 per share, held by the Selling Shareholder.
Listing date	The Shares have not been and are not traded on any regulated market. The Company intends to apply for the Shares to be listed on the WSE. It is the Company's intention that trading in the Shares on the WSE will commence not later than on 5 August 2011.
Shares issued and outstanding	Prior to the Offering, the Company's share capital consisted of 35,000,000 Existing Shares issued and outstanding. Following the closing of the Offering and assuming the issue of 10,000,000 New Shares, the Company's share capital will consist of 45,000,000 Shares issued and outstanding.
Voting rights	Each Share (including the Offer Shares) gives its holder one vote. Decisions at the general meeting of shareholders are taken by a simple or an increased majority of votes of shares whose holders are present or represented by proxy at the meeting. As at the date of this Prospectus, the Company's articles of association ("**Articles of Association**") do not contain any limitations on the number of shares or voting rights that may be held by any one or more persons.
Use of proceeds	The Company intends to use the net proceeds from the Offering for the following purposes: (i) increasing the Group's agricultural land portfolio in Russia and Ukraine; (ii) purchasing additional agricultural machinery; (iii) expanding the Group's storage capacity for agricultural products; (iv) implementing a pilot scheme to reconstruct and improve existing but non-operational irrigation systems; (v) funding increases in working capital required as a result of expansion of the Group's land portfolio and due to expansion of storage and production capacity; and (vi) other general corporate purposes. The Selling Shareholder has, in the Sberbank Use of Proceeds Agreement and the Alfa Bank Ukraine Use of Proceeds Agreement, agreed to use the proceeds of the sale of the Sale Shares to repay certain indebtedness under loan agreements granted to members of the Former Group, who are not members of the Group, but secured by pledges over certain of the Existing Shares.
Dividends and dividend policy	The Board of Directors intends that in the foreseeable future the Company will re-invest any net earnings to

	finance the development of its business and land acquisitions. Upon completion of announced plans and where, following due repayment of debt obligations, further suitable business development opportunities do not exist or are not open to the Company, the Board of Directors intends to introduce a dividend policy to provide for the distribution of net earnings to the extent that the Company's net cash flow exceeds the Company's operating and business development needs.
Settlement and delivery of the Offer Shares	All the Shares will be registered with and cleared through the NDS. Immediately after the allotment and the registration of the Offer Shares with the NDS, the Offer Shares will be posted in the securities accounts of investors designed in the depository instruction.
Selling Shareholder	VML, holding 31,500,000 Shares representing approximately 90% of the issued share capital prior to the Offering.
Lock-up	The Company and the Selling Shareholder will each undertake that, without the Managers' prior written consent, they will not issue, offer, sell, enter into sale contracts, pledge or otherwise transfer or dispose of the Shares or other equity securities or securities entitling the holder to acquire shares in the Company's share capital, or announce its intention to sell the Shares or such other securities within a lock-up period of 180 days commencing on the date of the Company's admission to trading and official listing on the main market of the WSE.
Securities code	ISIN code: [●].
Managers	Deutsche Bank AG, London Branch as a Joint Global Coordinator and Joint Bookrunner, Troika Dialog as a Joint Global Coordinator and Joint Bookrunner and Dom Maklerski BZ WBK S.A. as Domestic Lead Manager and Offering Broker.
Consultant	InvestoHills Capital.
Underwriter responsible for drawing up the Prospectus	The Cyprus Investment and Securities Corporation Limited (CISCO).

RISK FACTORS

In addition to the other information contained in this Prospectus, prospective investors should carefully consider the specific risks set out below before making a decision to invest in the Shares. These risks and uncertainties may not be the only ones facing the Group. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also impair the Group's operations. The business, results of operations, financial condition or prospects of the Group could be materially and adversely affected by any of the following risks, together with possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Group's business. The trading price of the Shares could decline due to any of these risks and investors could lose part or all of their investment.

Risks Related to the Group's Business and Industry

The Group's financial results are sensitive to fluctuations in the market prices of its products on the Russian, Ukrainian and international markets

The Group's profitability is affected by the prevailing price for the Group's products, which is primarily determined by supply and demand in the relevant market. Falling prices for agricultural products therefore adversely impact the Group's business, results of operations and financial condition. Prices of agricultural commodities are influenced by a variety of unpredictable factors, which are beyond the Group's control including weather, global production levels of similar and competing crops, governmental regulations or policies and changes in consumer preferences.

For example, during 2007 and the first half of 2008, global grain prices were relatively high due to various factors, including crop failures, low grain stocks and increased demand. Beginning in the third quarter of 2008, global grain prices decreased significantly. Although prices increased somewhat in early 2010 and are currently above long-term historic levels, they still remain lower than 2008 levels. There can be no assurance that prices will return to 2008 levels or higher or that prices will not fall. Future decreases in prices for crops produced by the Group could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, market prices are also effected by seasonality of demand for agricultural products. In a typical year, the prices of sunflower seeds and wheat generally reach their peak in March and April, followed by a decrease in prices during the autumn months, which corresponds with the harvesting period. Although the Group is, to a certain extent, able to manage these fluctuations by storing its crops in its storage facilities, were the Group to be unable to effectively manage its inventories to address seasonal changes in demand, such changes could have a material adverse effect on the Group's business, results of operations and financial condition.

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

In 2010, an extreme drought in parts of southern and central Russia and several parts of Ukraine had a significant adverse impact on crop production. In Russia, the total wheat harvest for the 2010/2011 agricultural year fell to 41.5 million tonnes from 63.7 million tonnes in the prior agricultural year. Similarly, sunflower seed production fell to 5.5 million tonnes from 7.4 million tonnes over the same period. The Group's land is situated in parts of

Russia and Ukraine where climate conditions are generally milder than those that historically have been significantly affected by extreme weather conditions. Nevertheless, in 2010 adverse weather conditions caused the Group to lose part of its crop of sunflower seed and corn and a summer drought and severe winter frosts during the 2009/2010 agricultural year caused the Group to lose part of its wheat crop in several regions in Ukraine and part of its sugar beet crop in the Stavropol region of Russia. Although wheat damaged due to winter frosts may be sold as fodder, such sales attract significantly lower margins than sales of milling quality wheat. In addition, global climate change may significantly influence the seasonality of the Group's business, the assortment of crops planted, the agricultural technology capable of being used and consequently the yields obtained.

Weather conditions are a significant operating risk affecting the Group's crop production. Weather conditions that are either too dry or too wet, too hot or too cold and, in any case, climate change that is unpredictable may have a material adverse effect on the Group's crop production levels and, therefore, on its business, results of operations and financial condition.

An increase in fertiliser, crop protection products, fuel and labour costs could reduce the Group's profitability

Changes in the Group's production expenses impact its profitability. The Group's main production expenses relate to the cost of fertilisers and crop protection products. In 2010, fertiliser and crop protection products represented approximately 29% of the Group's total cost of sales. The amount and quality of fertilisers and crop protection products used by the Group generally improves the Group's crop production yields. The inter-relationship between the prices of fertiliser and crop protection products, on the one hand, and crop prices, on the other hand, are principal determinates of the profit margin for that crop. Factors affecting this inter-relationship may affect the Group's ability to increase yields through the use of fertiliser or crop protection products, contain its production expenses and therefore increase or maintain its profitability.

The Group currently requires a substantial amount of fuel for its production operations and its needs are expected to increase as it implements its business strategy. In 2010, the cost of fuel accounted for approximately 9% of the Group's total cost of sales. The price of fuel fluctuates significantly over time and the Group may not be able to pass on increased fuel costs to its customers. Any such increase could result in reduced profitability.

The Group's labour costs comprised approximately 10% of the Group's total cost of sales in 2010. According to the Federal State Statistics Service of Russia and the State Statistics Committee of Ukraine, average nominal wage levels in Russia and Ukraine increased from 2006 to 2008 at an average rate of 26% in Russia and 31% in Ukraine. However, in 2009, due to adverse economic conditions, average nominal wages increased by only 8% in Russia and 6% in Ukraine. In 2010, the economies of both Russia and Ukraine improved and average nominal wages increased by 13% in Russia and 20% in Ukraine. These figures are expected to rise further in the coming years (see "*Industry Overview – The Russian and Ukrainian Economies*"). Due to competitive pressures, regulatory constraints or other factors, the Group may be unable to increase its prices or improve profitability sufficiently to maintain its margins in response to increased wage demands.

Any increases to the Group's fertiliser, crop production products, fuel or labour expenses could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group has a substantial amount of indebtedness

The Group has a substantial amount of indebtedness and significant debt service obligations, which could adversely affect the Group's cash flows or prevent the Group from carrying out its expansion plans. As at 28 February 2011, the Group had approximately USD 208.2 million of total long-term and short-term loans and borrowings. As at the date of this Prospectus, this figure is approximately USD 341.5 million, including USD 265 million owed to Deutsche Bank but excluding indebtedness repaid using funds received pursuant to the Deutsche Bank Second Facility Agreement (see "*Business – Material Contracts – Arrangements with Deutsche Bank*"). The Group's indebtedness levels could potentially:

- limit its ability to obtain additional financing for working capital, capital expenditure or other purposes;

- require the Group to dedicate a substantial portion of its cash flows to pay its interest expense, which would reduce the funds that would otherwise be available for its operations and future business requirements;

- limit the Group's ability to plan for, or react to, changes in its business and the markets in which the Group operate;

- place the Group at a competitive disadvantage compared to competitors that have less debt; and

- increase the Group's vulnerability to general adverse economic and industry conditions.

The Group has been, and may continue to be, required to secure some or all of its indebtedness by granting suretyships or other types of security over its significant assets, including mortgages and pledges of shares, which may limit the Group's ability to raise additional funds, see "*Business – Material Contracts – Arrangements with Deutsche Bank*", "*Business – Material Contracts – Credit Agreements with Sberbank*", "*Business – Material Contracts – Credit Agreements with Petrocommerce Bank*", and "*Business – Material Contracts – Credit Agreements with Vozrozhdenie Bank*". Moreover, certain Russian subsidiaries of the Group have provided sureties and pledges, and certain Ukrainian subsidiaries of the Group have provided mortgages, pledges and suretyship-like undertakings, in favour of certain members of the Former Group involved in trading activities, see "*Restructuring – Debt Restructuring – Arrangements with Sberbank*" and "*Restructuring – Debt Restructuring – Arrangements with Alfa Bank Ukraine*". As of the date of this Prospectus, some of these security arrangements have not been terminated, see "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Off-Balance Sheet Arrangements*". Some of the Group's debt facilities contain covenants that impose operating and financial restrictions, including, among other things, restrictions on its ability to incur and extend loans, credit and other forms of indebtedness; encumber any assets; pay dividends; provide guarantees or suretyships; receive credit from other banks; use other banks' accounts for Group operational activities; or enter into reorganisation or other corporate restructurings without the prior written consent of the lenders. Events beyond the Group's control that have a negative impact on the Group's financial condition or other circumstances could prevent it from complying with these covenants and could result in a breach of such obligations, thus triggering an event of default. Such default, or any default caused by any other breach of covenant by a member of the Group which may from time to time occur under the debt facilities, could result in the Group's creditors enforcing the collateral that secures its indebtedness and/or accelerating the loans. Certain of this collateral is over shares. Risks associated with this collateral are described in "– *Certain secured lenders may acquire control of the Company if they enforce pledges or other rights over Existing Shares owned by the Selling Shareholder*".

Any inability to generate sufficient cash flows from operations in order to service indebtedness, could result in an event of default on the part of the relevant member of the Group, or the unavailability of other sources of capital. Any such event could have a material adverse effect on the Group's business, results of operations and financial condition.

Certain secured lenders may acquire control of the Company if they enforce pledges or other rights over Existing Shares owned by the Selling Shareholder

Prior to the Restructuring, certain members of the Group provided security in respect of loans granted by Sberbank of Russia OJSC ("**Sberbank**") and PJSC Alfa Bank Ukraine ("**Alfa Bank Ukraine**") to certain members of the Former Group, who are now members of the Valars Group. As part of the Restructuring, in order to release these members of the Group from such security, the Selling Shareholder has pledged 40% of the Existing Shares to Sberbank (the "**Sberbank Share Pledge**") and 15% of the Existing Shares to Alfa Bank Ukraine (the "**Alfa Bank Ukraine Share Pledge**") (see "*Restructuring – Debt Restructuring*").

The Selling Shareholder has, in an agreement dated 28 June 2011 (the "**Sberbank Use of Proceeds Agreement**"), agreed to use the proceeds of the sale of the Sale Shares to repay certain indebtedness of members of the Former Group owed to Sberbank. Following such repayment, Sberbank has agreed to hold as collateral only those Shares the post-Offering value of which constitutes 190% of the outstanding indebtedness owed to Sberbank. Any Shares held in excess of this number will be released from the terms of the Sberbank Share Pledge provided, however, that at least 25% of the Shares plus one Share shall remain subject to the Sberbank Share Pledge.

The Selling Shareholder has, in an agreement dated on or about the date of this Prospectus (the "**Alfa Bank Ukraine Use of Proceeds Agreement**"), agreed to use the proceeds of the sale of the Sale Shares to repay certain indebtedness of members of the Former Group owed to Alfa Bank Ukraine. Following such repayment, the Alfa Bank Ukraine Share Pledge shall be terminated.

In addition, the Selling Shareholder has, pursuant to certain finance arrangements with Deutsche Bank, granted a pledge, in favour of Deutsche Bank, over 15% of the Existing Shares (the "**Deutsche Bank Share Pledge**"), see "*Business – Material Contracts – Arrangements with Deutsche Bank*". Deutsche Bank, in its capacity as a lender to the Company, also currently holds 9.99% of the Existing Shares pursuant to the terms of the Deutsche Bank Call Option, see "*Business – Material Contracts – Arrangements with Deutsche Bank*". However, Deutsche Bank is required to return these Shares to the Selling Shareholder in circumstances where there is no exercise of the call option and it is further required to return any balance in circumstances where it is entitled to less than 9.99% of the Existing Shares upon exercise of the call option. Pending exercise of the call option, Deutsche Bank holds economic and voting rights to the Shares, however it is Deutsche Bank's policy not to exercise the same.

If an event of default under the financing arrangements secured by the Deutsche Bank Share Pledge, the Sberbank Share Pledge or the Alfa Bank Ukraine Share Pledge occurs, or Deutsche Bank exercises its rights under the Deutsche Bank Call Option, the Selling Shareholder may lose title to the pledged Existing Shares as a result of enforcement of the relevant pledge or exercise of the call right.

Following any such enforcement or exercise by:

- Deutsche Bank and the acquisition of the Existing Shares that remain subject to the Deutsche Bank Share Pledge, Deutsche Bank would control up to [●]% of the Shares, on a fully diluted basis. If Deutsche Bank was to exercise its rights under the Deutsche Bank Call Option it would control up to a further [●]% of the Shares, on a fully diluted basis;

- Sberbank and the acquisition of the Existing Shares that remain subject to the Sberbank Share Pledge, Sberbank would control up to 40% of the Shares, on a fully diluted basis, or 25% of the Shares plus one Share, on a fully diluted basis, after the percentage of the pledged shares is decreased pursuant to the terms of the Sberbank Use of Proceeds Agreement; or

- Alfa Bank Ukraine and the acquisition of the Existing Shares that remain subject to the Alfa Bank Ukraine Share Pledge, Alfa Bank Ukraine would control up to 15% of the Shares on a fully diluted basis. However, provided that the relevant indebtedness is repaid to Alfa Bank Ukraine pursuant to the terms of the Alfa Bank Ukraine Use of Proceeds Agreement, the Alfa Bank Ukraine Share Pledge shall terminate upon such repayment.

Furthermore, following any acquisition of the Existing Shares subject to the pledges or the option by Deutsche Bank, Sberbank or Alfa Bank Ukraine, either through enforcement or exercise of call rights, any consequent release of Shares into the market is likely to have an adverse effect on the price of the Shares.

The ability of the Company's subsidiaries to export commodities may be limited

The Russian and Ukrainian governments have in the past imposed restrictions on the export of grain in circumstances where domestic supply may be compromised.

In July 2010, following a reduction in domestic production caused by extreme weather conditions, the Russian government announced a moratorium on the export of all types of grain, including wheat, barley and corn. This moratorium was cancelled with effect from 1 July 2011 due to improved weather conditions in Russia, which have resulted in optimistic expectations for the 2011 harvest by the Russian government. During the period of the export ban, despite the higher prices available on the domestic market due to a lack of supply, the Group's sale opportunities were adversely affected as it was not able to pursue export opportunities.

In October 2010, the Ukrainian government announced, for reasons similar to the introduction of the export ban in Russia, export quotas on grain producers. The export quotas were initially imposed until the end of 2010 but were extended several times. On 5 May 2011, the Ukrainian government lifted the export quota on corn and on 4 June 2011 it cancelled the export quotas on wheat, mix of wheat and rye, and barley. Rye, buckwheat and buckwheat products were subject to export quotas until 30 June 2011. However, on 19 May 2011, the Ukrainian Parliament adopted a law introducing customs duties on the export of grain for the period from 1 July 2011 until 1 January 2012. No similar custom duties were previously applicable to the export of grain in Ukraine and these duties are likely to be extended beyond 1 January 2012.

In addition, importing countries often impose restrictions on commodity imports from certain countries for reasons beyond the control of the producer, for example, in the context of broader trade disputes.

Any restriction or limitation imposed on access to international markets for the Group's products, including the imposition of customs duties which impact upon the potential profitability of any export programme could have a material adverse effect on its business, results of operations and financial condition. See "*Industry – Export Controls and Other Market Interventions*".

Governmental intervention in grain trading and other elements of the Group's business could affect the Group's business

The Russian and Ukrainian governments have each established grain trading companies. In Ukraine, a majority of the wheat export quota, which had effect from October 2010 to 1 July 2011, was allocated between "Khlib Investbud" LLC, a company which is 49% owned by the state, and certain other of the Group's competitors. There can be no assurance that the presence of large, government controlled trading entities will not destabilise market competition, with smaller trading companies being unable to compete in circumstances where preferences are granted to government controlled entities, with the result that competition is reduced among trading companies and market prices destabilised.

Governments in both Russia and Ukraine also exercise control over many aspects of logistical infrastructure, such as railways and ports, which may result in government controlled entities being given preferential use of, or access to, such facilities or offered preferential pricing arrangements in relation to them, each of which may destabilise competition between government controlled and private entities. Government stabilisation funds in Russia and Ukraine have also been used in the past to affect market prices of certain commodity products. For example, in 2009 the Russian Government Intervention Fund acquired 39,411 tonnes of the Group's products, although it acquired none in 2010. Once it has acquired these products, the fund is then free to sell them at a later date at prices below market value which can also destabilise market prices. Typically, the Russian Government Intervention Fund will release parts of its stock-pile of certain products in times of high market prices in an attempt to lower prices for end consumers. Ukraine has a similar fund for this purpose, but which is used less extensively than the Russian equivalent.

Any governmental involvement in the market for cereals, oilseeds or sugar beet in either Russia or Ukraine in the manner set out above, or otherwise, could have a material adverse effect on the Group's business, results of operation and financial condition (see "*– The Group benefits from state subsidies, which may be discontinued in the future*").

The Group's future success depends in part on its ability to successfully identify and acquire additional land

The Group's strategy includes continued growth through the acquisition of lease rights to land with high soil quality and in close proximity to its existing land. In addition, the Group continues to seek to acquire companies holding land lease rights that will provide it with immediate access to sizable land holdings or strategically important infrastructure. The Group's ability to execute this strategy involves a number of risks, including that it may:

- not be able to identify suitable land or businesses with suitable land for acquisition, or to acquire lease rights or businesses on favourable terms;

- experience increasing competition to acquire suitable land lease rights (or companies holding lease rights), which may result in a decrease in the availability of such lease rights or companies for acquisition and an increase in the price the Group will have to pay for such acquisitions; and

- not have the necessary financial resources or be able to obtain finance for such acquisitions on commercially acceptable terms, or at all.

Furthermore, the Group's ability to successfully integrate any acquired land or business in an efficient and effective manner will be subject to a number of challenges and uncertainties, including:

- potential disruption to the Group's ongoing business, including the diversion of Management's attention from other business concerns;

- potential necessity of coordinating geographically separated facilities;

- incurrence of unanticipated expenses; and

- consolidation of functional areas.

No assurance can be made that the Group will be successful in expanding its business in accordance with its strategy in a timely manner, or at all. Any failure to successfully acquire and integrate new land or businesses may have a material adverse effect on the Group's business, results of operation and financial condition.

The Group's financial performance and portfolio of land may be adversely affected by a lifting of the moratorium on the sale of agricultural land or an increase in its cadastral valuation in Ukraine

Currently, there is a moratorium on the acquisition of agricultural land in Ukraine, which is effective until 1 January 2012. It is expected that this moratorium will be extended beyond 1 January 2012, as it has been repeatedly extended in the past. Although under Ukrainian law the Group is, subject to certain conditions, entitled to continue leasing land for the remaining term of the relevant lease, any termination of this moratorium may cause agricultural land prices in Ukraine to increase significantly over time, and there can be no assurance that, in such circumstances, owners of the Group's land plots would be willing to re-let their land to the Group. Further, there can be no assurance that owners of the Group's land plots will sell their land to the Group, on commercially acceptable terms or at all. Moreover, once this moratorium is lifted, the Group may be required to acquire ownership of more land plots than it had anticipated in order to prevent any disruption to the consolidation of landholdings that it cultivates, and there can be no assurance that the Group will have the necessary financial resources, or be able to secure financing to enable it to acquire such land following an increase in land prices.

In addition, in Ukraine, minimum lease rates are calculated as a fixed percentage of, on average, three per cent of the cadastral valuation of the leased land, as required by Ukrainian legislation. Any future increases in the cadastral valuation of such leased land is likely to result in an increase in the lease payments made by the Group for its leased land in Ukraine.

Any inability by the Group to secure ownership rights to suitable land plots on commercially acceptable terms, or any increase in the cadastral value applied to lease rate calculation, could have a material adverse effect on its business, results of operations and financial condition.

The Group's business could be materially adversely affected if its land lease agreements are not renewed upon expiry or invalidated or if zoning conditions are altered

Most of the Group's land is operated under lease agreements which can be terminated in certain circumstances including, *inter alia*, following a court judgment that there has been a breach of the lease agreement or on a compulsory purchase of land by the Russian or Ukrainian state. Further, the Group may not be able to renew its land leases upon expiry without significantly increased rental payments or more restrictive commercial terms. Although the Group has a pre-emptive right to renew the majority of its agricultural leases in both Russia and Ukraine, provided that there has been no breach of any contractual terms on the part of the relevant Group company, the cost of renewal may therefore not be commercially viable.

Furthermore, some of the Group's leases do not comply with formal or substantive requirements and may not have been registered or notarised as required under Russian or Ukrainian law and thus may be invalidated in court. Any challenge to the validity or enforceability of the Group's rights to the land it currently leases, or may lease in the future, may result in the loss of right to use such land.

In addition, it is possible that the zoning and/or land use rights attaching to the Group's land could be altered, thereby potentially affecting the Group's activities on that land. Failure to use a land plot in accordance with its designated purpose, failure to start land cultivation within the terms provided in the land lease agreement or use of a land plot in such a way as to significantly decrease its fertility or result in environmental degradation may also be used as a ground for termination of land use rights.

Finally, Ukrainian legislation requires that any lease rights granted on or after 1 January 2008 to any land plots held in state or municipal ownership be allocated through an auction, unless there are buildings owned by the lessee on the relevant land plot. In the event that such an auction process is not observed, the acquisition may be invalidated. This auction requirement also results in cost and management time being spent on bidding for opportunities that may not be successful.

Any of the above factors and any significant change in existing Russian and Ukrainian legislation relating to them could have a material adverse effect on the land available to the Group for cultivation and on the Group's business, results of operations and financial condition.

If the Group's products became contaminated, the Group may be subject to product recalls and liability claims

The Group's cereal and plant products may be subject to contamination by seeds from weeds and other undesirable plants, insects and poisonous substances. Crop diseases also pose a risk to the Group's cereal and plant products. Such risks may be controlled, but not eliminated, by adherence to good production and storage practices and the use of modern herbicides and insecticides. In addition, the Group's livestock is also at risk of disease or infection. Any shipment of contaminated products may be a violation of law and may lead to increased risk of exposure to product recalls, liability claims and increased scrutiny by governmental regulatory agencies, any of which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group currently benefits from tax exemptions, which may be discontinued in the future

The Group benefits from certain tax exemptions both in Russia and Ukraine. The taxation of Russian legal entities is regulated primarily by the Tax Code of the Russian Federation (the "**Russian Tax Code**"). The Russian Tax Code provides for two tax regimes with reduced tax rates applicable to qualifying agricultural producers and that currently apply to the Group, the unified agricultural tax regime and the beneficial corporate income tax regime (for entities which have not transferred to the unified agricultural tax regime). Most of the Company's Russian subsidiaries are entitled to apply the beneficial corporate income tax regime. For a description of these tax regimes, see "*Industry – State Support for Agricultural Producers in Russia and Ukraine – State Support in Russia*".

According to the Tax Code of Ukraine ("**Ukrainian Tax Code**"), Ukrainian agricultural producers in Ukraine are subject to a special VAT regime. In addition, producers of agricultural products in Ukraine, including the Ukrainian subsidiaries of the Group, are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, certain agricultural companies engaged in the production, processing and sale of agricultural products may choose to be registered as payers of fixed agricultural tax ("**FAT**") and pay FAT in lieu of corporate income tax, land tax (except for land tax payable for the land plots which are not used in agricultural production), trade patent fees and special water usage tax. For a description of these tax regimes, see "*Industry – State Support for Agricultural Producers in Russia and Ukraine – State Support in Ukraine*".

There is no guarantee that the existing favourable tax regimes in Russia or Ukraine which the Group benefits from will not be discontinued or altered in the future either as a result of Russia becoming a member of the World Trade Organisation (the "**WTO**") or otherwise. Any such event could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group benefits from state subsidies, which may be discontinued in the future

The Group currently benefits from state subsidies in Russia and Ukraine. For further information on the volume of these subsidies, the procedure for their payment and a breakdown of the activities they support see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting the Group's Results of Operations – State support for and regulation of agricultural production in Russia and Ukraine*".

In Russia, the Russian government supports agricultural producers by refunding to them a portion of interest which producers have paid on bank loans, costs of leasing agricultural machinery and on premiums for crop insurance. Certain other subsidies also exist for seeds, fuel, fertilisers and chemicals. The amount of these subsidies paid to the Group in 2010 amounted to approximately USD 4.1 million. The Russian government also supports agricultural producers through the use of the Government Intervention Fund. This has the power to acquire agricultural products at prices higher than those commercially available if it considers the price for them to be too low. For more information on these state subsidies, see "*Industry – State Support for Agricultural Producers in Russia and Ukraine – State Support in Russia*". Russia is currently negotiating to become a member of the WTO and the implications of any such membership on existing state subsidies is unclear. However, most members of the WTO, except certain lesser-developed countries, are committed to reducing tariffs and subsidies on the production and export of agricultural goods.

The Ukrainian government provides various types of financial support to agricultural producers, including an annual subsidy for each hectare of wheat, rapeseed, sugar beet grown and subsidies on interest rates for loans extended by Ukrainian banks to agricultural companies to finance the purchase of certain agricultural machinery. However, these subsidies are dependent on the condition of the state's finances and fiscal policies and certain of them were not paid in full or at all in previous years. For more information on these state subsidies, see "*Industry – State Support for Agricultural Producers in Russia and Ukraine – State Support in Ukraine*".

There can be no assurance that such subsidies will continue to be offered at the same levels as previously or at all, or that, if offered, they will be paid in full. Similarly, any change in government policy relating to subsidies in major grain and oilseed producing countries and trading blocs, such as Canada, the USA, Australia and the European Union, could have a destabilising effect on international prices, irrespective of whether such measures are censored or allowed by the WTO. Any such changes that adversely affect subsidies or other benefits granted to agricultural producers in Russia, Ukraine or elsewhere could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is exposed to operational risks, including shortages of machinery, mechanical and technical failures and increases in maintenance costs

The Group is exposed to operational risks, including the risk of machinery and equipment breakdown or failure and the risk that third-party suppliers may not provide fertilisers, crop protection products, machinery or equipment in a timely manner. In particular, the Group's production process depends on certain important items of machinery being available at the critical times of sowing and harvesting, including its sowing and harvesting equipment, which may experience unanticipated failures. In addition, the Group depends on various IT systems to monitor its operations and on GPS technology in its farming vehicles to more precisely seed and harvest its fields, the failure of which could adversely impact its production operations. Any interruptions in its production capability may adversely impact the Group's ability to conduct sowing or harvesting at optimal times. In addition, any loss of stored crops or storage capacity may require the Group to incur significant expenses to remedy the situation, or force it to sell crops for a lower price than it might otherwise realise, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Insufficient access to, or an increase in the cost of, quality seeds may adversely affect the Group's production levels and yield

The success of the Group's agricultural operations depends largely on the use of good quality seeds. Seeds constituted approximately 7% of the Group's total cost of sales in 2010. Historically, the Group has purchased its seeds from leading producers such as Monsanto, Syngenta, Pioneer and KWS. If the Group were unable to purchase quality seeds on commercially acceptable terms, or at all, or alternatively were unable to produce seeds of sufficient quality and/or in sufficient quantities for its operations, this could have a material adverse effect on the Group's business, results of operations and financial condition.

Liquidity risks and a failure to generate or raise sufficient capital may adversely affect the Group's expansion plans

As part of its business strategy, the Group intends to expand its operations through land acquisitions, the expansion and upgrade of storage facilities and the purchase of new agricultural machinery. There is no assurance that the Group will be able to generate sufficient cash flows or that it will have access to sufficient debt or equity financing to implement these elements of its business strategy. Certain circumstances may affect the Group's ability to raise adequate capital, including, among others, economic conditions, limited access of commercial Russian or Ukrainian banks to funding, the terms of existing financing arrangements or any changes thereto, expansion at a faster rate or higher capital cost than anticipated, slower than anticipated revenue growth and/or regulatory developments that would hinder the Group's borrowing capability. In addition, with respect to Ukraine, certain currency control regulations may hinder the Group's ability to obtain foreign currency denominated financing from international lenders on favourable terms. Any failure to obtain adequate funds to satisfy its future capital requirements on commercially reasonable terms will adversely affect implementation of the Group's growth strategy.

The Group is exposed to currency exchange rate risk

The Group's operating assets are located in Russia and Ukraine. Its revenues are largely denominated in rubles and hryvnia but linked to the U.S. dollar. The majority of the Group's cost of sales is denominated in U.S. dollars, such as chemicals and seeds, or in prices linked to the U.S. dollar but paid in rubles or hryvnia, such as fertilisers and fuel. Part of the Group's finance costs are also denominated in U.S. dollars.

As for the Group's cost of sales denominated in U.S. dollars or in prices linked to the U.S. dollar but paid for in rubles or hryvnia, when the exchange rate of ruble or hryvnia falls against the U.S. dollar, these costs increase, together with its financing costs related to the Group's loans and borrowings denominated in U.S. dollars. However, this is matched by an increase in revenues as the price for the vast majority of its products is linked to international prices but paid for in rubles or hryvnia. This includes, in particular, wheat which is sold for export on an open market basis. The increase in costs denominated or influenced by U.S. dollar is also offset by a decrease in costs incurred in and linked to rubles or hryvnia, such as salaries. Accordingly, if the ruble or hryvnia appreciate against the U.S. dollar this leads to a fall in revenue and also an increase in costs incurred in and linked to the ruble or hryvnia.

As at 31 December 2010, out of approximately USD 218.2 million of total long-term and short-term loans and borrowings of the Group, approximately USD 122.6 million were denominated in U.S. dollars. As at 31 December 2009, out of approximately USD 267.3

million of total long-term and short-term loans and borrowings of the Group, approximately USD 123.3 million were denominated in U.S. dollars. As at December 2008, out of approximately USD 218.6 million of total long-term and short-term loans and borrowings of the Group, approximately USD 102.8 million were denominated in U.S. dollars. In accordance with market practice and certain regulatory restrictions in Russia and Ukraine, the Group does not use any derivative financial instruments to hedge against currency exchange rates.

Since 2008, there has been significant downward pressure on both the ruble and hryvnia against the U.S. dollar. From September 2008 to 31 December 2010, the official hryvnia to U.S. dollar rate weakened by 62.8% as a result of, among other things, capital outflows. For the same period, the official ruble to U.S. dollar rate weakened by 22.6%. No assurance can be given concerning future exchange rates or stability in the exchange rate markets. Any future appreciation or depreciation of the ruble or hryvnia against the U.S. dollar could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is dependent on key personnel

The Group's success depends, to a significant degree, upon the efforts and abilities of certain key personnel, including the Group's senior management. The Group was founded by Mr. Kirill Podolskiy and the majority of its core team of senior management have been with the Group since its formation and have extensive knowledge of both the Group's activities, land assets and the industry in which it operates. The Group also benefits from the extensive contacts and relationships of certain of the Group's key personnel with, for example, suppliers of raw materials and grain trading companies.

Since both Russia and Ukraine are currently emerging economies, with a rapidly developing labour market, the Group may be unable to employ and retain appropriate executives and specialists. There may be cases when personnel who are recruited may not possess the required qualifications or may not have the capacity to develop as quickly as required. The loss of any of the Group's key personnel or the Group's inability to hire and retain qualified personnel could have a material adverse effect on the Group's business, results of operations and financial condition.

The Company has been, and will continue to be, controlled by a majority shareholder

Mr. Kirill Podolskiy will, directly and indirectly (through the Selling Shareholder), control [●]%, on a fully diluted basis, of the Shares following the Offering (see also "*– Certain secured lenders may acquire control of the Company if they enforce pledges or other rights over Existing Shares owned by the Selling Shareholder*" for information regarding pledges of Existing Shares owned by the Selling Shareholder). As a result, Mr. Kirill Podolskiy and the Selling Shareholder will have the ability to determine the outcome of any vote by the Company's shareholders, including, but not limited to, those related to an increase or decrease of the Company's share capital, amendments to the Articles of Association, the election of members of its Board of Directors, the payment of dividends and the approval of certain acquisitions. If the interests of Mr. Kirill Podolskiy and the Selling Shareholder conflict with the interests of other shareholders, including the holders of the Offer Shares, they could make decisions which would have a material adverse effect on an investment in the Offer Shares.

A significant portion of the Group's trade is with a limited number of customers

In 2010, the Group's top four customers in Russia accounted for approximately 83% of its total sales by value in Russia and the Group's top four customers in Ukraine accounted for approximately 35% of the Group's total sales by value in Ukraine. Members of the Valars Group were the Group's biggest customer in Russia in 2010, accounting for approximately 53% of total sales by value. In Ukraine, members of the Valars Group accounted for approximately 25% of total sales by value in the same year. All sales to the Valars Group have been conducted on an arm's length basis (see "*Related Party Transactions*"). If, in the future, significant customers fail to meet their contractual obligations, decide not to purchase the Group's products or decide to purchase fewer products, this could have a material adverse effect on the Group's revenues, results of operations and financial condition.

In addition, a significant proportion of the Group's wheat product is exported, through various trading companies, to Egypt and other countries in North Africa. Given recent political unrest in Egypt, Tunisia and Libya, the continuation of such trading arrangements may be adversely affected and it is possible that new governments or other relevant regulatory bodies may seek to renegotiate the terms of delivery of wheat and other commodities. There can be no assurance that the relevant trading companies who acquire the Group's products for export would continue to receive the same prices for the exported products or that the same volumes would be purchased following such renegotiation. This could result in trading companies reducing the volume of products purchased from the Group. Any such decrease in price or volume may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is exposed to interest rate risk

The Group is exposed to interest rate risk principally in relation to its outstanding borrowings. All of the Group's borrowings have fixed rates of interest, however, in some instances, the applicable rate of interest can be changed unilaterally by the relevant bank. Fixed interest borrowings amounted to USD 218.2 million and USD 267.3 million as at 31 December 2010 and 2009 respectively. With respect to these fixed rate borrowings, there is a risk that over the life of the loan, the rate payable will be higher than the market rate. Any fluctuations in the financial markets could adversely affect the Group's business, results of operations and financial condition.

The Group is exposed to credit risk

Credit risk is the risk of financial loss due to the non-fulfilment of the obligations of the Group's suppliers and customers. A majority of the Group's customers make payments on a pre-payment basis, however some customers purchase products produced by the Group on credit terms. There is a risk that customers utilising credit terms will default on their payment obligations. Suppliers are largely pre-paid, thereby giving rise to the risk that they will default on their supply obligations even though they have been prepaid.

The Group may not be able to accurately evaluate the current financial condition of its customers and suppliers in order to accurately determine the ability of such parties to fulfil their relevant obligations to it. Any decrease in the overall credit quality of the Group's customers and suppliers may have a material adverse effect on its business, results of operations and financial condition.

There are weaknesses in the Group's accounting and reporting systems, accounting personnel and its internal controls and procedures relating to the preparation of IFRS financial statements

The Group's accounting and reporting systems are not as sophisticated or robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS and the production of complete monthly financial statements for management purposes. The internal audit function of the Group is not presently fully operational and the lack of established accounting and reporting systems which have been in operation for an extended period of time may make the Group's financial information less reliable than that of companies that have implemented these systems over a longer period of time. These shortcomings could adversely impact the quality of decision making by Management due to delays in producing complete management accounts on a basis consistent with IFRS. Historically, Management has largely based its decisions on sales and cost figures and demand and price trends rather than complete IFRS monthly financial statements.

Each of the Group's Russian and Ukrainian subsidiaries prepares separate financial statements in accordance with Russian and Ukrainian accounting standards, respectively, for statutory purposes. The preparation of consolidated financial statements for the Group and their conversion into IFRS requires significant attention from the Group's senior accounting personnel. As a result, the Group may not be able to ensure that its consolidated financial statements are prepared and converted into IFRS in a timely manner in accordance with applicable requirements under the Group's financing arrangements or market expectations, or that complete management accounts are produced on a timely basis.

In addition, the preparation of the Group's audited consolidated financial statements requires IFRS-experienced accounting personnel. The Group lacks accounting personnel with substantial experience in IFRS, in particular the complex IFRS rules relating to agricultural companies. In addition, in Ukraine there is a limited pool of accounting personnel with IFRS expertise, which makes it difficult for the Group to hire and retain such personnel. Any inability to become competent in the production of IFRS compliant financial statements either from a failure to hire or to retain qualified accounting staff could have a material adverse effect on the Group's ability to prepare accurate financial information in a timely manner.

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

The Company is a holding company and all of its operations are conducted through its subsidiaries. Consequently, it relies on dividends or advances from its subsidiaries, including subsidiaries that are not wholly-owned. The ability of these subsidiaries to pay dividends and Company's ability to receive distributions from its investments in other entities are subject to applicable laws and other restrictions. In addition, such dividends and distributions may be subject to withholding and other taxes which may lead to double taxation or other costs to the Company.

The Group's operating subsidiaries are either held directly by the Company, which is incorporated in Cyprus, or indirectly through sub-holding companies incorporated in Cyprus. A company which has its effective management and control exercised from Cyprus, and is therefore tax resident in Cyprus, is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network. This network includes a double tax treaty between the Government of the Union of Soviet Socialist Republics and the Government of Cyprus, dated 29 October 1982, to which Ukraine is a successor and which is still applied in Ukraine (the "**Cyprus-Ukraine Double Tax Treaty**"). The double tax treaty between Cyprus and Russia (the "**Cyprus-Russia Double Tax Treaty**"), which was entered into on 5 December 1998, currently governs Cypriot-Russian tax arrangements. In the event that the majority of the Directors of the Company or the relevant Cyprus holding company are not deemed to be Cyprus tax residents and the effective management and control of such companies is not deemed to be exercised in Cyprus, non-Cypriot tax authorities may challenge the Cypriot tax residency status of such companies and, consequently, the application of the provisions of either the Cyprus-Russia Double Tax Treaty or Cyprus-Ukraine Double Tax Treaty. Alternatively, the Russian or Ukrainian tax authorities may consider that the Company has a permanent establishment in Russia or Ukraine and tax its income under the provisions of the applicable Russian or Ukrainian tax legislation. At present, the Russian Tax Code does not contain a concept of place of management for the purposes of determining permanent establishment. However, pursuant to the applicable Russian tax legislation, it is possible to conclude that a foreign company managed from Russia can be considered as having a permanent establishment in Russia. In Ukraine, there is minimal guidance as to how the tax authorities will apply permanent establishment rules.

Dividends from Russian Subsidiaries

According to the Russian Tax Code, payments of dividends by the Russian members of the Group are subject to Russian withholding income tax at the rate of 15%. Under the Cyprus-Russia Double Tax Treaty, the withholding tax rate on dividends may be reduced to 10% or 5% in certain circumstances. For further information, see "*Taxation – Russian Tax Considerations – Dividends from Russian Subsidiaries*". In order to apply benefits of the Cyprus-Russia Double Tax Treaty to dividends payable from Russian subsidiaries, the Company should be the beneficial owner of the income. For the purposes of applying double tax treaties, the recipient of dividend income should be the direct beneficiary and should not act as an agent or conduit for another person who in fact receives the benefit of the income. If the recipient of the dividends is not a beneficial owner of the income, such dividends would be subject to Russian withholding income tax at the rate of 15%. For further information concerning the Cyprus-Russia Double Tax Treaty, see "*Taxation – Russian Tax Considerations – Cyprus-Russia Double Tax Treaty*".

Furthermore, dividends received by a Russian company from its Russian and foreign subsidiaries can be exempt from taxation in certain circumstances. For further information, see "*Taxation – Russian Tax Considerations – Dividends from Russian Subsidiaries*". If the requirements are not met, the dividends received by a Russian parent company will be subject to income tax at the rate of 9%.

In addition, some of the Russian members of the Group who are party to certain finance arrangements with Sberbank are required to obtain the prior written consent of Sberbank prior to distributing any dividends among their shareholders (see "*Business – Material Contracts*"). However, not all the finance arrangements entered into with Sberbank contain such restrictions.

Dividends from Ukrainian Subsidiaries

All of the Company's Ukrainian subsidiaries are held indirectly through the Company's subsidiary, Valars Agro Limited ("**Valars Agro**"), which is incorporated in Cyprus. In turn, Valars Agro is wholly-owned by Dilpar Trading Inc., ("**Dilpar**"), a 100% subsidiary of the Company which is incorporated in the British Virgin Islands and is registered as a BVI business company limited by shares. Thus, the ability of the Company to receive dividends depends on the ability of Valars Agro to receive dividends from its Ukrainian subsidiaries and transfer them to the Company through Dilpar. Dividends distributed to Valars Agro from its Ukrainian subsidiaries may be exempt from withholding tax by virtue of the Cyprus-Ukraine Double Tax Treaty.

The Ukrainian Tax Code also provides for the concept of a beneficial ownership of Ukrainian-sourced income. A legal entity or individual who acts in the capacity of an agent or nominee/nominee owner, or who is recognised as an intermediary, may not be regarded as the beneficial owner of income, even if they are entitled to receive the income in question and, therefore, payments of dividends to it would be subject to withholding tax. There is virtually no guidance as to how the tax authorities will apply these rules. Were the tax authorities to view a Group company that makes an onward distribution of dividends/interest as not being the beneficial owner, 15% withholding tax would apply to the dividend and interest payments made by that Group company to Valars Agro.

There can be no assurance that the Cyprus-Ukraine Double Tax Treaty will not be renegotiated. On 16 January 2008, the CMU authorised the Ukrainian Ambassador in Cyprus to sign a new convention between the Government of Ukraine and the Government of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income. In contrast to the Cyprus-Ukraine Double Tax Treaty, which exempts dividends, capital gains, interest payments, and royalty payments from Ukrainian withholding tax, under the proposed convention, dividends paid by the Group's operating companies to the Company would be taxable at source in Ukraine at 5% of the gross amount of dividends paid to the holders of more than 25% of equity and at 15% to other shareholders. The proposed convention also provides for taxation at source in Ukraine of interest at 10% of the gross amount of the interest if the beneficial owner of the interest is a resident of Cyprus. The proposed provisions incorporate the concept of beneficial ownership which means that companies incorporated in Cyprus will require substance in order to prove they are the beneficial owners of income received.

Adverse changes in either of the applicable double tax treaties with Cyprus or a finding that a subsidiary of the Company that is incorporated in Cyprus does not qualify as a beneficial owner for tax treaty based benefits or is subject to tax in another jurisdiction or the inability of the Company to receive distributions from its Russian and Ukrainian subsidiaries due to restrictions in the Group's financial arrangements or otherwise in a tax-efficient manner or at all may significantly increase the tax burden of the Russian or Ukrainian entities of the Group. For further information, see "*Taxation – Ukrainian Tax Considerations – Dividends from Ukrainian Subsidiaries*" and "*Taxation – Ukrainian Tax Considerations – Dividends from Russian Subsidiaries*". Any such changes could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group has grown through acquisitions and may face unforeseen liabilities and risks

The Group has grown through acquisitions of entities having rights to agricultural land. There can be no assurance that the entities and assets acquired are not or will not become subject to liabilities of which the Group is unaware. While carrying out these acquisitions, the Group has at times failed to carry out extensive due diligence and to obtain appropriate warranties and other protection from the sellers that are common in western jurisdictions. As a result, the Group could incur significant liabilities, such as historic liabilities for non-compliance with law, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's acquisitions of certain Ukrainian subsidiaries may have breached applicable law

A significant number of the Group's acquisitions of Ukrainian members of the Group may theoretically be viewed as being in breach of applicable Ukrainian law because their structure may be considered as being for the purpose of minimising exposure to mandatory payments in Ukraine. If this view is taken by the relevant Ukrainian authorities, they could potentially challenge the relevant acquisitions in court. Although in practice such risk remains remote and the Group is not aware of any similar proceedings brought by Ukrainian authorities in the past, such a challenge could, if successful, cause the relevant acquisitions and transfers to be invalidated. Although the Group has not received any notice of violation from any third party or governmental authority with respect to such acquisitions in Ukraine, there can be no assurance that this will not occur in the future. Any successful challenge to prior acquisitions due to non-compliance with certain corporate or other laws could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's insurance coverage may be insufficient for any losses incurred

The Group insures its principal assets, including its agricultural equipment, vehicles, buildings and some of its crops, including its future harvests, against risk of loss or damage caused by fire, explosions, natural disasters, illegal acts of third parties, such as burglary or robbery, and mechanical damage. However, the Group's insurance may be insufficient to cover all liabilities arising out of or in connection with its business activities. The insurance maintained by the Group may also be deemed inadequate compared with the insurance coverage customary in Western Europe for a business of the Group's size and nature. Furthermore, certain insurance products available in Western Europe and customarily applied by companies of the Group's size which carry on a similar business may not be obtainable in Russia or Ukraine due to statutory restrictions on insurance or lack of a developed market for this type of insurance. There is also no guarantee that the Group will be able to renew existing insurance policies on commercially reasonable terms or at all.

Russian and Ukrainian law also require the Group to insure the majority of its risks with insurers located in these jurisdictions. While the Group seeks to use only the most established insurers in Russia and Ukraine, if substantial claims were made against these insurers, there is no guarantee that they would have sufficient financial resources to meet them. Failure by the Group to maintain sufficient insurance coverage or any inability to obtain appropriate levels of insurance coverage on commercially reasonable terms in the future could have a material adverse effect on the Group's business, results of operations and financial condition.

Increased competition in the Russian and Ukrainian agricultural industry could adversely affect the Group's business

The Group faces competition from other agricultural producers in Russia and Ukraine. The Group competes with different producers with respect to each crop it grows, who may have greater financial, marketing, human and other resources than the Group. The liberalisation of the Russian and Ukrainian agricultural markets has made them more attractive to foreign and foreign-supported companies, which may enter these markets and increase competition. In addition, changes to import and export restrictions and the provision, reduction or withdrawal of subsidies in Russia and Ukraine could also lead to increased competition in the Russian and Ukrainian agricultural markets. Intensified competition with existing competitors and the entry of additional competitors in the Russian and Ukrainian agricultural markets could also lead to increased competition for the use of existing infrastructure currently utilised by the Group as well as for land that the Group considers most desirable. In particular, greater competition could lead to decreased availability of railway rolling stock, especially at peak times such as harvest season, and increased leasing costs for land, and there can be no assurances that in such circumstances the Group could secure the railway rolling stock it needs at the appropriate time or continue to lease new land, or renew its existing leases, on commercially acceptable terms or at all. Increased competition that decreases prices for the Group's products, or for the infrastructure the Group needs to conduct its operations or to expand, could prevent the Group from realising its expansion plans and have a material adverse effect on its business, results of operations and financial condition.

The Group depends on permits and other administrative approvals

The Group’s operations are subject to numerous Russian and Ukrainian regulations whose requirements are sometimes contradictory, and may be changed without public notice and/or applied retrospectively. Russian and Ukrainian regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of law, regulations and standards, the issuance and renewal of permits and monitoring compliance. In certain circumstances, government authorities in Russia and Ukraine may seek to influence the issuance of permits and the issuance process may also be influenced by outside commentary, political pressure and other factors. The Group actively monitors its compliance with existing regulations and requirements. However, violations of any such regulations could result in various penalties, monetary fines or material disruption of the Group’s business. Moreover, the Group’s operations and production facilities could be affected by governmental programmes including sanitary inspections, environmental protection or tax and market reforms that, in turn, may negatively affect its business.

Although Management believes that the Group’s existing legal and regulatory compliance programmes adequately address these concerns, they may turn out to be insufficient. Any failure of the Group’s legal and regulatory compliance programmes could have a material adverse effect on the Group’s business, results of operations and financial condition.

The Group is subject to environmental and health and safety laws and regulations, as well as potential environmental liabilities, which may require it to make substantial expenditures

The agriculture business involves a number or risks, including industrial accidents and environmental hazards. As a result, the Group is subject to various environmental protection and occupational health and safety laws and regulations in Russia and Ukraine, including those governing air emissions and the use, storage, treatment and disposal of hazardous materials, such as fertilisers, pesticides and fungicides. These laws and regulations are subject to amendment, imposition of new or additional requirements and changing interpretations by government agencies or courts, and such laws and regulations are becoming more stringent. The discovery of presently unknown environmental conditions, changes in environmental, health, safety and other laws and regulations, enforcement of existing or new laws and regulations and other unanticipated events could give rise to expenditures and liabilities, including fines or penalties, which could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, the sanitary and epidemiological legislation and relevant regulatory authorities in Russia and Ukraine may categorise new types of contamination and impurities in crops as hazardous to public health. If this happens, the sale or transportation of certain of the Group's products may be banned and they may have to be destroyed, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Failure by the Group to properly manage its storage systems may result in damage to products in storage

Crop prices tend to be at their lowest during the harvest season, as farmers without access to storage facilities are forced to sell immediately and thereby increase the supply of crops on the market. As a result, the Group regularly stores a portion of its harvested crops so as to enable it to obtain higher prices for its products by selling them outside the harvest season. In addition, the Group also regularly stores seeds. Crop and seed storage may be compromised by excessively high or low levels of moisture, temperature or humidity, which may result in damage to stored crops and seeds. The Group may also be subject to the loss of stored crops as a result of catastrophic events affecting silos and granaries, such as fires, explosions or natural disasters, which may require the Group to find alternative storage facilities. Any significant damage to stored crops or the Group's storage capacity or, in such event, an inability to find alternative storage facilities on reasonable commercial terms, or at all, could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Related to Russia and Ukraine

Emerging markets such as Russia and Ukraine are subject to greater political, economic and conflict risk than more developed markets

Emerging markets such as Russia and Ukraine are subject to greater risk than more developed markets, including significant political, economic and, in certain cases, conflict risks. Russia and Ukraine are also subject to rapid economic change. Financial turmoil or an increase in the perceived risk associated with investing in emerging markets may dampen foreign investment and adversely affect emerging markets. It may also adversely affect prices in debt and equity markets of other emerging markets. Accordingly, prospective investors should exercise particular care in evaluating the risks involved in investing in emerging markets and must decide whether, in light of those risks, their investment decision is appropriate.

Emerging markets such as Russia and Ukraine are also subject to heightened volatility based on military conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall share price declines for Russian companies. The emergence of any new, or escalation of existing, tensions in the region could negatively affect the economies of Russia and Ukraine. Such tensions or conflicts may lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian and Ukrainian securities, with a resulting negative effect on the liquidity and trading prices of the Offer Shares. Moreover, such tensions or conflicts may also adversely affect the Group's ability to sell its products in the markets, export its products to other markets or to raise debt or equity capital in the international capital markets.

Further deterioration of the global economy could have a material adverse effect on the Russian and Ukrainian economies and the Group's business

The Russian and Ukrainian economies are vulnerable to market downturns and economic slowdowns elsewhere in the world.

Since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market. These reached record high levels in mid-2008 and have since experienced significant volatility, particularly in the price of crude oil, which decreased by more than 70% between July 2008 and the beginning of 2009, only to recover substantially since then, with recent events in North Africa pushing prices to a 30 month high in April 2011. While the price of crude oil has since receded, the average price for May 2011 remains significantly higher than the average price for 2010. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, the European Union or other principal export markets. A sustained decline in the prices of crude oil, natural gas and other commodities could further disrupt the Russian economy.

The recent global economic crisis severely impacted Ukraine's economy. As Ukraine is a major producer and exporter of metal, chemicals and machinery, since the end of 2008 its exports have decreased substantially due to weak external demand and low international commodity prices. In addition, an increase in energy prices and the absence of financial support from domestic and international lenders has caused a decrease in the production volumes of many Ukrainian industrial enterprises, suspension of production processes and mass layoffs. Further global economic downturns or deterioration in international commodity prices may negatively impact the Ukrainian economy. Any such economic deterioration could limit the Group's access to capital on advantageous terms, adversely impact the level of demand for various products and services, including those provided by the Group, and therefore could have a material adverse effect on the Group's business, results of operations and financial condition.

Infrastructure in Russia and Ukraine is underdeveloped, which could increase costs or result in losses for the Group's business and/or disrupt normal business activities

Physical infrastructure in Russia and Ukraine largely dates back to Soviet times and has not been adequately funded or maintained. In particular, Russian and Ukrainian rail and road networks are sometimes inadequate, or have not been adequately funded and maintained. As a result, road conditions throughout Russia and Ukraine are poor, with many roads, particularly outside major cities, not meeting western standards. Similarly, other Russian and Ukrainian infrastructure, such as power generation and transmission and communications systems, is sometimes inadequate or has not been adequately funded and maintained.

Failure by the Russian or Ukrainian governments to develop and/or maintain adequate transport infrastructure could delay or disrupt the Group's transportation of goods and supplies, and failure to develop and/or maintain power generators and transmission and communication systems may interrupt the Group's business operations and have a material adverse effect on the Group's business, results of operations and financial condition.

Failure to maintain good relations with key markets could have a material adverse effect on the Russian and Ukrainian economies and the Group's business, results of operations and financial condition

Russia and Ukraine must continue to maintain good relations with key markets in order for the Group to implement its business strategy.

Relations between Ukraine and Russia at a governmental level have been poor in recent years, in part due to an increase in Russian oil export duties and the increase in the natural gas price for Ukraine as a result of recent disagreements between Gazprom, the source of almost all of Ukraine's gas imports, and its Ukrainian counterpart, Naftogas. Any major changes in Ukraine's relations with Russia and in particular any changes adversely affecting the supply of oil and gas from Russia to Ukraine and/or Ukraine's export revenues derived from transit charges for Russian oil and gas en route from Russia to Western Europe, may have a negative effect on the Ukrainian economy.

The European Union is Russia's largest neighbour and trading partner. Conversely, Russia is the European Union's third-largest trading partner. The European Union Partnership and Cooperation Agreement, which entered into force with Russia in 1997, forms the basis for bilateral contracts between Russia and the European Union, including the areas of political dialogue, trade and goods, investment and finance, amongst other things, with the eventual goal of establishing a European Union-Russia free trade zone. The agreement provides Russia with a Most-Favoured-Nation status, thereby exempting Russian exports from quantitative limitations, excluding steel.

With respect to Ukraine, the European Union has replaced Russia as its largest trading partner and European Union imports from Ukraine are to a large extent liberalised. By the beginning of January 2009, investments in Ukraine by European Union member states reached approximately USD 30 billion out of total foreign direct investment in Ukraine in 2008 of USD 35 billion. In 2009, agricultural products accounted for 14.8% of Ukraine's exports to the European Union, as compared to 18.5% of the European Union's exports to Ukraine. Following the entry into force of a Partnership and Co-operation Agreement in 1998, Ukraine has deepened its political association and economic integration with the European Union. Should Ukraine fail to develop its relations with the European Union or if import or export restrictions and other trade barriers are imposed with respect to European Union/ Ukrainian trade, this could adversely affect the Ukrainian economy.

Any deterioration in trade relations between Russia and Ukraine, or Russia and/or Ukraine and the European Union could adversely affect the Russian or Ukrainian economies and as a result have a material adverse effect on the Group's business, financial condition and results of operations either directly as a result of reduced demand for the Group's products or indirectly due to indirect adverse consequences in the markets in which it operates.

Weaknesses relating to the Russian and Ukrainian legal systems and Russian and Ukrainian legislation create an uncertain environment for investment and for business activity

The legal framework required by a market economy is still under development in both Russia and Ukraine and large portions of this legal framework have only recently come into force, including in areas of privatisation, securities, corporate legislation and licensing. The recent nature of much of Russian and Ukrainian law and the rapid evolution of the Russian and

Ukrainian legal systems places the enforceability and underlying constitutionality of many laws in doubt and many new laws remain untested.

Among the risks of the current legal system are:

- inconsistencies between and among the constitution, laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- discrepancies between federal and regional legislation;
- limited judicial and administrative guidance on interpreting legislation;
- gaps in the regulatory structure due to the absence of or delay in implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of law, particularly in relation to business and commercial law;
- understaffing and underfunding of court systems;
- bankruptcy procedures that are still under development;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time consuming enforcement of judicial orders and international arbitration awards; and
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action.

Any or all of these weaknesses could adversely affect the Group's ability to enforce its legal rights in Russia and Ukraine, including rights in title to land or under its contracts, or to defend against claims by others in either Russia or Ukraine. In addition, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

Foreign judgments may not be enforceable in Russia and Ukraine

Enforcement of court orders and judgments can in practice be very difficult in Russia and Ukraine.

Courts in Ukraine will generally not recognise and/or enforce any judgment obtained in a court of a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party, and then only in accordance with the terms of such treaty. For example, there is no such treaty in effect between Ukraine and the United Kingdom. Similarly, Russia has only entered into multilateral or bilateral treaties for the mutual enforcement of court judgments with a limited number of countries, being most CIS nations, Argentina, China, Cyprus, Egypt, Estonia, Greece, Hungary, India, Italy, Latvia, Lithuania, Poland, Spain and Vietnam. Consequently, should a judgment be obtained from a court in any other jurisdiction, it is unlikely to be given direct effect in the Russian courts.

In the absence of relevant international treaties, Ukrainian courts may recognise and enforce a foreign court judgment only on the basis of the principle of reciprocity. Ukrainian legislation provides that unless proven otherwise the reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian legislation does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice on these provisions of Ukrainian legislation.

Non-compliance with laws or other regulations can have significant consequences in Russia and Ukraine

Russian and Ukrainian corporate laws and regulations have developed considerably since both countries transitioned to a market economy. However, some of these laws and regulations contain ambiguities, imprecision and inconsistencies, which make compliance with them difficult.

Some of the Group's prior transactions in Russia and Ukraine, including the Group's acquisitions of its Russian and Ukrainian subsidiaries, may not have complied with all corporate formalities. Further, a significant number of the Group's Ukrainian subsidiaries currently do not comply and/or did not comply in the past with certain Ukrainian laws, and specifically with technical requirements of Ukrainian corporate law with respect to establishment and corporate reorganisation, formation of governing bodies and decision making procedures, formation, increase and decrease of charter capital, net assets sufficiency, transfers of shares or participation interests, withdrawal from a limited liability company by existing participants and organisational form and ownership structure, payment of purchase price, together with certain other general requirements of Ukrainian corporate and employment laws. In addition, some of the Russian subsidiaries do not comply with the net assets sufficiency requirements and with requirements on mandatory offer procedure. Non-compliance with these and similar applicable requirements may result in fines, restriction of voting rights, challenge of a transaction by a third party or mandatory winding-up.

In addition, non-compliance with competition laws in both Russia and Ukraine can have significant implications. The Group's business has grown substantially through the acquisition of companies or assets and the establishment of companies incorporated and operating in Russia and Ukraine. Many of these acquisitions or formations may have required the prior approval of the Federal Antimonopoly Service of the Russian Federation or the Antimonopoly Committee of Ukraine (the "**AMC**") and, therefore, required full disclosure of all entities, directly or directly controlling the parties concerned (including their ultimate beneficial owners) and all entities under their respective control. Any failure to obtain the approvals necessary for such transactions could subject the Group to, in the case of each failure, fines of up to RUB 500,000 in Russia and, in Ukraine, 5% of the aggregate revenue of all entities/persons related to the Group's controlling shareholder and/or the Group for the year preceding the year when the fine is imposed. Any non-disclosure of the required information or submission of untrue or incomplete information to the AMC may lead to a fine of up to 1% of the aggregate revenue of all entities/persons related to the Group's controlling shareholder and/or the Group for the year preceding the year when the fine is imposed. If an acquisition led to a particular market becoming monopolistic, or competition being significantly restricted on such market or part thereof, the AMC may seek the invalidation of such a transaction by the Ukrainian courts, which in turn may lead to the compulsory divestment of the relevant companies.

Although Management believes that it is substantially in compliance with laws relating to the foundation and acquisition of its subsidiaries, and in compliance with the requirements of the AMC, there can be no assurance regarding the future actions of Russian or Ukrainian state authorities, and the laws and regulations in respect of such matters are vague in certain parts and subject to varying interpretations. Any penalties or other forms of sanction, including mandatory winding up, imposed on members of the Group by any regulatory body or court in Russia or Ukraine could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's intragroup transactions and other related party transactions are subject to Russian and Ukrainian transfer pricing regulations

Russian transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of the trading of securities and derivatives and in respect of all "controlled" transactions where the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). The Russian transfer pricing rules are imprecise, providing Russian tax authorities and arbitration courts wide scope to interpret their use in investigations and prosecutions. In addition, if a transfer pricing adjustment is assessed by the Russian tax authorities, the rules do not provide for a corresponding adjustment for the related counterparty to the transaction. Due to uncertainties in the interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain of the Group's intra-group transactions and may propose adjustments. Russian transfer pricing legislation may be significantly changed according to amendments that have been already drafted and are currently under consideration of the Russian State Duma. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. However, it is currently impossible to predict whether this draft law will be enacted and what effect it will have on the Group.

Ukrainian tax authorities may also make transfer pricing adjustments and impose additional tax liabilities in respect of transactions between related parties and, under certain circumstances, unrelated parties (for example, cross-border transactions) if the transaction prices differ from market prices. The Ukrainian transfer pricing rules are also imprecise and leave a wide scope for interpretation by the Ukrainian tax authorities and courts. Furthermore, there is only limited guidance as to how to apply these rules. In addition, the Ukrainian transfer pricing rules do not provide for a corresponding adjustment for the related counterparty to the transaction that is subject to adjustment.

In the ordinary course of the Group's business there have been and continue to be a significant number of transactions between companies within the Group, as well as with other parties related to the Group. These transactions may potentially be subject to the transfer pricing regulations described above, see "*Related Party Transactions*".

Although Management believes that the Group has sufficient basis to support its compliance with currently applicable transfer pricing regulations, and that it has paid all taxes that are applicable, it is not always possible to determine an appropriate market price for all such transactions, and the Russian and Ukrainian tax authorities' view as to what constitutes a market price may differ from that adopted by the Group. As a result, there can be no assurance that the Russian and Ukrainian tax authorities will not challenge the prices used by the Group for these transactions and assess additional taxes and/or impose fines on the Group. If such price adjustments are implemented, the Group's effective tax rate could increase and its future financial results could be materially and adversely affected. In addition, the Group could face significant losses associated with respect to any assessed amount of prior underpaid tax and related fines and penalties, which could also have a material adverse effect on the Group's business, results of operations and financial condition.

Land lease registration is complicated and lengthy in Russia and Ukraine

Land lease registration is long and complicated, particularly in Ukraine where the process may take several months. Due to the complexity and length of time required for the registration process, the Group sometimes commences operations on the land which is the subject of the pending lease registration before the registration process is complete. The Group may therefore incur costs without having registered title to the land and, consequently, might suffer losses should the relevant lease registration not be completed. Furthermore, until registration is complete, the Group does not benefit from certain lessee rights, including pre-emptive rights to extend the term of the lease and purchase the land in the event that restrictions on owning agricultural land are repealed. In addition, historically the land privatisation process in Russia and Ukraine was a complicated, multi-step process in which collective land was divided into land plots which were then allocated to individuals, and this has led to confusion over the exact ownership of some land plots, and whether or not such land plots had been fully privatised or remained in state ownership. Any inability to successfully register the Group's lease rights may have a material adverse effect on its business, results of operations and financial condition.

Russian and Ukrainian legal entities are subject to tax audits by the Russian or Ukrainian tax authorities which may result in additional tax liabilities

Taxpayers in Russia and Ukraine are subject to regular tax audits. In Russia, taxpayers may be subject to inspection of their activities for a period of up to three calendar years commencing the year immediately preceding the year in which an audit is carried out. The tax authorities in Ukraine are allowed to make tax audits within, as a general rule, three years from the deadline for the submission of the relevant tax return. However, previous tax audits do not exclude subsequent claims relating to the audited periods because Russian and Ukrainian tax law authorises upper-level tax inspectorates to revisit the results of tax audits conducted by subordinate tax inspectorates, and the tax authorities are allowed to carry out repeat on-site tax audits in connection with the restructuring or liquidation of a taxpayer or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced.

Such tax audits in Russia and Ukraine may result in additional tax liabilities, significant fines, penalties for late payment and enforcement measures for the Group if the relevant authorities conclude that companies within the Group did not satisfy their tax obligations in any given year. The tax audits may also impose an additional administrative burden on the Group by diverting the attention of Management and the Group's financial personnel and requiring resources for defending the Group's tax position, including by way of tax litigation.

Any tax audit of the nature detailed above that results in material tax liabilities could have a material adverse effect on the Group's business, results of operations and financial condition.

The Russian and Ukrainian banking systems remain underdeveloped

As a result of the global financial and economic crisis, there has been a rapid decrease in lending by Russian and Ukrainian banks, while the lending terms have become more onerous. As a result, many Russian and Ukrainian companies are subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources.

Many Russian and Ukrainian banks do not meet international banking standards and do not follow existing CBR or NBU regulations, as relevant, with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure and are not always adequately supervised by the relevant regulators. Furthermore, Russia and Ukraine have limited infrastructure to support a market system, with communications, banks and other financial infrastructure being less well developed and less well regulated than their counterparts in more developed jurisdictions.

The global financial and economic crisis led to the collapse or bailout of some Russian and Ukrainian banks and to significant liquidity constraints for others. Profitability levels of most Russian and Ukrainian banks have been adversely affected. The Group generally conducts its banking activities through, and maintains accounts in, a small number of Russian and Ukrainian banks, including Sberbank and Alfa Bank Ukraine. The bankruptcy or insolvency of one or more of any of the principal banks with which the Group has a borrowing or deposit relationship would have a material adverse effect on its business, results of operations and financial condition.

Nationalisation, expropriation, government intervention and regulation could negatively impact the Group

Since 1991, Russia and Ukraine undertook a programme of privatisation of state owned businesses. Although legislation has been implemented to protect private property owners from expropriation and nationalisation, there is no assurance that such legislation will not change or that all of the rights and interests of owners and creditors of such expropriated and nationalised property will be protected. Restrictive government regulation may also be seen as a form of indirect nationalisation. Any such government action could have a material adverse effect on the Group’s business, results of operations and financial condition.

Unlawful, selective or arbitrary government action may have an adverse effect on the Group

Russian and Ukrainian regulatory authorities have a high degree of discretion and at times appear to exercise their discretion selectively, without hearing or prior notice. Moreover, the Russian and Ukrainian governments also have the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. In this environment, the Group’s competitors may receive preferential treatment from the government and governmental authorities, potentially giving them a competitive advantage. Selective governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. In Russia, the government has, through its tax, environmental and prosecutorial powers, engaged in selective investigations and prosecutions of particular companies or persons. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, such prosecutions and challenges resulted in significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers speculate that in certain cases these challenges and prosecutions were intended to punish and deter opposition to the Russian government or the pursuit of disfavoured political or economic agendas, or to further the interests of the Russian government and individual officials or business groups.

Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Unlawful, selective or arbitrary government action, if directed at the Group, could have a material adverse effect on the Group's business, results of operations and financial condition.

Crime, corruption and money laundering is prevalent in regions where the Group conducts business

External analysts have identified corruption and money laundering as problems in both Russia and Ukraine. Such analysts also point to an increase in the involvement of organised crime within the Russian and Ukrainian economies. As a result, there exist high levels of corruption including the bribing of government officials for the purpose of instigating investigations by government agencies.

The political and economic changes in Russia in the 1990s have resulted in a decrease in the effectiveness of actions of law enforcement authorities against crime and corruption. The local and international press has reported that significant organised criminal activity has arisen, particularly in large metropolitan centres, and that high levels of corruption exist in Russia, including the bribing of government officials for the purpose of instigating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further their commercial interests or those of certain individuals. Additionally, some members of the Russian media are alleged regularly to publish disparaging articles in return for payment.

In accordance with the Ukrainian anti-money laundering legislation that came into force in Ukraine in June 2003, the NBU and other State authorities as well as various entities carrying out financial services are now required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the adoption of this legislation, in February 2004, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering (the "**FATF**") and, in January 2006, the FATF discontinued its formal monitoring of Ukraine. On 21 August 2010, a new law entered into force significantly amending the Ukrainian anti-money laundering legislation and implementing 40 revised recommendations and nine special recommendations of the FATF, as well as the directive of the European Parliament on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

In June 2009, the Ukrainian Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine, which were to become effective from 1 January 2011. However, in December 2010 the Ukrainian Parliament abolished the package of earlier adopted anti-corruption laws with effect from 5 January 2011, while at the same time passing in the first reading a new draft anti-corruption law. In April 2011 a new anti-corruption law was adopted by the Ukrainian Parliament which became effective on 1 July 2011 (save for some provisions which will come into effect on 1 January 2012).

Although this new legislation is expected to facilitate anti-corruption efforts in Ukraine upon its entry into force, there can be no assurance that the law will be effectively applied and implemented by the relevant supervising authorities in Ukraine. 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 on the economy of Ukraine in general.

The presence of organised or other crime, the demands of corrupt officials or claims that the Group has been involved in corruption or money laundering could result in negative publicity for the Group or disrupt the Group's ability to conduct its business effectively, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Related to Russia

Political and governmental instability

The Russian political system may be vulnerable to popular dissatisfaction, including dissatisfaction with the results of the privatisations of the 1990s, as well as with demands for autonomy from certain regional and ethnic groups. The course of political and other reforms has in some respects been uneven and the composition of the Russian government has at times been unstable. Shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms.

Russia is a federation of 83 sub-federal political units, consisting of republics, regions (*oblasts*), territories (*krais*), cities of federal importance, an autonomous region and autonomous districts (*okrugs*), some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the federal authorities. In practice, the division of authority between federal, regional and local authorities is, in many instances, unclear and contested. Lack of consensus between the federal, regional and local authorities often resulted in the enactment of conflicting legislation at various levels and may lead to political instability in the future. In particular, conflicting laws have been enacted in areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as some transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. The Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This lack of consensus creates uncertainties in the operating environment in Russia, which could hinder the Group's long-term planning efforts and prevent it from effectively and efficiently carrying out its business strategy.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. For example, six different prime ministers headed the Russian government between March 1998 and May 2000.

Vladimir Putin, a former Russian President who is currently Russia's Prime Minister, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. The most recent State Duma elections held on 2 December 2007 resulted in an increase in the share of the aggregate vote received by United Russia and other political parties allied with the Russian President, bringing that percentage to more than two thirds. President Dmitry Medvedev assumed power from Vladimir Putin in May 2008. Although a significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment of Vladimir Putin as Russia's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future.

While the Russian political system and the relationship between President Medvedev, the Russian government and the State Duma currently appear to be stable, future political instability could result from declines in the overall economic situation, including any deterioration in standards of living, as well as from the results of elections of the State Duma and the Russian President in 2011-2012. Shifts in governmental policy and regulation in Russia may be less predictable than in many western democracies and could disrupt or reverse political, economic and regulatory reforms. On 28 September 2010, due to a loss of trust, President Medvedev dismissed the mayor of Moscow, Yuri Luzhkov, who served as the mayor of Moscow for over 18 years. Current and future changes in the Russian government, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to political instability.

In addition, ethnic, religious, historical and other divisions have, on occasion given rise to tensions and, in certain cases, military conflict and terrorist attacks. The conflict in Chechnya brought normal economic activity within Chechnya to a halt for a significant period of time as well as negatively affected the economic and political situation in neighbouring regions. Terrorist attacks have been reported on a periodic basis in the neighbouring republics of Ingushetia and Dagestan. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various places in southern Russia, such as the suicide bombings on the Moscow metro in March 2010 and the explosion at Domodedovo airport in January 2011. In the future, the emergence of any new or escalation of existing tensions, military conflicts or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some regions or all of Russia. Moreover, any military conflicts and/or terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce of Russia, lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities or securities relating to Russian business.

Current and future changes in the Russian government, major policy shifts or territorial conflicts could have a material adverse effect on the value of investments relating to Russia, including the value of the Offer Shares.

The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on the Group

Any significant struggle over the direction of future reforms or the reversal of the reform process in Russia could lead to a deterioration in Russia's investment climate that might constrain the Group's ability to obtain financing in the international capital markets, adversely impact the Group's sales in Russia or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

In the international sphere, Russia has adopted a more assertive approach to the definition and pursuit of its interests and, to some observers, Russia has appeared on several occasions to have used economic leverage or control over oil and gas supplies to achieve political objectives. If Russia were to adopt restrictive economic measures against countries that are important to the Group's export business, or if trade between Russia and such countries was otherwise disrupted for political or other reasons, the Group's business, results of operations and financial condition could be materially adversely affected.

The reversal of reforms, arbitrary government action or the use of government power, if directed at the Group or otherwise, could have a material adverse effect on the Group's business, results of operations and financial condition.

Russian currency regulation has only recently been liberalised and may remain subject to change

In the 1990s, during a time of adverse economic conditions, the Russian currency control regime was restrictive. At times, a temporary moratorium was imposed on certain hard currency payments and operations. However, over recent years, there has been a liberalisation of the currency control regime in Russia. Notwithstanding this recent liberalisation, there can be no assurance that future changes to the Russian exchange control regime will not restrict the Company's ability to repatriate earnings from its subsidiaries to pay dividends or to pay for the general operational expenses of the Company in Cyprus, or otherwise have a negative impact on the development of the Russian capital markets, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's ownership interest in agricultural land may be challenged under Russian law

According to Russian Law, foreign controlled entities are not allowed to own agricultural land in Russia. For the purposes of this prohibition, a Russian company is considered a foreign controlled entity when more than 50% of its share capital is owned by a foreign entity.

Accordingly, the Group uses an offshore holding structure for its operations in Russia and Ukraine, see "*Group Structure*". Although this holding structure has been used by a number of foreign companies and investment funds which acquire real estate in Russia, including agricultural land plots, and the Group is not aware of any cases where the title to agricultural land plots held through such offshore holdings was successfully challenged on the basis of this prohibition, no assurance can be given that the Group's ownership interest in land located in Russia could not be challenged in the future.

If the Group's ownership structure in respect of its Russian assets is found to be in violation of Russian law, the Group could be forced to either sell a part of these assets or return such assets to the previous owners, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Further, Russian law does not require certain encumbrances over real estate (including leases of less than one year, easements created by virtue of law and other similar statutory encumbrances) to be registered in the land register in order to validly encumber the relevant property. Furthermore, the law contains no time limits within which any registerable encumbrances have to be registered. As a result, third parties may successfully register or assert the existence of encumbrances over real estate owned or leased by the Group of which the Group had no prior knowledge. While in certain cases such occurrences would be covered by representations of the seller of the land, or representations of the seller of the entity owning the land as to the validity of the underlying ownership interests and/or lease rights in land, in the agreement governing the sale, grant or transfer of such ownership or lease interests, effective recourse against the seller may not always be possible. There can be no assurance that the Group's ownership interests and/or lease rights in land will not be successfully challenged or encumbrances over the land will not be granted, including in cases where effective recourse against the seller is not possible. In such event, the loss of such interests or rights and the costs and time invested in a successful defence against the assertion of adverse rights may have a material adverse effect on Group's business, results of operations and financial condition.

Current Russian thin capitalisation rules could affect the ability of Russian subsidiaries to deduct interest on certain borrowings and give rise to withholding income tax liability on excess interest reclassified into dividends

Russian tax legislation provides thin capitalisation rules which limit the amount of interest that can be deducted by Russian companies of the Group for corporate income tax purposes on "controlled" debts. "Controlled" debts are broadly loans granted to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the share capital of the Russian company, by another Russian company that is affiliated with such foreign shareholder, or loans secured by such foreign shareholder or its affiliated Russian company. Practical implementation of these rules by the tax authorities is unclear especially regarding guarantees issued with respect to loans provided by third parties.

Russian subsidiaries of the Group may be affected by thin capitalisation rules if at any time Russian legal entities, which are Group members, receive loans from or, are the beneficiary of a loan guaranteed by, a foreign shareholder owning directly or indirectly over 20% of such a company or from a Russian affiliated company of such foreign shareholder. In this event, the interest payments made by such company relating to the controlled debt may be treated as dividend payments, which are not deductible for corporate income tax purposes and are subject to withholding income tax at the rates applicable to dividends. As a result, an additional tax burden could be imposed which may have a material adverse effect on Group's business, results of operations and financial condition.

The Company may become liable for the obligations of its subsidiaries under Russian legislation

Russian law generally provides that shareholders in a joint stock company or a limited liability company are not liable for the obligations of such joint stock company or, as the case may be, limited liability company, and bear only the risk of loss of their investment. However, where one person or entity is capable of determining decisions made by another entity, under Russian law the party capable of determining decisions bears joint and several responsibility for transactions performed by the entity in carrying out these decisions if:

- this decision making capability is provided for in the charter of the entity carrying out the decisions or in a contract between such persons or entities; and

- the party capable of determining the decisions of another actually directs the actions so carried out.

Moreover, a party capable of determining the decisions of another is secondarily liable for the debts of the entity who carries out such decisions if that entity becomes insolvent as a result of the action or inaction of the party holding decision making powers, regardless of how this authority arises. For example, this liability could arise through the ownership of voting shares or by contract. In these instances, other shareholders of the entity who carries out decisions determined by another may claim compensation for that entity's losses from the party who had decision making authority. Accordingly, in its position of having certain decision making powers concerning the actions taken by its subsidiaries, the Company could be liable in some cases for the debts of these subsidiaries, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Related to Ukraine

The Ukrainian economy has been severely affected by the world financial and economic crisis

In recent years, the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak financial system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight, and low (but rising) wages for a large portion of the Ukrainian population.

Although the Ukrainian economy has been growing at an average rate of approximately 7% each year between 2000 and 2007, this growth has been driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in recent years, these factors made the Ukrainian economy overly vulnerable to adverse external shocks and Ukraine's economy was one of the most heavily affected by the global economic downturn, see "*Risks Related to Russia and Ukraine – Further deterioration of the global economy could have a material adverse effect on the Russian and Ukrainian economies and the Group's business*". The negative influence of these external factors has been compounded by weaknesses in the Ukrainian economy. In particular, although the Ukrainian government has generally been committed to economic reform, the implementation of reform has been impeded by lack of political consensus, controversies over privatisation (including the lifting of the moratorium on the sale of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, and removal of exemptions and privileges for certain state owned enterprises or for certain industry sectors. In addition, despite improvements in the economy from 2005 to 2008, Ukraine has experienced a severe contraction of cumulative foreign direct investment on which it is to a certain extent dependent, as well as a considerable foreign capital outflow due to the economic downturn and political instability since the fourth quarter of 2008. No assurance can be given that Ukraine will be able to restore its receptiveness to foreign trade and investment in a timely manner. As a result of these factors, Ukraine's real GDP grew by only 2.4% in 2008 and declined by 14.8% in 2009 before rising again by 4.2% in 2010.

Negative trends in Ukrainian GDP and decreases in industrial output are likely to continue while the economic outlook in certain parts of the world remains uncertain and access to foreign credit is constricted. Any further economic downturn in Ukraine in general may negatively impact prices for the Group's products and restrict its access to capital, which, as a result, may have a material adverse effect on the Group's business, results of operations and financial condition.

Ukraine is experiencing political uncertainty

Political uncertainty has contributed to the issues facing the Ukrainian economy. Since achieving independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic in a federal socialist state, the former Soviet Union, to an independent sovereign democracy. In parallel with this transformation, Ukraine has been transitioning from a centrally planned economy to a market economy. However, this process is far from complete. Historically, Ukraine has been divided along political, historical, linguistic and ideological lines, all of which have prevented political consensus in the Parliament of Ukraine, which has made it consistently difficult for the Ukrainian government to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene.

A number of additional factors could adversely affect political stability in Ukraine, including:

- failure to obtain or maintain the number of parliamentary votes required to form or maintain a stable Government;
- lack of agreement within the factions and amongst the deputies that form a parliamentary coalition;
- court action taken by opposition parliamentarians against decrees and other actions of the President, the government or parliamentary coalition; or
- court action by the President against parliamentary or governmental resolutions or actions.

Future political instability in the executive or legislative branches could lead to a failure by the Ukrainian government to respond to external political and economic developments, administrative paralysis and a rejection or reversal of reform policies.

The last elections, held in early 2010, resulted in the declaration of Viktor Yanukovych as President by a small margin, who subsequently formed a new parliamentary coalition consisting of 235 deputies. Currently, the Ukrainian government consists mainly of members of the president's Party of Regions with a few positions being occupied by other political forces.

Although some political observers believe that the relations between the President, the government and parliament have stabilised over the last six months, it is not possible to say with certainty that this will continue. Any deterioration in the stability of the Ukrainian government or rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have a material adverse effect on the economy and as a result may have a material adverse effect on the Group's business, results of operations and financial condition.

Ukraine has limited external sources of public financing

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations comprised Ukraine's only significant sources of external financing. Since the second half of 2008, prospects for raising new financing on international capital markets have worsened substantially. Following downgrades of Ukrainian credit ratings in 2008, Fitch Ratings Ltd., Standard and Poor's Rating Services and Moody's Investor Service have revised their long-term foreign currency sovereign credit ratings on Ukraine to B (stable) B+ and B2 (stable), respectively.

Currently, the Ukrainian government relies on official borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings are often conditioned on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of certain strategic, institutional and structural reforms; reduction of overdue tax arrears; no increase of budgetary arrears; improvement of sovereign debt credit ratings; reduction of overdue indebtedness for electricity and gas and responsible monetary policy. Under such circumstances, any failure to implement required measures could mean Ukraine may fail to receive further support from international financial institutions. In addition, any problems in the administration of Ukraine's external debt could adversely affect Ukraine's ability to finance its budget deficit or control the level of inflation and/or the value of the hryvnia. As a result, this may adversely affect the Ukrainian economy as a whole, and consequently the Group's business, results of operations and financial condition.

Changes and inconsistencies in the Ukrainian tax system could have a material adverse effect on the Group's business

Ukraine has a number of laws related to various taxes imposed by both central and regional governmental authorities. These tax laws are relatively new, compared to more developed market economies, and may be subject to frequent changes and amendments, which could adversely affect taxpayers, including the companies in the Group. The most recent changes to Ukrainian tax legislation were introduced by the Ukrainian Tax Code which became effective from 1 January 2011 (except for corporate income tax rules which became effective from 1 April 2011). The Ukrainian Tax Code significantly changed existing taxation rules in Ukraine. There are very few official interpretations available and there has been insufficient time for the laws to be thoroughly tested in practice either at the administrative or judicial level.

Even where Ukrainian tax laws and regulations are more established, guidance as to the proper interpretation of such laws and regulations may be unclear or may not exist and differing opinions regarding legal interpretations may exist both among and within various state authorities at the central, regional and local levels. In addition, the Ukrainian tax authorities may apply new interpretations of tax laws retroactively. As a result, taxpayers may have to resort to court proceedings to defend their position against the tax authorities but there is no established precedent or consistent court practice and the courts may be less experienced, compared to more developed market economies, in respect of tax matters. The position is further complicated by the fact that compliance with tax laws and laws in certain other areas (such as for example with customs and currency control regulations) is subject to control and review by various authorities, which are authorised to impose substantial fines, penalties and interest charges.

Recent changes in the Ukrainian tax authorities' approach to the interpretation of tax laws have often resulted in a more restrictive interpretation. In particular, the Ukrainian tax authorities have recently started to introduce additional restrictions and administrative bans which may limit the ability of taxpayers to obtain deductions in respect of expenses and to receive VAT credits which could result in an increase in the tax obligations of taxpayers.

As a result of these factors, tax risks in Ukraine are more significant that those typically found in jurisdictions with more developed tax systems and complicate the tax planning and related business decisions of the Group. Whilst Management believes that the Group is currently in compliance in all material respects with Ukrainian tax laws, it is possible that the relevant authorities could in the future take differing positions with regard to interpretative issues or that the Ukrainian government might introduce changes to tax laws, which could have a material adverse effect on the Group's business, results of operations and financial condition. In addition, the Group is vulnerable to tax audits following such interpretative or legislative changes, see "*Risks Relating to Russia and Ukraine – Russian and Ukrainian legal entities are subject to tax audits by the Russian or Ukrainian tax authorities which may result in additional tax liabilities*".

In particular, depending on what changes, if any, the new Ukrainian Tax Code makes to current Ukrainian tax law, it could potentially have a material adverse effect on the Group's business, results of operations and financial condition.

Risks Relating to the Offering and Listing

The Offering may be cancelled or suspended

At any time prior to the commencement of the subscription period for Retail Investors, the Company and the Selling Shareholder, in agreement with the Managers, may withdraw from the Offering without stating any reasons for their decision, thereby effectively cancelling the Offering.

From the commencement of the subscription period for Retail Investors up to the date of the allotment of the Offer Shares, the Company and the Selling Shareholder, in agreement with the Managers, may decide to cancel or suspend the Offering only for reasons that are (in the opinion of the Company and the Selling Shareholder) material.

If the Offering is cancelled, any purchase orders received for the Offer Shares will be deemed void, and all payments made will be refunded, without any payment of interest or compensation, no later than 14 days following the announcement of the cancellation of the Offering.

If the decision to suspend the Offering is made in the period between the commencement of the subscription period for Retail Investors and the allotment of the Offer Shares, any purchase orders received and any payments made will still be considered valid, however, investors will have the right to void the validity of their purchase orders by submitting a relevant statement to that effect within two business days from the date of the publication of the supplement to this Prospectus relating to the suspension of the Offering, see "*Terms and Conditions of the Offering – Cancellation or Suspension of the Offering*".

There is no guarantee that active and liquid trading in the Shares will develop

Prior to the Offering, there was no public market for the Shares. In addition, there is no guarantee that active and liquid trading will develop in the Shares after the Offering. It is impossible to predict investors' interest in the Shares. As a result, the price of the Shares may change and investors maybe unable to buy or sell the Shares at the expected price and time and, in particular, the price of the Shares may be higher or lower than the Offer Price. The Share price at the time of the Offering is no guarantee of the share prices that will develop in the market thereafter.

Investment risk and volatility on the WSE

The Shares are to be admitted to trading and official listing on the WSE. Investors should be aware that the value of the Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment.

The market price of the Shares may not reflect the underlying value of the Group's net assets. The price at which investors may dispose of their Shares will be influenced by a number of factors, some of which will be outside of the Group's control, including, in particular: variations in the Group's operating results; changes in the analysis and recommendations of securities analysts; announcements made by the Group or its competitors; changes in investors' perception of the Group and the investment environment; changes in pricing made by the Group or its competitors; the liquidity of the market for the Shares; and general economic and other factors. On any disposal, shareholders may realise less than the original amount invested.

Stock markets have also from time to time experienced extreme price and volume fluctuations, which have affected the market prices of securities and which have been unrelated to the operating performance of the companies affected. These broad market fluctuations, as well as general economic and political conditions, could adversely affect the market price of the Shares.

The Company may be unable to list its Shares on the WSE

The admission of the Shares to trading on the WSE requires, in particular, that the Polish FSA receives a certificate from the Cyprus SEC confirming that this Prospectus has been approved in Cyprus, that the NDS registers the Shares and that the management board of the WSE approves the listing and trading of the Shares on the WSE. The Company intends to take all necessary steps to ensure that the 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 the Shares will be admitted to trading and official listing on the WSE on the date expected or at all.

Trading in the Shares on the WSE could be suspended

If the Polish FSA determines that trading in the Shares on the WSE might jeopardize the proper functioning of the regulated market or the security of trading thereon or cause infringement of investors' interests, it shall refer its findings to the Cyprus SEC, which is the competent authority of the Company's home member state. If the measures taken by the Cyprus SEC prove inadequate and the Polish FSA still considers that trading in the Shares on the WSE may jeopardize the proper functioning of the regulated market or the security of trading thereon or cause infringement of investors' interests, it may, after informing the Cyprus SEC, demand that the WSE suspend the Shares from trading on the WSE for a period not exceeding one month or to permanently exclude the Shares from trading on the WSE.

In addition, the management board of the WSE may suspend trading in the Shares on the WSE for up to three months: (i) upon the Company's application; (ii) if the management board of the WSE deems that such suspension is required by the interests and safety of trading participants; or (iii) if the Company is in breach of the regulations governing the WSE.

A decision to suspend the Shares from trading on the WSE will adversely affect the liquidity of the Shares.

The Shares could be delisted or excluded from trading on the WSE

If the Polish FSA finds that the Company has committed irregularities or infringed its obligations, it shall refer its findings to the Cyprus SEC. If, despite the measures taken by the Cyprus SEC or because such measures prove inadequate, the Company persists in infringing the relevant legal or regulatory provisions, the Polish FSA shall, after informing the Cyprus SEC, take all the appropriate measures in order to protect investors. The Polish FSA shall immediately notify the European Commission upon application of such measures.

Following the above procedure, the Polish FSA could issue a decision to exclude the Company's securities from trading on the regulated market, for a specified term or unspecified period of time, impose a fine of up to PLN 1 million or apply both measures simultaneously.

Pursuant to the WSE Regulations, the management board of the WSE will exclude the Shares from trading on the WSE in the following events: (i) if the Shares' transferability is restricted; (ii) if the Polish FSA makes a demand pursuant to the provisions of the Polish Trading Act; (iii) if the Shares cease to exist in book-entry form; or (iv) if the Shares are excluded from trading by the Polish FSA. The management board of the WSE may also exclude the Shares from trading on the WSE: (i) if they no longer meet the requirements for admission to exchange trading on a given market other than relating to transferability; (ii) if the Company is persistently in breach of the regulations governing the exchange; (iii) if so requested by the Company; (iv) if the Company's bankruptcy is declared or any petition in bankruptcy is dismissed by the court because the Company's assets are insufficient to cover the costs of the proceedings; (v) if it considers this necessary to protect the interests and safety of trading participants; (vi) following a decision on a merger, split or transformation of the Company; (vii) if, for a period of three months, there are no transactions in the Shares on the WSE; (viii) if the Company undertakes any business activity prohibited by law; or (ix) if the Company is placed in liquidation.

Any such action to delist or exclude the Shares from trading on the WSE would decrease liquidity of the Shares.

Risks Relating to the Shares

Exercise of certain shareholders' rights and the tax treatment for non-Cypriot investors in a Cypriot company may be complex and costly

The Company is organised and exists under the laws of Cyprus, in particular, in accordance with the Cyprus Companies Law, as amended (the "**Cyprus Companies Law**"). The rights and responsibilities of holders of Shares are governed by the Articles of Association and the laws of Cyprus. Accordingly, the Company's corporate structure as well as rights and obligations of the Company's shareholders are different from the rights and obligations of shareholders in Polish companies listed on the WSE.

The exercise of certain shareholders' rights for non-Cypriot investors in a Cypriot company may be more difficult and costly than the exercise of shareholders' rights in a Polish company. Rectification of the Company's registers and/or some corporate actions also require the approval of Cypriot courts in certain circumstances which may result in administrative delay in the context of issues such as the payment of dividends or voting rights.

Future capital increases may lead to dilution of shareholders' holdings in the Company

The Group may expand its business in the future, which could lead to a need for considerable amounts of investment and capital. In connection with the Offering, certain lock-up arrangements will be made with respect to the issue of new Shares by the Company. For further details see *"Placement, Stabilisation, Over-Allotment and Lock-up Arrangements"*. Future capital increases (after expiration of the lock-up period) for acquisitions using Shares yet to be issued, and other capital increases would lead to considerable dilution of shareholders' holdings in the Company.

The market value of the Shares may be adversely affected by future sales of Shares by the Selling Shareholder

In connection with the Offering, certain lock-up arrangements will be made with respect to the transfer of the Existing Shares by the Selling Shareholder. However there can no assurance that future sales of Shares by the Selling Shareholder, following the expiry of the lock-up period under these arrangements or prior waiver of the same, will not adversely affect the market value of the Shares. For further details see *"Placement, Stabilisation, Over-Allotment and Lock-up Arrangements"*.

Securities or industry analysts may cease to publish research or reports about the Company's business or may change their recommendations regarding the Shares

The market price and/or trading volume of the Shares may be influenced by the research and reports that industry or securities analysts publish about the Company's business. There can be no guarantee of continued and sufficient analyst research coverage for the Company, as the Company has no influence on analysts who prepare such researches and reports. If analysts fail to publish reports on the Company regularly or cease publishing such reports at all, the Company may lose visibility in the capital markets, which in turn could cause the Share price and/or trading volume to decline. Furthermore, analysts may downgrade the Shares or give negative recommendations regarding the Shares, which could result in a decline of the Share price.

The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of the Shares

Prior to the Offering, the Selling Shareholder owns 90% of the Company's outstanding Shares and, immediately after the Offering, the Selling Shareholder will own **[●]**%, on a fully diluted basis. Consequently, the free float of the Shares held by the public will be limited.

In addition, the WSE requires that the share capital of a company to be listed on the main market of the WSE must be adequately diluted, i.e. part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital. If the Offer Shares are acquired by a limited number of large investors, there is a risk that the share capital would not be adequately diluted and as a result the WSE would not approve the maintenance of the listing of the Shares on the main market of the WSE and, consequently, the Shares would be listed on the parallel market of the WSE.

PERSONS RESPONSIBLE

This Prospectus has been drafted in accordance with relevant legislation. The Prospectus has been approved by the Cyprus Securities and Exchange Commission, as the Cypriot competent authority for the purposes of Directive 2003/71/EC (the Prospectus Directive), only as to the disclosure of information to investors as provided by the Public Offer and Prospectus Law of 2005 of the Republic of Cyprus and the Commission Regulation (EC) 809/2004 of the European Union.

This Prospectus contains all information concerning the Company and the Offering required to be publicised by the Public Offer and Prospectus Law of 2005 of the Republic of Cyprus and the Commission Regulation (EC) 809/2004 and which concerns the Company and the Shares.

Thus, this Prospectus, contains all the information necessary for investors to evaluate the assets, liabilities, financial position, performance and prospects of the Group as well as the rights attaching to the Shares.

The Company assumes full responsibility for the information contained in this Prospectus and declares that the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import. The Directors of Valinor Public Limited signing this Prospectus, are also responsible jointly and severally for the information contained in this Prospectus and declare that, (a) having taken all reasonable care to ensure that such is the case, the information and facts contained in it are, to the best of their knowledge, in accordance with the facts, complete and true, (b) there are no other facts and no other events have taken place, the omission of which could affect the import of the information contained in it and (c) save as disclosed in this Prospectus no legal actions or claims of material importance are pending or threatened against the Company or the Group that could materially affect the Group's financial condition.

In accordance with the provisions of the Public Offer and Prospectus Law this Prospectus has been signed by the following Directors:

Kirill Podolskiy	Chairman and Executive Director
Mikhail Cherkasov	Executive Director
Marina Barbarash	Executive Director

The Selling Shareholder, and its sole Director signing this Prospectus on its behalf, accept responsibility for the information contained in this Prospectus and declare that the information contained in this Prospectus is true and correct and contains no omissions likely to affect its import.

The Cyprus Investment and Securities Corporation Limited (CISCO) in its capacity as Underwriter responsible for drawing up the Prospectus declares that, having taken all responsible care to ensure that such is the case, the information contained in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

CISCO has appointed independent parties to carry out a legal due diligence review of the Group, the findings of which are reflected in various sections of this Prospectus and especially in the section entitled "*Risk Factors*". CISCO, together with the Managers, has, in accordance with international practice, also been provided a comfort letter by the independent auditors of the Company in connection with its due diligence enquiries relating to the contents of this Prospectus.

Investors interested in obtaining further information may contact the following during normal business hours:

The Underwriter responsible for drawing up the Prospectus

The Cyprus Investment and Securities Corporation Limited (CISCO)
Eurolife House, 4 Evrou Street, PO Box 20597, 1660 Nicosia, telephone: +357 121800.

The Company

Mikhail Cherkasov, Deputy chief executive officer for investor relations

Stasandrou 8, 3rd floor, Office 301, P. C. 1060, Nicosia, Cyprus, telephone: +35 722 755528, or 1 Pobedy Street, Andreyevo-Melentyevo Village, Neklinovsky District, Rostov Region, Russian Federation, 346841, telephone: +7 8634 733450.

NO INCORPORATION OF WEBSITE INFORMATION

No Incorporation of Website Information

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

FORWARD LOOKING STATEMENTS

Forward Looking Statements

This Prospectus contains forward-looking statements which reflect the current view of the Company or, as appropriate, Management, as the context may require, with respect to financial performance, business strategy, plans and objectives of the Company for future operations (including development plans relating to the Group's products and services).

These forward-looking statements relate to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature identify such forward-looking statements.

All forward-looking statements included in this Prospectus address matters that involve known and unknown risks uncertainties and other factors which could cause the Group's actual results, performance or achievements to differ materially from those indicated in these forward-looking statements and from past results, performance or achievements of the Group. Such forward-looking statements are based upon various assumptions of future events, including numerous assumptions regarding the Group's present and future business strategies and future operating environment. Although the Company believes that these estimates and assumptions are reasonable, they may prove to be incorrect. Factors that could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements in this Prospectus include, but are not limited to:

- increases or decreases in demand for the Group's products;
- the effects of competition;
- price pressure;
- increases in operating costs;
- favourable market conditions, including but not limited to commercially reasonable pricing for, and availability of, land for acquisition;
- the Group's ability to identify suitable land plots for acquisition;
- availability of funds, through borrowings or otherwise, for the Group's future operations and planned capital expenditure, including but not limited to acquisition of land;
- the Group's ability to successfully implement any of its business or financing strategies;

- developments in, or changes to, the laws, regulations and governmental policies applicable to the Group's business;

- substantial inflation, interest rate and exchange rate fluctuations;

- the effects of domestic and international political events; and

- the Group's success in identifying additional risks to its businesses and managing risks associated with the aforementioned factors.

These factors are not exhaustive. For a further discussion of these factors and a description of certain risks, see "*Risk Factors*", "*Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Investors should be aware that the above-mentioned factors and circumstances may lead to substantial differences between the Group's actual results and the plans, aims, expectations and intentions included in the forward-looking statements.

Any forward-looking statements in this Prospectus reflect Management's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity.

Any forward-looking statements speak only as of the date of this Prospectus. Notwithstanding that this Prospectus does not contain profit forecasts or estimates within the meaning of Regulation 809/2004, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this Prospectus which could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Prospectus all references to the Company apply to Valinor Public Limited and all references to the Group apply to Valinor and its consolidated subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Group (including its relevant subsidiaries, depending on the country discussed), unless from the context it is clear that they apply to the Company alone.

Financial and Operating Data

This Prospectus contains financial statements of, and financial information relating to the Group. In particular, this Prospectus contains the Company's audited consolidated annual financial statements for the three years ended, and as at, 31 December 2010, 2009 and 2008. The financial statements included in this Prospectus are presented in USD and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**").

Adjusted EBITDA is not a measure of performance under IFRS. The Company defines Adjusted EBITDA as profit or loss for the relevant period before: (i) income tax expense/benefit; (ii) gain realised from acquisitions of subsidiaries; (iii) non-operating foreign exchange gains/losses, net; (iv) finance income; (v) finance costs, net; (vi) impairment loss on goodwill and property, plant and equipment; (vii) depreciation and amortisation; and (viii) loss on disposals ("**Adjusted EBITDA**"). The Company has made these adjustments as Management believes that these line items are not operational in nature and do not reflect the true nature of the business on a continuing basis and/or that these line items are either non-recurring or unusual in nature. As such, these adjustments present a clearer view of the performance of the Group's underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA in the Group's business operations to, among other things, assess the Group's operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating other companies, most of which present similar measures when reporting their results. Adjusted EBITDA does not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund future cash requirements. Further, because Adjusted EBITDA is not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

Transactions of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. For all the subsidiaries of the Company which are operating in Russia, RUB is the functional currency. For all the subsidiaries of the Company which are operating in Ukraine, UAH is the functional currency. USD is the Company's functional and the Group's presentation currency. Accordingly, transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Certain arithmetical data contained in this Prospectus, including financial and operating 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.

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, state agencies, market and other organisations, researchers or analysts, publicly available information from other external sources, Management's knowledge of the Group's sales and markets or other assessments made by Management.

Certain statistical data and market, economic or industry information and forecasts have been extracted and derived by the Company from independent third party, publicly available reports and analysis.

While the Company has compiled, extracted and reproduced market, economic or industry and forecast data from such sources, the Company has not independently verified such data. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. Subject to the foregoing, none of the Company or the Managers can assure investors of the accuracy or completeness of, or take any responsibility for, such data. The source for such third party information is cited whenever such information is used in this Prospectus.

With respect to industries in which the Company operates, some of the estimates and assessments given could not be substantiated by reliable external market and/or industry information as such information is not often available or may be incomplete. While every reasonable care has been taken to provide the best possible assessments of the relevant market situation and the information about the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigations of the relevant markets or employ a professional consultant. 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. Reliance has been placed on the accuracy of such data and statements without carrying out an independent verification thereof, and Management therefore cannot guarantee their accuracy and completeness. Furthermore, it is believed that Management's estimates and assessments are accurate and reliable, however, they have not been verified by independent external professionals. Consequently, there is no guarantee as to their accuracy and completeness nor that estimates or projections made by another entity relying on other methods of collecting, analysing and assessing market data would be the same as those of the Company.

Save where required by mandatory provisions of law, it is not intended and no undertaking is given to update market, economic or industry data, statistics and forecasts contained in this Prospectus. Industry trends may change or significantly differ from the one projected in this Prospectus. Therefore investors should be aware that estimates made in this Prospectus may not be relied upon as indicative of the Company's future performance and actual trends.

In this Prospectus, certain statements are made regarding the Company's competitive position, its growth and market leadership. These statements are believed to be true based on market data and industry statistics regarding the competitive position of certain of the Company's competitors. In presenting the overview of the Company's competitive position in the relevant markets, reliance has also been made on Management's assessments and analysis of such competitive position. In making such assessments and analysis, Management has used market information collected by its own employees and advisors for such purpose, either available on the basis of public information or derivable from the same.

Currency Presentation

Unless otherwise indicated, all references in this Prospectus to, "**U.S. dollars**", "**USD**" or "**U.S. $**" are to the lawful currency of the United States; all references to "**Euro**", "**EUR**" or "**€**" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the EC Treaty, which means the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992) and as amended by the Treaty of Amsterdam (signed in Amsterdam on 2 October 1997) and includes, for this purpose, Council Regulations (EC) No. 1103/97 and No. 974/98; all references to "**PLN**" or "**Polish Zloty**" are to the lawful currency of Poland; all references to "**UAH**" or "**hryvnia**" are to the lawful currency of Ukraine; and all references to "**RUB**" or "**ruble**" are to the lawful currency of Russia.

Solely for the convenience of the reader, and except as otherwise stated (such as in note two of the financial statements of the Group contained in this Prospectus), the Company has presented in this Prospectus: (i) translations of certain ruble amounts into U.S. dollars at a conversion rate of RUB 30.48 to USD 1.00, which was the rate published by the Central Bank of Russia (the "**CBR**") on 31 December 2010; and (ii) translations of certain hryvnia amounts into U.S. dollars at a conversion rate of UAH 7.96 to USD 1.00, which was the rate published by the National Bank of Ukraine (the "**NBU**") on 31 December 2010. No representation is made that the ruble, hryvnia or U.S. dollar amounts referred to herein could have been or could be converted into rubles, hryvnia or U.S. dollars, as the case may be, at these rates, at any other particular rate or at all. See "*Exchange Rate Information*".

Other Financial and Statistical Information

Unless otherwise indicated, all references in this Prospectus to "**ending stocks**" are to the amount of harvested goods left over from one agricultural year and "carried over" into the next agricultural year; all references to "**kilogram per hectare**" or "**kg/ha**" are to the number of kilograms of fertiliser used per hectare; all references to "**PPP**" are to "purchase power parity", a theory that estimates the amount of adjustment needed to the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power; all references to "**real disposable income**" are references to disposable income adjusted for inflation over time; all references to "**real GDP**" are to the value of output economy adjusted for inflation or deflation; and all references to "**tonne**" or "**tonnes**" are to metric tonnes.

In addition, certain information relating to crop production, land acreage and other metrics is presented in this Prospectus by "**agricultural year**". An agricultural year runs from 1 July to 30 June and is the period during which substantially all of a crop or production is harvested and normally marketed. This assumes that a crop harvested in the second half of a calendar year (i.e. the first half of the relevant agricultural year) is normally marketed during the first half of the following calendar year (i.e. the second half of the same agricultural year). For example "2010/11 agricultural year" means the period from when crops are harvested after 1 July 2010, to when they are assumed to have been normally marketed, being prior to 30 June 2011. The term is reproduced here solely for presentational purposes in order to demonstrate industry trend information. As a result, although figures for the "2010/11 agricultural year" could imply that all crops harvested in the second half of 2010 will necessarily be marketed by 30 June 2011, this may not necessarily be the case, either for the Group's crop production, or otherwise.

Any references to Share percentages adjusted on a "**fully diluted basis**", assume the issue of the minimum number of New Shares, being 10,000,000, based on the Maximum Offer Price, and no exercise of the Over-Allotment Option.

Land Under Control

For the purposes of this Prospectus, terms such as "land under control" or "land under management" or any similar expression mean any land to which the Group holds leasehold title or ownership title to or to which it is in the process of acquiring such title. Such land shall include:

- specific land plots for which a member of the Group has registered title;
- land plots for which either a preliminary or final lease or sale agreement has been signed by a member of the Group but where such lease or sale agreement has not been registered;
- specific land plots for which a member of the Group has a registered lease; and
- specific land lots for which a member of the Group has registered title together with a third party.

EXCHANGE RATE INFORMATION

The Group's operating assets are located in Russia and Ukraine. Its revenues are largely denominated in rubles and hryvnia but linked to U.S. dollars. The majority of the Group's cost of sales is denominated in U.S. dollars, such as chemicals and seeds, or in prices linked to the U.S. dollar but paid in rubles or hryvnia, such as fertilisers and fuel. Part of the Group's finance costs are also denominated in U.S. dollars.

The Group's financial statements included in this Prospectus are presented in U.S. dollars.

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between the main operational and reporting currencies used in the preparation of the Group's financial statements appearing in this Prospectus.

	RUB per USD	**UAH per USD**	**PLN per USD**
2008			
Closing Rate (1)	29.38	7.70	2.44
Average rate (2)	24.85	5.27	2.77
High	29.38	7.88	3.04
Low	23.45	4.84	2.02
2009			
Closing Rate (1)	30.24	7.99	2.85
Average rate (2)	31.89	7.79	3.12
High	35.72	8.01	3.90
Low	29.05	7.61	2.71
2010			
Closing Rate (1)	30.48	7.96	2.96
Average rate (2)	30.36	7.94	3.02
High	31.31	8.01	3.49
Low	29.29	7.88	2.74
2011			
Average rate (3)	28.45	7.96	2.79
High	30.63	7.97	3.03
Low	27.26	7.93	2.64

Source: NBU, CBR, NBP

Notes:
(1) As at 31 December.
(2) The average of the exchange rates on the last day of each full month during the year.
(3) The average of the exchange rates on the last day of each full month during the year, up until 30 June 2011.

USE OF PROCEEDS

The net proceeds from the offering of the New Shares will be approximately USD [●], based on an Offer Price of PLN [●], being the Maximum Price, after deduction of commissions for the Managers and assuming full payment of discretionary fees and estimated Offering costs payable by the Company.

The Company intends to use the proceeds from the offering of New Shares for the purposes of:

- increasing the Group's agricultural land portfolio in Russia and Ukraine by up to approximately 70,000 hectares, comprising up to 40,000 hectares in Russia and up to 30,000 hectares in Ukraine, in 2011 for up to USD 100 million;

- purchasing additional agricultural machinery including 85 imported harvesters, 31 seeding machines, 28 imported tractors, 118 locally produced trucks and approximately 200 other items of machinery for a total of approximately USD 44 million. Due to the use of lease arrangements, the initial amount of initial investment needed for these purchases is expected to total approximately USD 8.8 million in aggregate for 2011 and 2012;

- expanding the Group's storage capacity for agricultural products through the upgrade of existing, and acquisition of new, facilities including the construction of an additional 26 granaries and modernisation of 16 existing granaries, for approximately USD 7 million in aggregate in 2011 and 2012;

- implementing a pilot scheme to reconstruct or improve existing but non-operational irrigation systems to enable the production of water intensive crops, such as potatoes, and to expand its production of soya bean and other water intensive vegetables. The project is expected to commence in 2012 and is expected to cover an initial approximately 4,000 hectares of the Group's land portfolio, with a total investment still to be determined;

- funding increases in working capital required as a result of the expansion of the Group's land portfolio and storage and production capacity; and

- other general corporate purposes.

The Company will not receive any portion of the proceeds from the sale of the Sale Shares by the Selling Shareholder in the Offering.

Use of Proceeds Agreements

The Selling Shareholder has, in the Sberbank Use of Proceeds Agreement and the Alfa Bank Ukraine Use of Proceeds Agreement, agreed to use the proceeds of the sale of the Sale Shares to repay certain indebtedness under loan agreements granted to members of the Former Group, who are not members of the Group, but which are secured by the Sberbank Share Pledge and the Alfa Bank Ukraine Share Pledge. Following such repayment, Sberbank has agreed to hold as collateral only those Shares the post-Offering value of which constitutes 190% of the outstanding indebtedness owed to Sberbank. Any Shares held in excess of this number will be released from the terms of the Sberbank Share Pledge provided, however, that at least 25% of the Shares plus one Share shall remain subject to the Sberbank Share Pledge. With respect to Alfa Bank Ukraine, following such repayment, the Alfa Bank Ukraine Share Pledge shall be terminated.

DIVIDENDS AND DIVIDEND POLICY

The Company was incorporated on 21 September 2010 and therefore no dividends have been paid up to the date of this Prospectus.

The Board of Directors intends that in the foreseeable future the Company will re-invest any net earnings to finance the development of its business and land acquisitions. Upon completion of announced plans and where, following due repayment of debt obligations, further suitable business development opportunities do not exist or are not open to the Company, the Board of Directors intends to introduce a dividend policy to provide for the distribution of net earnings to the extent that the Company's net cash flow exceeds the Company's operating and business development needs.

The distribution of profits and payment of dividends and interim dividends by the Company in any financial year are subject also to restrictions imposed by the Cyprus Companies Law, the Company's Articles of Association and any applicable debt facilities; see "*Business – Material Contracts – Arrangements with Deutsche Bank*". For further information concerning dividend payments see "*Certain Polish and Cypriot Securities Markets Regulations – Cypriot Law – Dividends and Dividend Policy*".

CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The table below presents certain information on the consolidated capitalisation of the Company as at 28 February 2011:

(a) derived from the Company's unaudited consolidated financial statements as at 28 February 2011;

(b) on an adjusted basis to reflect (i) the drawdown of all amounts available under the Deutsche Bank First Facility Agreement and the Deutsche Bank Second Facility Agreement and their application to refinance existing indebtedness and to fund certain working capital needs (the "**Refinancing**"); and (ii) the subordination of certain arrangements entered into with related parties. For more information on the Refinancing and subordination, see "*Business – Material Contracts – Arrangements with Deutsche Bank*"; and

(c) on an adjusted basis to reflect the net proceeds received by the Company from the offering of the New Shares (based on the Maximum Price and assuming the issue of the minimum number of New Shares, being 10,000,000) after deduction of commissions for the Managers (assuming full payment of discretionary fees) and estimated offering costs payable by the Company.

This section should be read in conjunction with the section headed "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Group's audited consolidated financial statements.

CAPITALISATION AND INDEBTEDNESS[1]	**As at 28 February 2011** (USD'000)	**Adjusted for the Refinancing** (USD'000)	**Adjusted for the Offering** (USD'000)
Equity and reserves attributable to owners of the parent	**311,390**	**311,390**	
Share capital	350	350	
Share premium	228,150	228,150	
Restructuring reserve	(24,670)	(24,670)	
Revaluation reserve	70,126	70,126	
Retained earnings	100,846	100,846	
Cumulative translation difference	(63,412)	(63,412)	
Total current debt	**186,806**	**91,233**	
Bank short-term loans and borrowings and accrued interest	85,535	33,696	
Current portion of long-term bank loans and borrowings	1,495	1,495	
Other current non-bank financial debt[2]	99,776	56,043	
Total non-current debt	**142,549**	**359,040**	
Bank long-term loans and borrowings[3]	125,172	288,930	
Long-term finance lease obligations and other	17,377	70,110	

non-bank debt		
- including long-term subordinated borrowing[(4)]		43,733
Total capitalisation and indebtedness	**640,745**	**761,663**

NET INDEBTEDNESS	**(USD'000)**	**(USD'000)**
Cash	1,507	1,507
Cash Equivalent	-	-
Trading Securities	-	-
Total Liquidity	**1,507**	**1,507**
Bank short-term loans and borrowings and accrued interest	85,535	33,696
Current portion of long-term bank loans and borrowings	1,495	1,495
Other current non-bank financial debt[(2)]	99,776	56,043
Current Financial Debt	**186,806**	**91,233**
Net Current Financial Assets (Indebtedness)	(185,299)	(89,726)
Bank long-term loans and borrowings[(3)]	125,172	288,930
Bonds issued	-	-
Long-term finance lease obligations and other non-bank debt	17,377	70,110
- including long-term subordinated borrowing[(4)]		43,733
Non Current Financial Indebtedness	(142,549)	(359,040)
Net Financial Indebtedness	(327,848)	(488,766)

Notes:

(1) The above table does not reflect any indirect or contingent indebtedness. For details relating to off-balance sheet arrangements, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements*".

(2) Including certain intercompany debt and receivables, see "*Related Party Transactions – Transactions with Valars Group – Financial Arrangements*".

(3) For further information concerning long term loans and borrowings, see "*Business – Material Contracts – Credit Agreements with Sberbank*", "*Business – Material Contracts – Credit Agreements with Petrocommerce Bank*", "*Business – Material Contracts – Credit Agreement with Vozrozhdenie Bank*" and "*Business – Material Contracts – Arrangements with Deutsche Bank*".

(4) Pursuant to the terms of the Deutsche Bank First Facility Agreement, certain related party loans entered into by Ukrainian and Cypriot members of the Group have been subordinated, on an interest free basis, for a term of up to five years with a prohibition for early repayment, see "*Business – Material Contracts – Arrangements with Deutsche Bank*". The Company and the Selling Shareholder have each

undertaken that none of the related party payables of the Group that fall outside the subordination arrangements entered into with Deutsche Bank under the Deutsche Bank First Facility Agreement shall be repaid from the proceeds of the Offering, cash from operating activities or from any additional debt or equity financing. All such related party payables will be extinguished by way of non-cash set-off against related party receivables as soon as practicable, but ,in any event, no later than 31 December 2012.

No Material Change

Save as disclosed in "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments*", no material change in the consolidated capitalisation and indebtedness of the Company has occurred from 28 February 2011 to the date of this Prospectus.

Working Capital Statement

The Company hereby declares that, in its opinion, its working capital (on a consolidated basis) is sufficient for its present requirements for the next 12 months of business activities from the date of this Prospectus.

SELECTED FINANCIAL AND OPERATIONAL INFORMATION FOR THE GROUP

The selected consolidated financial and operational information for the Group as at 31 December 2010, 2009 and 2008 and for the years then ended has been derived from the audited consolidated financial statements and the notes related thereto included elsewhere in this Prospectus.

For the purpose of preparation of the Group's consolidated financial statements for the financial years ended 31 December 2010, 2009 and 2008 the effective date of obtaining control of subsidiaries that were transferred to Valinor was determined to be the date when the subsidiaries were originally acquired from third parties by companies controlled by Mr. Kirill Podolskiy. As a result, Valinor and its subsidiaries have been consolidated as if they formed the Group since the date control was first obtained and the initial share capital of Valinor issued on its incorporation is presented in the financial statements as if Valinor was incorporated as of 1 January 2008.

This section should be read together with the consolidated financial statements and the notes related thereto included elsewhere in this Prospectus and the section of this Prospectus entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	Year ended 31 December		
	2010	**2009**	**2008**
	(USD '000)	**(USD '000)**	**(USD '000)**
INCOME STATEMENT DATA: ***Continuing Operations***			
Revenue	224,350	165,059	135,924
Net change in fair value of biological assets and agricultural produce	48,058	15,860	(21,032)
Cost of sales	(163,215)	(148,344)	(115,357)
Gross profit/(loss)	**109,193**	**32,575**	**(465)**
Administrative expenses	(18,681)	(13,752)	(14,761)
Selling expenses	(4,665)	(6,661)	(6,772)
Government grants recognised as income	10,176	6,849	7,859
Other operating expenses, net	(12,933)	(9,573)	(7,353)
Operating foreign exchange (losses)/gains, net	(474)	(839)	536
Operating profit/(loss) before loss on impairment	**82,616**	**8,599**	**(20,956)**
Impairment loss on goodwill and property, plant and equipment	--	(9, 591)	(671)
Operating profit/(loss)	**82,616**	**(992)**	**(21,627)**
Finance costs, net	(38,711)	(42,399)	(27,104)
Finance income	3,902	3,226	494

	Year ended 31 December		
	2010	2009	2008
	(USD ’000)	(USD ’000)	(USD ’000)
Non-operating foreign exchange gains/(losses), net	416	(296)	(6,101)
Gain realised from acquisitions of subsidiaries	--	28,006	112,710
Profit/(loss) before tax	**48,223**	**(12,455)**	**58,372**
Income tax benefit/(expense)	1,385	(6,554)	13,899
Profit/(loss) for the year	**49,608**	**(19,009)**	**72,271**
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Effect of revaluation of property, plant and equipment	--	87,213	--
Income tax related to items of other comprehensive income	--	(11,392)	--
Other comprehensive income/(loss)	3,527	12,731	(95,079)
Total comprehensive income/(loss) for the year	**53,135**	**69,543**	**(22,808)**
Profit/(loss) for the year, attributable to:			
Equity holders of the Company	45,601	(16,943)	73,961
Non-controlling interests	4,007	(2,066)	(1,690)
Profit/(loss) for the year	**49,608**	**(19,009)**	**72,271**
BALANCE SHEET DATA (at end of period):			
Total non-current assets	457,691	475,705	371,039
Total current assets	286,243	210,436	197,165
Total assets	**743,934**	**686,141**	**568,204**
Total non-current liabilities	176,129	203,892	200,801
Total current liabilities	230,529	198,457	160,600
Total liabilities	**406,658**	**402,349**	**361,401**
CASH FLOW STATEMENT DATA:			
Net cash generated by/(used in) operating activities	78,100	(15,577)	(17,707)
Net cash used in investing activities	(10,063)	(37,854)	(89,009)
Net cash (used in)/generated by financing activities	(61,650)	52,573	109,719
Cash and cash equivalents at the end of the year	7,758	1,321	2,211

	Year ended 31 December		
	2010	2009	2008
	(USD ’000)	(USD ’000)	(USD ’000)
OTHER FINANCIAL DATA:			
Adjusted EBITDA[1]	111,540	32,695	8,641

(1) Adjusted EBITDA is not a measure of performance under IFRS. The Company defines Adjusted EBITDA as profit or loss for the relevant period before: (i) income tax expense/benefit; (ii) gain realised from acquisitions of subsidiaries; (iii) non-operating foreign exchange gains/losses, net; (iv) finance income; (v) finance costs, net; (vi) impairment loss on goodwill and property, plant and equipment; (vii) depreciation and amortisation; and (viii) loss on disposals. The Company has made these adjustments as Management believes that these line items are not operational in nature and do not reflect the true nature of the business on a continuing basis and/or that these line items are either non-recurring or unusual in nature. As such, these adjustments present a clearer view of the performance of the Group’s underlying business operations and generate a metric that Management believes will give greater comparability over time. Management uses Adjusted EBITDA in the Group’s business operations to, among other things, assess the Group’s operating performance and make decisions about allocating resources. Management believes this measure is frequently used by securities analysts, investors and other interested parties in evaluating other companies, most of which present similar measures when reporting their results. Adjusted EBITDA does not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered by prospective investors to be an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund future cash requirements. Further, because Adjusted EBITDA is not calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The following table sets forth the reconciliation of profit/loss for the year to Adjusted EBITDA:

	Year ended 31 December		
	2010	2009	2008
	(USD ’000)	(USD ’000)	(USD ’000)
Profit/(loss) for the year	49,608	(19,009)	72,271
Income tax (benefit)/expense	(1,385)	6,554	(13,899)
Gain realised from acquisitions of subsidiaries	--	(28,006)	(112,710)
Non-operating foreign exchange (gains)/losses, net	(416)	296	6,101
Finance income	(3,902)	(3,226)	(494)
Finance costs, net	38,711	42,399	27,104
Impairment loss on goodwill and property, plant and equipment	--	9,591	671
Operating profit before loss on impairment	**82,616**	**8,599**	**(20,956)**
Depreciation and amortisation[a]	25,383	23,339	27,784
Loss on disposals[b]	3,541	757	1,813
Adjusted EBITDA	**111,540**	**32,695**	**8,641**

(a) Depreciation and amortisation consists primarily of depreciation of property, plant and equipment and amortisation of intangible assets in relation to cost of sales, administrative expenses, selling expenses, and other operating expenses.
(b) Loss on disposals relates primarily to the Group’s regular operations with non-current assets, such as property, plant and equipment. The loss on disposals arises in circumstances where the cost of disposed items is greater than the cost of acquired items (i.e., acquired assets are recorded at fair value).

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

The following discussion and analysis of the Group's financial condition and results of operations covers the years 2010, 2009 and 2008. The financial information presented in this discussion has been extracted or derived from the consolidated financial statements and should be read together with such consolidated financial statements and related notes included elsewhere in this Prospectus.

Certain information contained in the discussion and analysis 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 the actual results to differ materially from those expressed or implied by such forward-looking statements. See "Forward-Looking Statements".

Overview

The Valinor Group is one of the largest agricultural businesses in the CIS in both in terms of cultivated land area and crops harvested. It focuses on the production and sale of agricultural products in Russia and Ukraine.

As at the date of this Prospectus, the Valinor Group controls approximately 358,000 hectares of land, of which approximately 238,000 hectares is located in Russia and approximately 120,000 hectares is located in Ukraine. The Group's land is located in Rostov, Stavropol and Krasnodar in Russia and Vinnytsia, Sumy, Poltava, Cherkasy, Mykolaiv and Kherson in Ukraine, which are characterised by highly fertile soil known as "chernozem" or "black earth" and, in 2010, approximately 91.5% of the Group's land was arable.

The Valinor Group produces a variety of agricultural commodities, principally cereals (wheat, barley and corn), oilseeds (sunflower and rapeseeds) and sugar beet. In the year ended 31 December 2010, it harvested approximately 1.2 million tonnes of crops, representing an 16% increase in crops harvested in the previous year. In addition to its production facilities, the Group has approximately 972,000 tonnes of storage capacity, including on-farm storage, three silos in Russia and four silos in Ukraine, and a modern fleet of agricultural machinery and trucks, which facilitate the Group's core business of growing, harvesting, storing and selling crops. For the year ended 31 December 2010, approximately half of the Company's revenues were derived from the sale of wheat.

Valinor has achieved significant revenue and production growth over the last two years. Its revenue was USD 224.4 million for the year ended 31 December 2010, which represents an increase of 35.9% over the year ended 31 December 2009. Adjusted EBITDA was USD 111.5 million for the year ended 31 December 2010, whereas Adjusted EBITDA for the year ended 31 December 2009 was USD 32.7 million, representing a 241.2% year-to-year increase. This increase was primarily due to an increase in production volumes and an increase in market prices for the Group's products. Adjusted EBITDA margin, calculated as Adjusted EBITDA divided by revenue, was 49.7% for the year ended 31 December 2010 and 19.8% for the year ended 31 December 2009.

The Group reports its business in two geographic segments, Russia and Ukraine, which Management have identified as operating segments. Segment information is analysed on the basis of the location of the relevant operational divisions and the Group's accounting policies are applied equally to the reportable segments. The Group further reports revenue and cost of sales by reference to products and services.

Recent Developments

As part of the Company's recent strategy to develop its own in-house trading capability, it has designated a Russian member of the Group, LLC "Valinor-Management", to conduct grain trading operations in Russia, and has acquired a Ukrainian company, also named "Valinor-Management" LLC, to conduct grain trading operations in Ukraine. For further information regarding these developments, see "*Business – Sales and Marketing – Future Trading Strategy*".

On 10 May 2011, Deutsche Bank and the Company entered into a USD 65 million senior secured guaranteed term loan facility agreement, as amended on 3 June 2011. The funds were drawn down in one tranche on 16 May 2011 and were used for the repayment of certain indebtedness owed to Alfa Bank Ukraine, totalling the equivalent of approximately USD 21 million, and Russian Agricultural Bank, totalling approximately USD 4 million. The balance was applied to working capital needs relating to crop production in Russia and Ukraine, the payment of certain trade payables and applicable fees and commissions. This facility is secured by the Deutsche Bank Share Pledge, a further 9.99% of the Existing Shares being held by Deutsche Bank under the terms of the Deutsche Bank Call Option and irrevocable and unconditional English law governed guarantees issued by certain members of the Group.

On 30 June 2011, Deutsche Bank and the Company entered into a further USD 200 million senior secured guaranteed amortising term loan facility agreement with Deutsche Bank. The funds, which are to be drawn down in one tranche on or about the date of this Prospectus, are intended to be used for:

- refinancing of a loan provided by Alfa Bank Ukraine to Valars Agro, in the total amount of up to USD 115 million and the release of associated security, including the acquisition by Dilpar of one class B share held by Fiduciaria Limited, a related party of Alfa Bank Ukraine, in Valars Agro, for USD 27.0 million, together with all and any relevant payments necessary for the acquisition of this share;

- refinancing of loans provided by Petrocommerce Bank to Valary, a member of the Valars Group, and the release of associated security, being a pledge over 20% of the Existing Shares, in the total amount of up to USD 22 million, together with all and any interest accrued and/or deferred in relation to these loans;

- refinancing of loans provided by OJSC "Russian Agricultural Bank" to various Russian members of the Group, in the total amount of up to RUB 5,807,304.47 (approximately USD 190,528) and USD 18,595,881.77, together with any interest accrued and/or deferred in relation to these loans;

- refinancing of loans provided by OJSC "Raiffeisen Bank Aval", PJSC "Bank Forum" and JSCIB "Ukrsibbank" to various Ukrainian members of the Group, in the total amount of up to UAH 34,212,319, (approximately USD 4,298,030 million) together with all and any interest accrued and/or deferred in relation to these loans;

- refinancing of a loan provided by JSC Commercial Bank LLC "Centre-Invest" to LLC "Petrovskoe", in the total amount of up to RUB 75,000,000 (approximately USD

2,460,630 million) together with all and any interest accrued and/or deferred in relation to this loan;

- refinancing of various other loans provided to members of the Group, in the total amount of up to RUB 5,806,135.40 (approximately USD 190,490), together with all and any interest accrued and/or deferred in relation to these loans; and

- general corporate purposes.

For more information on the Refinancing, see "*Business – Material Contracts – Arrangements with Deutsche Bank*".

Formation of the Group

The foundations of the Group's business were formed in 2006 by the establishment of the Former Group by the former management team of the YTS Group. The YTS Group was one of the largest agricultural production and trading businesses in Russia. Mr. Kirill Podolskiy, who directly or indirectly controls the majority of shares in the Company, established the YTS Group in 1997 together with certain other investors. He left the YTS Group in 2006 to establish the Former Group. In 2008, the Former Group assumed control of the YTS Group and, as a result, acquired approximately 180,000 hectares of agricultural land formerly controlled by the YTS Group.

Until the end of 2010, the Group was part of the Former Group. Trading operations for cereals and oilseeds in the Former Group were carried out by VHL, Valars SA, LLC "Valary-Trade" ("**Valary-Trade**"), LLC "Valary" ("**Valary**"), LLC "Volary" ("**Volary**"), LLC "Volary-Agro" ("**Volary-Agro**") and LLC "Volary Export" ("**Volary Export**"). These companies purchased agricultural products from both Valinor-controlled farming companies and independent third parties. Certain companies in the Former Group were involved in production activities and some of these companies were under the direct or indirect control of companies involved in the trading and logistic activities conducted by the Former Group.

Pursuant to the Restructuring, the production companies of the Former Group were acquired by the Company from certain holding companies owned by Mr. Kirill Podolskiy and the other Former Group shareholders, in order to separate the production and trading activities of the Former Group. As a result, the Company became the holding company of the Group and currently holds all the Former Group's agricultural production assets. Companies of the Former Group that were involved in trading activities are now owned separately by the Selling Shareholder, in the Valars Group, and do not form part of the Group.

The Group's current portfolio of land was formed from three main sources. In addition to the approximately 180,000 hectares acquired from the YTS Group by the Former Group, and who are now members of the Group, a further approximately 152,000 hectares was acquired by members of the Former Group from various sources in 2008 and 2009 and a further approximately 27,000 hectares, which was previously under the control of the Valars Group, was acquired by the Group as a result of the Restructuring. See "*Restructuring*" for more detail.

For the purpose of preparation of the Group's consolidated financial statements for the financial years ended 31 December 2010, 2009 and 2008 the effective date of obtaining control of subsidiaries that were transferred to Valinor was determined to be the date when the subsidiaries were originally acquired from third parties by companies controlled by Mr. Kirill Podolskiy. As a result, Valinor and its subsidiaries have been consolidated as if they formed the Group since the date control was first obtained and the initial share capital of Valinor issued on its incorporation is presented in the financial statements as if Valinor was incorporated as of 1 January 2008.

Factors Affecting the Group's Results of Operations

The Group's performance and results of operations have been and continue to be affected by a number of factors, including, among others, prices of agricultural products, harvest yields, seasonality in the markets for the Group's crops, costs of sales, size of land portfolio, structure of land lease payments, state intervention, state support for and regulation of agricultural production in Russia and Ukraine, macroeconomic conditions in Russia and Ukraine and foreign currency exchange rates. See also *"Risk Factors"*.

Prices of agricultural products

The Group generates a significant proportion of its revenues from the sale of wheat, sunflower and rapeseed. As a result, its revenues are directly related to the market prices of these crops. Historically, the market prices of these crops have fluctuated. They are affected by numerous factors over which producers do not have control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes and the trading policies of participants in the markets for agricultural products. Price variations and market cycles have historically influenced the financial results of the Group and Management expects that they will continue to do so in the future.

The prices for the Group's crops are based on international prices which, in turn, are generally quoted at "free on board" ("**FOB**") terms. The actual price the Group receives for the crops it sells is the international price reduced by the cost of logistics incurred in connection with delivery of the crops to a port. The price for crops may vary depending on the quantity and quality of the crop that is being sold, the time of year that the crop is being sold and the delivery terms for such sale.

Typically, the Group sells its crops in the Russian and Ukrainian domestic markets, as well as to leading international trading companies for export when there is no restriction on their export. Prices in the Russian and Ukrainian domestic markets tend to vary from international prices primarily due to differences in transportation, loading and haulage costs. When an export ban is in place for a product, prices on the domestic market for that product tend to vary from international market prices, being either higher or lower, and are primarily driven by local supply and demand patterns.

The table below specifies the statistical information on Russian and Ukrainian (i) annual average market prices and (ii) average prices during typical trading periods with respect to the relevant agricultural products for the years ended 31 December 2010, 2009 and 2008:

Type of agricultural product	**Type of price**	**For the year ended 31 December**					
		2010		**2009**		**2008**	
		(USD per tonne, excluding VAT)					
		Russia	**Ukraine**	**Russia**	**Ukraine**	**Russia**	**Ukraine**
Winter wheat	Annual average price	163	165	134	121	265	241

Type of agricultural product	Type of price	For the year ended 31 December					
		2010		2009		2008	
		(USD per tonne, excluding VAT)					
		Russia	**Ukraine**	**Russia**	**Ukraine**	**Russia**	**Ukraine**
	Average price for trading period *(July – December)*	184	183	126	120	197	201
Sunflower	Annual average price	481	421	302	284	615	378
	Average price for typical trading period *(September – December)*	497	516	253	324	290	250
Rapeseed	Annual average price	354	419	230	335	355	410
	Average price for typical trading period *(July – December)*	277	384	277	338	355	410
Barley	Annual average price	145	147	97	103	204	198
	Average price for typical trading period *(July – December)*	108	115	89	97	141	159
Corn	Annual average price	190	172	132	127	248	165
	Average price for typical trading period *(September – December)*	234	196	140	140	121	122
Sugar beet	Annual average price	53	60	44	52	36	40
	Average price for typical trading period *(August – September)*	51	60	38	52	23	40

Sources: Sov-Econ and APK-Inform

While the sale prices of the Group's agricultural products generally follow the trends described in the above table, the average prices for the Group's agricultural products do not coincide exactly with annual average market prices and average prices during the typical trading periods and may sometimes differ significantly due to the seasonal nature of the market, regional price variations, peculiarities of the Group's specific trading terms and other factors.

The Group's current policy is generally not to hedge its exposure to the risk of fluctuations in the market prices of crops, and the Group has not, to date, engaged in any such hedging activities. However, the Group may consider from time to time using hedging instruments to fix the selling price of a portion of its anticipated crop production and protect related revenues against downward price movements. Any such use of hedging instruments by the Group in the future would only protect against a drop in prices for agricultural products for a limited period of time, and the use of such instruments may prevent the Group from realising the positive impact on income from any subsequent increase in prices for the relevant product.

Harvest yields

Prices of agricultural products tend to rise significantly in circumstances where unfavourable weather conditions negatively affect the harvest yields. The impact of adverse weather conditions could therefore result in a material adverse impact on the Group's operations and financial condition by adversely impacting revenue. Although crops damaged by adverse weather may be capable of being sold as fodder, this is at lower prices than, for example, milling quality grain. Conversely, beneficial weather conditions, including temperature, rainfall and sunlight, in the areas where the Group operates will improve yields and therefore revenues.

Seasonality

A substantial proportion of the Group's revenues result from crop production, which is highly seasonal. The Group's production cycle is different from its financial year. Production of crops is influenced by both the time of the year and the relative severity of the weather. The Group's winter crops are generally sown in September and spring crops are sown from March to April. Both of these types of crop are harvested in the period from July to September of the following year. Due to the seasonal nature of agricultural activity, the Group typically generates significantly higher revenues in the second half of the year, when the majority of harvested crops are sold, than in the first half of the year. Greater costs are incurred by the Group in the second half of the year when the Group is both harvesting and sowing most of its crops. Most of the costs in the first half of the year comprise the purchase of fertilisers, chemicals and fuel for both winter and spring crops and spring sowing.

The Group's business cycle is long and may vary from year to year. The Group aims to sell crops when prices are at their peak. If prices for a particular crop are not favourable following a harvest, the Group may store it and sell it when prices are more favourable, which may be as late as December of a particular year or even the first quarter of the following year. This may be even later when regulatory requirements prevent sales such as during grain export embargos. Changes in the timing of receipt of revenues may result in variations in the Group's results on a quarterly basis from year to year and may result in increased working capital requirements for the Group, particularly during periods when crops are stored prior to being sold. In addition, the Group typically incurs a substantial proportion of its selling expenses in the fourth quarter.

Cost of sales

Prices for seeds, fertilisers, chemicals, fuel, labour, fodder and the level of rent paid under its land leases are the main components of the Group's cost of sales. Fluctuations in these costs have a significant effect on the Group's profitability.

Size of land portfolio

The Group's results are affected by the size of its land portfolio. If the portfolio of land is increased, this has the short term effect of increasing capital expenditure as investment is required to bring the yield for the newly acquired land up to levels consistent with the rest of the Group's land portfolio.

For the three years ending 31 December 2010, the Group did not substantially increase the size of its land portfolio but instead focused on improving yields on previously acquired land.

Structure of lease payments

For the year ended 31 December 2010, approximately 57% of the Group's lease payment obligations on its Russian land and 47% on its Ukrainian land were satisfied by payment in kind through the delivery of crops and other products of the Group.

In Russia, the proportion of rent may be paid either in kind by delivery of products in the specified volumes or their cash equivalent based on existing market prices. Therefore, rental costs rise and fall in line with the market price of the products to be delivered in payment of the rent. Any increase in rental costs should therefore be matched by an increase in revenue.

In Ukraine, the landowner leasing to the Group has a choice to either receive a fixed amount in cash or a fixed volume of product per hectare. Accordingly, when the market price of the relevant products increases, land owners generally elect to take a greater share of the lease payment in kind and accordingly the cost of the rental payment increases. Conversely, if the value of the relevant product falls below the agreed cash amount, land owners generally elect to receive a greater share of the rent in cash. Therefore, although an increase in rental costs is matched by an increase in revenue for the Group's products as their price increases, a decline in such revenue is limited to the extent of the fixed cash payment.

State intervention

The Group's revenues are influenced by the actions of various governmental bodies in both Russia and Ukraine. These include the imposition of restrictions on the export of grain where it is believed that the grain is needed on the domestic market. In July 2010, the Russian government established a moratorium on the export of all types of grain. This limited the ability of the Russian part of the Group to take advantage of prices on the international market which may be higher than domestic prices. However, due to improved weather conditions in Russia which have resulted in more grain being sown and increased domestic stockpiles, the export moratorium was lifted effective 1 July 2011.

In October 2010, the Ukrainian government announced export quotas on grain exporters, which could not be exceeded. On 5 May 2011, the Ukrainian government lifted the export quota on corn and on 4 June 2011 it cancelled the export quotas on wheat, mix of wheat and rye, and barley. Rye, buckwheat and buckwheat products were subject to export quotas until 30 June 2011. However, on 19 May 2011, the Parliament of Ukraine has adopted a law introducing customs duties on the export of grain for the period from 1 July 2011 until 1 January 2012. The duties are set at: 9%, but not less than EUR 17 per tonne, for wheat; 14%, but not less than EUR 23 per tonne for barley; and 12%, but not less than EUR 20 per tonne, for corn. No similar custom duties were previously applicable to the export of grain and the law must be signed by the President before coming into effect.

The Group's inability to export grain due to export quotas or other possible restrictions and the negative impact of current export quotas on domestic grain prices could have a material adverse effect on the Group's business, results of operations and financial condition. See *"Risk Factors – Risks Relating to the Group's Business and Industry – The ability of the Company's subsidiaries to export commodities may be limited"*. However, the lifting of the export moratorium in Russia and the export quotas in Ukraine are not expected to significantly affect the Group's revenue due to the fact that, during the period when the export moratorium and export quotas were in effect, the Group transferred all of its sales in Russia, and a majority of its sales in Ukraine, from the international to the domestic markets. During the period of the export ban, Russian domestic prices were not significantly lower than international prices. Despite this, the Group's potential markets were significantly reduced as it was not able to pursue the historic levels of export opportunities. Further, international sales are generally made on a FOB basis, where a supplier typically charges a premium for transport services to the port and other ancillary services, and accordingly these sales generate higher margins than "ex-works" sales in the domestic market. As a result, Management believes the lifting of export restrictions will have a positive effect on both the Group's sales and margins.

State support for and regulation of agricultural production in Russia and Ukraine

Due to the importance of the agricultural sector to the national economy, as well as the need to improve living conditions in rural areas, support of the agricultural sector has always been a major priority for both the Russian and the Ukrainian government. Russian and Ukrainian legislation provide for a number of different grants for companies involved in agricultural operations. Currently, state support of the agricultural sector in both countries is provided in various forms, including VAT refunds, crop production subsidies, compensation for the finance costs of agricultural producers, livestock subsidies and special tax treatment.

The Group received approximately USD 10.2 million, USD 6.8 million and USD 7.9 million in government grants for the years ended 31 December 2010, 2009, and 2008, respectively.

VAT refunds

According to Ukrainian legislation, Ukrainian agricultural companies are entitled to retain the difference between VAT charged on products sold and VAT paid on items purchased by such companies for their operations. The amounts so retained are transferred to special bank accounts and may be used for payments for goods and services related to the Group's agricultural activities. The Group recorded other income related to VAT of USD 7.9 million, USD 0.2 million and USD 1.3 million for the years ended 31 December 2010, 2009 and 2008, respectively. See *"Risk Factors − Risks Relating to the Group's Business and Industry − The Group currently benefits from tax exemptions, which may be discontinued in the future"*.

Crop production subsidies

Crop production subsidies may be granted for certain specific agricultural purposes, such as enhancement of fertility of land or certain other environmental improvements in both Russia and Ukraine. Most of the benefits from crop production subsidies are received by the Group's Russian operations. Although Ukrainian legislation provides for crop production subsidies and such subsidies have been applied for by the Group, the Group's Ukrainian operations do not generally receive substantial amounts of such subsidies as their payment is at the discretion of the government and is dependent upon the availability of funds within the state budget.

Compensation for the finance costs of agricultural producers

Russian operating subsidiaries engaged in agricultural production benefit from compensation for the finance costs of agricultural producers, such as partial compensation of interest on certain loans and borrowings taken out from approved banks. Ukrainian legislation also provides for interest expense refunds and the Group has applied for relevant refunds in certain instances, however the Group's Ukrainian operations do not generally receive any substantial amounts of such subsidies as their payment is at the discretion of the government and is dependent upon the availability of funds within the state budget. Government grants received as compensation for the finance costs of agricultural producers are recognised by the Group as a reduction in relevant associated finance costs. For the years ended 31 December 2010, 2009 and 2008, the Group recorded approximately USD 1.8 million, USD 1.0 million and USD 0.9 million of such grants, respectively.

Special tax treatment in Russia

Most of the Group's Russian subsidiaries are entitled to application of a reduced Russian corporate income tax rate applicable to agricultural producers. This is currently set at the rate of 0%. Pursuant to the Tax Code of the Russian Federation and the Federal Law of the Russian Federation "On Introducing Amendments and Changes to Section 2 of Tax Code of the Russian Federation and Certain Other Legislative Acts of the Russian Federation on Taxes and Duties" No. 110-FZ dated 6 August 2001 (the "**Tax Amendments Law**"), from 1 January 2013 the basic rate of corporate income tax is due to increase to 18% and from 1 January 2016 it is due to increase to the standard rate of 20%. However, the Tax Amendments Law has been already amended several times in order to extend the reduced corporate income tax rate applicable to agricultural producers. Therefore, Management believes it is likely that these increases in corporate income tax will be postponed further.

Special tax treatment in Ukraine

The Group and several of its subsidiaries are exempt from Ukrainian corporate income tax and certain other taxes and pay FAT in accordance with Section XIV of the Ukrainian Tax Code. FAT is paid in lieu of corporate profits tax, land tax (except for land tax payable in respect of land which is not used in agricultural production), duties for special use of water and duties for trade patents. The amount of FAT is calculated as a percentage of a deemed value of all land plots (determined as of 1 July 1995) leased or owned. In 2010, the Group paid approximately USD 83,000 in FAT. Pursuant to the Ukrainian Tax Code, the FAT regime is in force for an indefinite period of time.

Macroeconomic conditions in Russia and Ukraine

The Group's results of operations and financial condition are dependent on general economic conditions in Russia and Ukraine and particularly on economic growth and inflation and their impact on the purchasing power of the Russian and Ukrainian population.

The recent global economic crisis severely impacted both the Russian and Ukrainian economies. The Russian economy experienced a 7.9% real GDP decline in 2009 and an unemployment rate increase from 6.4% in 2008 to 8.4% in 2009. The global economic crisis also led to a decline in real disposable income with 2008 growth of only 1.7% compared to 12.5% in 2007 and a decline in private consumption per capita of 18% to USD 4,730 in 2009 compared to 2008. The Rosstat estimates that in 2010, Russia's GDP contracted by 4%. With respect to Ukraine, the country experienced a 14.8% real GDP decline in 2009 and an increase in the rate of unemployment from 6.4% in 2008 to 8.8% in 2009.

Furthermore, disruptions experienced in the international and domestic capital markets since 2007 have led to reduced liquidity and increased credit risk premiums for certain market participants, which has resulted in a reduction of available financing or a "credit crunch". Companies located in emerging market countries, such as Russia and Ukraine, have been particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which resulted in them experiencing financial difficulty. See "*Risk Factors – Risks Related to Russia and Ukraine – Further deterioration of the global economy could have a material adverse effect on the Russian and Ukrainian economies and the Group's business*" and "*Risk Factors – Risks Related to Ukraine –The Ukrainian economy has been severely affected by the world financial and economic crisis*".

As an energy-dependent country, Ukraine also relies to a significant extent on supplies of energy resources from, or deliveries of such resources through, Russia. In addition, a large share of Ukraine's services receipts comprises transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. As has been demonstrated in recent years, any significant change in the relationship between the two countries has tended to affect their relations in the energy sphere and, accordingly, the Ukrainian economy. For further information see *"Risk Factors – Risks Relating to Russia and Ukraine – Failure to maintain good relations with key markets could have a material adverse effect on the Russian and Ukrainian economies and the Group's business, results of operations and financial condition"*.

Principal macroeconomic indicators for Russia and Ukraine for the years 2006 to 2010 are set out in *"Industry Overview – The Russian and Ukrainian Economies"*.

Foreign currency exchange rates

The Group's operating assets are located in Russia and Ukraine. Its revenues are largely denominated in rubles and hryvnia but linked to U.S. dollars. The majority of the Group's cost of sales is denominated in U.S. dollars, such as chemicals and seeds, or in prices linked to the U.S. dollar but paid in rubles or hryvnia, such as fertilisers and fuel. Part of the Group's finance costs are also denominated in U.S. dollars.

As for the Group's cost of sales denominated in U.S. dollars or in prices linked to the U.S. dollar but paid for in rubles or hryvnia, when the exchange rate of the ruble or hryvnia falls against the U.S. dollar, these costs increase, together with its financing costs related to the Group's loans and borrowings denominated in U.S. dollars. However, this is matched by an increase in revenues as the price for the majority of its products is linked to international prices but paid for in rubles or hryvnia. This includes, in particular, wheat which is sold for export on an open market basis. The increase in costs denominated or influenced by the U.S. dollar is also offset by a decrease in costs incurred in and linked to rubles or hryvnia, such as salaries. Accordingly, if the ruble or hryvnia appreciate against the U.S. dollar this leads to a fall in revenue and also an increase in costs incurred in and linked to the ruble or hryvnia.

As at 31 December 2010, out of approximately USD 218.2 million of total long-term and short-term loans and borrowings of the Group, approximately USD 122.6 million were denominated in U.S. dollars. As at 31 December 2009, out of approximately USD 267.3 million of total long-term and short-term loans and borrowings of the Group, approximately USD 123.3 million were denominated in U.S. dollars. As at December 2008, out of approximately USD 218.6 million of total long-term and short-term loans and borrowings of the Group, approximately USD 102.8 million were denominated in U.S. dollars.

In accordance with market practice and certain regulatory restrictions in Russia and Ukraine, the Group does not use any derivative financial instruments to hedge against currency exchange rates.

Since 2008, there has been significant downward pressure on both the ruble and hryvnia against the U.S. dollar. From September 2008 to 31 December 2010, the official hryvnia/ U.S. dollar rate weakened by 62.8% as a result of, among other things, capital outflows. For the same period, the official ruble/U.S. dollar rate weakened by 22.6%. See *"– Risk Factors – Risks relating to the Group's Business and Industry – The Group is exposed to currency exchange rate risk"*.

Explanation of Key Consolidated Statements of Comprehensive Income Statement Items

The key consolidated statements of comprehensive income statement items are defined and explained below.

Revenue

The Group's revenue from the sale of goods is generated mainly from the sale of wheat, sunflower, rapeseed and corn, and, to a lesser extent, barley, sugar beet and other crops. In circumstances where the rental payments under land lease agreements are made in kind, such payments are also recognised as the Group's revenue. Revenue from the sale of goods accounted for 96.1%, 94.7% and 93.7% of total revenue for the years ended 31 December 2010, 2009 and 2008, respectively. The remaining revenue is generated by providing agricultural services such as harvesting and silo storage services.

Due to the nature of the Group's business, its revenue may not be directly linked to the cost of sales of the Group, because its harvest yields are affected by factors outside of the Group's control, such as unfavourable weather conditions.

Net change in fair value of biological assets and agricultural produce

Agricultural activity is defined as a biological transformation of biological assets for sale into agricultural produce or into additional biological assets. The Group classifies livestock (mainly milking cows), seeds and crops in fields as biological assets. The Group classifies cattle and poultry as non-current biological assets. The Group classifies crops in fields and livestock used for breeding as current biological assets.

The Group recognises a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in the consolidated statement of comprehensive income.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the balance sheet date, with any resulting gain or loss recognised in the consolidated statement of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each balance sheet date as a fair value adjustment. No adjustment is made in this event to cost of sale of goods or revenue. The change in this adjustment from one period to another is recognised in *"Net change in fair value of biological assets and agricultural produce"* as reflected in the consolidated statement of comprehensive income.

Cost of sales

Cost of sales are broken down between those attributable to the sale of goods and those attributable to the rendering of services.

Cost of sale of goods

The Group's cost of sale of goods for its production sector consists of raw materials, depreciation and amortisation, payroll and related charges, rental expenses, services, repair and maintenance costs, taxes and duties and other costs.

Raw materials primarily consists of expenses for seeds, fertilisers, crop protection products and fuel. Raw materials, primarily fertilisers and agro-chemicals, are the largest component of cost of sale of goods for the Company.

Depreciation and amortisation consists of depreciation of agricultural machinery and amortisation of certain intangible assets, such as land lease rights.

Payroll and related charges comprises payroll and related expenses for employees engaged at the Group's farms and production facilities.

Rental expenses comprises the rent paid on the Group's farms and production facilities both in cash and in kind. Rental payments made in kind are also recognised as the Group's revenue.

Services primarily comprises payments for use of services provided by third parties such as silo storage, transportation services, and rental of harvesting equipment.

Repair and maintenance costs comprises repair and maintenance costs for the Group's production equipment and machinery.

Taxes and duties mostly comprises land and property taxes.

Cost of rendering of services

The Group’s cost of rendering of services consists of depreciation and amortisation, payroll and related charges, raw materials, services, taxes and duties, repair and maintenance costs, rental expenses and other costs.

Administrative expenses

The Group’s administrative expenses consist of management fees, salaries and related charges, services, taxes and duties, materials used, depreciation and amortisation, rental payments and other expenses.

Management fees primarily consists of the costs associated with management services provided by members of the Former Group, such as services necessary for preparation for the Offering.

Salaries and related charges primarily consists of salaries paid to administration and sales employees and related tax expenses.

Services primarily consists of expenses incurred in connection with procurement of legal, accounting, IT and accounting methodology advisory services, and premiums paid for mandatory insurance of administrative assets.

Taxes and duties primarily consists of property and land taxes, transportation tax, and state pension payments.

Materials used primarily consists of usual office facilities, equipment and consumables.

Depreciation and amortisation primarily consists of depreciation of administrative buildings, cars, computers, office equipment and amortisation of intangible assets, such as computer software.

Rental expenses consists of rent payable for renting assets used for administrative purposes.

Other expenses primarily consists of costs of maintenance of administrative premises, banking fees for banking operations, and payments for telephone and internet services.

Selling expenses

The Group’s selling expenses primarily consist of costs incurred in connection with the transportation, storage and shipment of grain and the procurement of certain other services (such as fees for quarantine certificates and other documents confirming the quality of agricultural products), salaries and related charges, depreciation and amortisation and other expenses.

Government grants recognised as income

Russian and Ukrainian legislation provides for benefits from a number of subsidies for companies involved in agricultural activities. Most subsidies received by the Group are recognised as income compensating the relevant expenses in the period when the conditions for receipt of the subsidies have been met and there is reasonable assurance that they will be received. Government grants recognised as income include VAT refunds, crop production subsidies and livestock subsidies. Compensation for the finance costs of agricultural producers is recognised by the Group as a reduction in the associated finance costs. See “–

Factors Affecting the Group's Results of Operations – State support for and regulation of agricultural production in Russia and Ukraine" for more detail.

Other operating expenses, net

The Group's other operating expenses, net primarily consist of loss on disposal of non-current assets, net (such as property, plant and equipment), non-refundable financing provided, change in provision for employee benefits, expenses related to employees' catering, fines, interest and forfeits, employee benefits and expenses, taxes and duties, change in allowance for irrecoverable amounts, bank charges and depreciation and amortisation. The Group offsets its other operating expenses by other operating income primarily consisting of income in the form of rent payable to the companies of the Group, income from writing-off certain of the Group's liabilities, and income received as compensation for damaged property.

Operating foreign exchange (losses)/gains, net

The Group's foreign exchange (losses)/gains consist of the (losses)/gains resulting from currency exchange rate fluctuations attributable to operating activities, in particular financial leasing operations denominated in U.S. dollars.

Operating profit/(loss) before loss on impairment

Operating profit before loss on impairment of goodwill and property, plant and equipment indicates the direct financial results from operating activity of the Group unadjusted for loss from impairment of the Group's tangible and intangible assets.

Impairment loss on goodwill and property, plant and equipment

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. Each such unit is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Impairment loss on property, plant and equipment

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each balance sheet date. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, such a reversal of an impairment loss is recognised immediately in profit and loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The Group also applies the same principles of determining an impairment loss to the value of intangible assets, such as land lease rights.

Finance costs, net

The Group's finance costs, net primarily consist of interest on the Group's loans, borrowings and payments on financial leasing agreements, as well as expenses incurred in connection with receipt of such borrowings, such as insurance and valuation of collateral securing the relevant financing arrangements. The Group offsets its finance costs by the government grants received as compensation for the finance costs of agricultural producers. See *"– Factors Affecting the Group's Results of Operations – State support for and regulation of agricultural production in Russia and Ukraine"* for more detail.

Finance income

The Group's finance income consists primarily of interest income on loans and borrowings extended by the Group. The majority of the loans are granted to trading companies controlled by some of the majority shareholders of the Group. For more detail, please refer to *"Related Party Transactions"*.

Non-operating foreign exchange gains/(losses), net

Non-operating foreign exchange gains/(losses) consist of the gains/(losses) resulting from currency exchange rate fluctuations attributable to financial operations of the Group, such as the Group's borrowings denominated in U.S. dollars.

Gains realised from acquisitions of subsidiaries

Gains realised from acquisitions of subsidiaries represents the difference between the fair value of the consideration paid for acquired companies and the fair value of the net assets (tangible and intangible) of the acquired companies. If such fair value exceeds the consideration paid then, according to applicable accounting rules, the amount of the excess will be considered as a negative goodwill and recorded as a gain in the consolidated statement of comprehensive income. The Group recognised approximately USD 28.0 million of such gains in the year ended 31 December 2009 and approximately USD 112.7 million of such gains in the year ended 31 December 2008. Negative goodwill (gain realised from acquisitions of subsidiaries) was recorded due to the fact that Management was able to negotiate favourable terms for the acquisition of certain agricultural companies. Since the Group did not complete any acquisitions in 2010, no gains realised from acquisitions of subsidiaries were recognised for the year ended 31 December 2010.

Income tax benefit/(expense)

The Group's income tax benefit/(expense) includes both tax payable by the Group on its profits in accordance with the tax legislation of those countries where it carries on business and also deferred taxes. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is charged or credited to the profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when: (i) the Group has a legally enforceable right to set off the recognised amounts of current tax assets and current tax liabilities; (ii) the Group has an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously; and (iii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The majority of the Group companies that are involved in agricultural production, generally benefit substantially from their status as an agricultural producer. A 0% corporate income tax relief is available to Russian agricultural companies, and Ukrainian agricultural companies do not pay income tax. Instead, these agricultural operating companies pay unified agricultural tax in Russia and FAT in Ukraine.

Adjusted EBITDA

Management assesses the performance of the Group's operating segments by reference to Adjusted EBITDA. Please see *"Presentation of Financial and Other Information"* for more information.

Results of Operations for year ended 31 December 2010 and 31 December 2009

Summary

The following table sets out the Group's results of operations for the years ended 31 December 2010 and 2009, respectively, derived from the audited consolidated financial statements, with the financial components forming operating profit before loss on impairment of the Group segmented into the countries where the relevant companies operate:

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Revenue			
Total	*224,350*	*165,059*	*35.9*
Russia	157,439	120,135	31.1
Ukraine	66,911	44,924	48.9
Net change in fair value of biological assets and agricultural produce			
Total	*48,058*	*15,860*	*203.0*
Russia	31,127	8,249	277.3
Ukraine	16,931	7,611	122.5

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Cost of sales			
Total	*(163,215)*	*(148,344)*	*10.0*
Russia	(99,656)	(95,938)	3.9
Ukraine	(63,559)	(52,406)	21.3
Gross profit			
Total	***109,193***	***32,575***	***235.2***
Russia	**88,910**	**32,446**	**174.0**
Ukraine	**20,283**	**129**	***15,623.3***
Administrative expenses			
Total	*(18,681)*	*(13,752)*	*35.8*
Russia	(11,629)	(9,863)	17.9
Ukraine	(7,052)	(3,889)	81.3
Selling expenses			
Total	*(4,665)*	*(6,661)*	*(30.0)*
Russia	(3,718)	(5,261)	(29.3)
Ukraine	(947)	(1,400)	(32.4)
Government grants recognised as income			
Total	*10,176*	*6,849*	*48.6*
Russia	2,023	6,519	(69.0)
Ukraine	8,153	330	2,370.6
Other operating expenses, net			
Total	*(12,933)*	*(9,573)*	*35.1*
Russia	(10,786)	(8,450)	27.6
Ukraine	(2,147)	(1,123)	91.2
Operating foreign exchange losses, net			
Total	*(474)*	*(839)*	*(43.5)*
Russia	(352)	(477)	(26.2)
Ukraine	(122)	(362)	(66.3)
Operating profit/(loss) before loss on impairment			
Total	***82,616***	***8,599***	***860.8***
Russia	**64,448**	**14,914**	**332.1**
Ukraine	**18,168**	**(6,315)**	**--**

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Impairment loss on goodwill and property, plant and equipment	--	(9,591)	(100)
Operating profit/(loss)	**82,616**	**(992)**	**--**
Finance costs, net	(38,711)	(42,399)	(8.7)
Finance income	3,902	3,226	21.0
Non-operating foreign exchange gains/(losses), net	416	(296)	--
Gain realised from acquisitions of subsidiaries	--	28,006	(100)
Profit/(loss) before tax	**48,223**	**(12,455)**	**--**
Income tax benefit/(expense)	1,385	(6,554)	**--**
Profit/(loss) for the year	**49,608**	**(19,009)**	**--**

Revenue

The Group's total revenue increased 35.9% to USD 224.4 million for the year ended 31 December 2010 from USD 165.1 million for the year ended 31 December 2009.

The following table sets out the Group's revenue by segment for the periods indicated with a breakdown of total revenue into the countries where the members of the Group operate:

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Revenue from the sale of goods	215,639	156,366	37.9
Revenue from the rendering of services	8,711	8,693	0.2
Revenue			
Total	***224,350***	***165,059***	***35.9***
Russia	**157,439**	**120,135**	**31.1**
Ukraine	**66,911**	**44,924**	**48.9**

The most significant proportion of the Group's revenue comes from its primary business of the sale of goods, which represented 96.1% and 94.7% of total revenue for the years ended 31 December 2010 and 2009, respectively. The Group's revenue from the sale of goods increased 37.9% to USD 215.6 million for the year ended 31 December 2010 from USD 156.4 million for the year ended 31 December 2009, primarily due to an increase in market prices for the products concerned. An increase in production volumes also contributed to the increase in revenue. The remaining revenue was generated by rendering harvesting, storage and other incidental agricultural services, which increased 0.2% for the year ended 31 December 2010 as compared to the year ended 31 December 2009.

Revenue generated in Russia accounted for approximately 70.2% and 72.8% of total revenue for the years ended 31 December 2010 and 2009, respectively. Revenue generated in Ukraine accounted for approximately 29.8% and 27.2% of total revenue for the years ended 31 December 2010 and 2009, respectively. This difference can be explained by the fact that approximately 62.2%, 62.8% and 65.7% of the Group's harvested land was situated in Russia, with the remaining approximately 37.8%, 37.2% and 34.3% of the Group's harvested land situated in Ukraine as at the years ended 31 December 2010, 2009 and 2008, respectively. In addition, this difference was caused by lower productivity of the Group's Ukrainian farms as compared to its Russian farms. This is because most of the Group's Ukrainian farms were acquired in 2008 in worse condition than the Russian farms and the Group did not have as much time to improve the yields at its Ukrainian farms.

Revenue in Russia increased 31.1% for the year ended 31 December 2010 as compared to the year ended 31 December 2009, whereas revenues in Ukraine increased 48.9% for the same period. In both countries the growth in revenues was the result of an increase in market prices for agricultural products, the planting of more commercially valuable crops and improvements in land fertility. The higher rate of revenue growth in Ukraine reflects an enhancement in productivity of most of the farms, because the efficiency of the Group's Ukrainian farms was significantly improved in 2010 as compared to 2009, whereas the targeted operating efficiency of the Group's Russian farms was achieved in prior years.

The following table sets out the volume of crops sold and the revenues generated from the sale of such crops broken down by crops produced, as well as supplementary activities including sales of milk and products from its sugar factories and bakeries:

	Year ended 31 December 2010				**Year ended 31 December 2009**			
	Sales (*in tonnes*)	Sales as a percentage of total sales (*%*)	Revenue from sales (*USD in thousands*)	Revenue as a percentage of total revenue from sales (*%*)	Sales (*in tonnes*)	Sales as a percentage of total sales (*%*)	Revenue from sales (*USD in thousands*)	Revenue as a percentage of total revenue from sales (%)
Winter wheat	534,254	54.1%	99,150	46%	543,670	53.1%	63,132	40.4%
Sunflower	100,584	10.2%	50,787	23.6%	150,919	14.7%	42,584	27.2%
Rapeseed	73,033	7.4%	20,447	9.5%	29,130	2.8%	8,384	5.4%
Corn	49,650	5%	9,897	4.6%	98,785	9.6%	11,756	7.5%
Barley	54,352	5.5%	6,719	3.1%	77,088	7.5%	6,938	4.4%
Sugar beet	63,687	6.5%	4,739	2.2%	79,062	7.7%	3,207	2.1%
Other (produced only)	82,646	8.4%	5,688	2.6%	33,535	3.3%	4,409	2.8%
Total agricultural production	**958,206**	**97.1%**	**197,426**	**91.6%**	**1,012,189**	**98.8%**	**140,408**	**89.8%**
Supplementary activities	28,971	2.9%	18,213	8.4%	11,780	1.2%	15,958	10.2%
Total	**987,177**	**100%**	**215,639**	**100%**	**1,023,969**	**100%**	**156,366**	**100%**

Net change in fair value of biological assets and agricultural produce

Total net change in fair value of biological assets and agricultural produce increased 203.0% to USD 48.1 million for the year ended 31 December 2010 from USD 15.9 million for the year ended 31 December 2009. The change was the result of an increase in market prices for the agricultural products concerned and also a change in crop mix to more valuable crops such as sunflower and rapeseed.

For the year ended 31 December 2010, net change in fair value of biological assets and agricultural produce in Russia accounted for 64.8% of the Group's total income from such changes, amounting to USD 31.1 million, whereas the Ukrainian operations accounted for 35.2% of the Group's total income from such changes, amounting to USD 16.9 million for the same period. This is compared to 52.0% and 48.0% for Russia and Ukraine, respectively, for the year ended 31 December 2009. In 2009, the Russian operations generated USD 8.2 million of such income and the Ukrainian operations generated USD 7.6 million of such income. The differences between the Russian and the Ukrainian contributions are primarily due to the different size of the harvested land portfolios located in Russia and Ukraine.

For the year ended 31 December 2010, the net income from changes in fair value of biological assets and agricultural produce increased by 277.3% in Russia and 122.5% in Ukraine as compared to the year ended 31 December 2009. This greater increase in Russia was primarily due to higher growth in prices for the products concerned, substantial yield improvements and a larger proportion of more valuable crops grown.

Cost of sales

The Group's total cost of sales increased 10.0% to USD 163.2 million for the year ended 31 December 2010 from USD 148.3 million for the year ended 31 December 2009. This increase in cost of sales was primarily due to an increase in the total cost of sale of goods by 10.1% to USD 159.7 million for the year ended 31 December 2010 from USD 145.1 million for the year ended 31 December 2009. Total cost of rendering services also increased 6.9% to USD 3.5 million for the year ended 31 December 2010 from USD 3.3 million for the year ended 31 December 2009.

The following table sets out a breakdown of the Group's cost of sales for the periods indicated:

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Cost of sale of goods			
Raw materials	91,806	85,553	7.3
Depreciation and amortisation	23,249	21,649	7.4
Payroll and related charges	14,691	12,366	18.8
Rental expenses	12,185	7,904	54.2
Services	7,508	10,125	(25.8)
Repair and maintenance costs	4,107	2,694	52.4
Taxes and duties	2,753	2,469	11.5
Other costs	3,439	2,332	47.5
Total cost of sale of goods	**159,738**	**145,092**	**10.1**
Cost of rendering of services			
Depreciation and amortisation	1,051	958	9.7

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
Payroll and related charges	929	692	34.2
Raw materials	669	620	7.9
Services	346	380	(8.9)
Taxes and duties	198	136	45.6
Repair and maintenance costs	127	301	(57.8)
Rental expenses	63	115	(45.2)
Other costs	94	50	88.0
Total cost of rendering of services	**3,477**	**3,252**	**6.9**
Total cost of sales			
Total	***(163,215)***	***(148,344)***	***10.0***
Russia	**(99,656)**	**(95,938)**	**3.9**
Ukraine	**(63,559)**	**(52,406)**	**21.3**

Out of the total cost of sales of the Group for the year ended 31 December 2010, USD 99.7 million, or 61.1%, are attributable to Russia and USD 63.6 million, or 38.9%, are attributable to Ukraine. This is compared to USD 95.9 million, or 64.7%, for Russia and USD 52.4 million, or 35.3%, for Ukraine for the year ended 31 December 2009. The differences in cost of sales between the two countries correspond to the difference in size of the Group's harvested land located in Russia and Ukraine.

In terms of year-to-year growth, cost of sales in Russia remained almost the same, showing only a 3.9% increase from 2009 to 2010, whereas in Ukraine such cost of sales increased by 21.3% over the same period. This difference was primarily due to lower than normal costs being incurred in Ukraine in 2009 because availability of credit on acceptable commercial terms in that year was limited thereby reducing investment in such farms. Investment in the Group's Ukrainian farms returned to normal levels in 2010. The effect of such investment was not fully realised in 2010, because of unfavourable weather conditions negatively impacting yields and also because increased investment in any one year does not result in improved yields and operating efficiency in the same year.

Cost of sale of goods

The cost of sale of goods constituted 97.9% of total cost of sales for both the years ended 31 December 2010 and 2009. Cost of sales of goods increased 10.1% to USD 159.7 million for the year ended 31 December 2010 from USD 145.1 million for the year ended 31 December 2009. The primary reasons for such increase are discussed below.

Raw materials increased 7.3% to USD 91.8 million for the year ended 31 December 2010 from USD 85.6 million for the year ended 31 December 2009, primarily due to an increase in market prices for fertilisers, chemicals, fuel and other raw materials. The Group's portfolio of land under cultivation remained approximately the same in the years ended 31 December 2009 and 2010, respectively. Since the consumption of raw materials is related directly to the land area under cultivation, the Group recorded relatively low year-to-year rate of growth in raw materials.

Depreciation of property, plant and equipment and amortisation of intangible assets increased by 7.4% to USD 23.2 million for the year ended 31 December 2010 from USD 21.6 million for the year ended 31 December 2009, primarily due to procurement of additional items of fixed assets such as agricultural production facilities and equipment. In terms of country-to-country breakdown, the Russian operations recorded a 9.0% increase in depreciation and amortisation to USD 14.5 million for the year ended 31 December 2010 from USD 13.3 million for the year ended 31 December 2009, whereas the Ukrainian operations recorded a 4.8% increase in depreciation and amortisation to USD 8.7 million from USD 8.3 million for the same period. The increase in depreciation and amortisation was, in both segments, due to the procurement of additional fixed assets, such as agricultural production facilities and equipment.

Payroll and related charges increased 18.8% to USD 14.7 million for the year ended 31 December 2010 from USD 12.4 million for the year ended 31 December 2009, primarily due to an increase in average salaries on the labour market and inflation in both Ukraine and Russia.

Rental expenses increased 54.2% to USD 12.2 million for the year ended 31 December 2010 from USD 7.9 million for the year ended 31 December 2009. For the years ended 31 December 2010 and 2009, respectively, all rent attributable to cost of sale of goods was paid by the Group under its land lease agreements. As the rent under the land lease agreements is linked to the prices of agricultural products and may be paid in kind by the delivery of the relevant agricultural products (see *"– Factors Affecting the Group's Results of Operations – Structure of lease payments"*), an increase in the market price of agricultural products in the year ended 31 December 2010 as compared to the year ended 31 December 2009 resulted in the rent payable by the Group for the leased land in Russia increasing 34.1% to USD 7.6 million for the year ended 31 December 2010 from USD 5.7 million for the year ended 31 December 2009. For the same reasons, in Ukraine such rent increased 104.9% to USD 4.6 million for the year ended 31 December 2010 from USD 2.2 million for the year ended 31 December 2009. However, due to the nature of the Ukrainian land market, in circumstances where valuable land plots are in demand, landlords typically require higher rent for such land plots. In order to retain control over certain land leased by the Group in Ukraine, the Group had to pay higher rent, which resulted in a greater rate of increase in rental expenses for the Ukrainian operations.

Services decreased 25.8% to USD 7.5 million for the year ended 31 December 2010 from USD 10.1 million for the year ended 31 December 2009 because the Group obtained new machinery pursuant to finance leasing agreements, thereby decreasing its need for third party services.

Repair and maintenance costs increased 52.4% to USD 4.1 million for the year ended 31 December 2010 from USD 2.7 million for the year ended 31 December 2009, because in 2010 more funding was available in Ukraine on acceptable commercial terms allowing the

Group to bear the necessary capital expenditures, as opposed to 2009 when the funding in Ukraine was limited.

Cost of rendering of services

The cost of rendering of services constituted 2.1% and 2.2% of total cost of sales for the years ended 31 December 2010 and 2009, respectively. Cost of rendering of services increased 6.9% to USD 3.5 million for the year ended 31 December 2010 from USD 3.3 million for the year ended 31 December 2009. This increase in cost of rendering of services was primarily due to increase in payroll and related charges, partially offset by a decrease in repair and maintenance costs.

Gross profit

The Group's gross profit margin, calculated as gross profit divided by revenue, increased to 48.7% for the year ended 31 December 2010 from 19.7% for the year ended 31 December 2009. This was primarily due to a 35.9% increase in revenue and a 203.0% increase in income from net changes in fair value of biological assets and agricultural produce for the period concerned, together with relatively low cost of sales growth amounting to an increase of only 10.0% for the same period.

Gross profit increased 235.2% to USD 109.2 million for the year ended 31 December 2010 from USD 32.6 million for the year ended 31 December 2009. For the year ended 31 December 2010, gross profit of USD 88.9 million and USD 20.3 million was generated in Russia and Ukraine, respectively, due to the harvesting of more oil seed crops having higher commercial value than grain crops, and due to increasing market prices for the products concerned. The high productivity of the Russian farms and growing market prices of agricultural products resulted in a gross profit in Russia of USD 32.4 million for the year ended 31 December 2009, whilst the Ukrainian part of the Group recorded USD 0.1 million in gross profit for the year ended 31 December 2009. This low level of gross profit in Ukraine was mainly the result of relatively low revenue generated by the Ukrainian farms for the same period and the relatively high cost of sales in 2009 in order to increase the productivity of the Ukrainian farms.

Administrative expenses

Administrative expenses increased 35.8% to USD 18.7 million for the year ended 31 December 2010 from USD 13.8 million for the year ended 31 December 2009. This increase in administrative expenses was primarily due to an increase in management fees comprising costs relating to services procured from the members of the Former Group in connection with introduction of changes to accounting policies, preparation of IFRS accounts, procurement of the relevant legal services for the purposes of preparation for the Offering, as well as an increase in taxes and duties resulting from payment of property and land taxes on assets reclassified as administrative assets instead of production assets. Such increase was partially offset by a decrease in materials used, as compared to the year ended 31 December 2009, when the Group bore significant expenses related to setting up its Ukrainian administrative office.

The following table lists the components of administrative expenses of the Group for the periods concerned:

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD	*in thousands)*	*(%)*
Salaries and related charges	6,488	6,396	1.4
Management fees	3,065	874	250.7
Services	2,632	377	598.1
Taxes and duties	2,423	993	144.0
Materials used	1,645	3,655	(55.0)
Depreciation and amortisation	771	488	58.0
Rental expenses	208	135	54.1
Other expenses	1,449	834	73.7
Total	***18,681***	***13,752***	***35.8***
Russia	**11,629**	**9,863**	**17.9**
Ukraine	**7,052**	**3,889**	**81.3**

In terms of geographic breakdown, for the year ended 31 December 2010, 62.3% of total administrative expenses were attributable to Russia and 37.7% to Ukraine, amounting to USD 11.6 million and USD 7.1 million, respectively. Administrative expenses increased 17.9% in Russia and 81.3% in Ukraine for the year ended 31 December 2010, as compared to the year ended 31 December 2009. For the year ended 31 December 2009, 71.7% of total administrative expenses were attributable to Russia and 28.3% to Ukraine, amounting to USD 9.9 million and USD 3.9 million, respectively.

The year-to-year rate of growth in administrative expenses in Russia was lower than in Ukraine for the same period due primarily to the fact that the administration of the Russian part of the business was already well established, whereas in Ukraine the Group had to incur additional expenses to enhance the efficiency of its management. The Group was not able to incur such costs in Ukraine in the year ended 31 December 2009 mainly due to the fact that limited funding on commercially acceptable terms was available in Ukraine that year. The Group only secured such funding in Ukraine in the year ended 31 December 2010. In addition, the Ukrainian part of the Group historically comprised a larger number of operating companies than in Russia. This means that more administrative staff were required in Ukraine than in Russia.

Selling expenses

The Group's total selling expenses decreased by 30.0% to USD 4.7 million for the year ended 31 December 2010 from USD 6.7 million for the year ended 31 December 2009. This decrease was primarily due to changes in the trading policy of the Group whereby the operating companies transferred mainly to "ex works" terms of delivery as opposed to FOB.

This meant the customers bore more of the transportation costs and expenses for storage and shipment of grain.

The Russian operations accounted for USD 3.7 million, or 79.7%, of total selling expenses for the year ended 31 December 2010. Ukraine accounted for USD 0.9 million, or 20.3%, for the same year. This compares to USD 5.3 million, or 79.0%, for Russia, and USD 1.4 million, or 21.0%, for Ukraine for the year ended 31 December 2009. Selling expenses decreased 29.3% in Russia and 32.4% in Ukraine in the year ended 31 December 2010 as compared to the year ended 31 December 2009.

The Russian operations accounted for the largest proportion of selling expenses in both 2010 and 2009 because the Russian farms were more active in trading than the Ukrainian farms. This can be seen from revenue for the same periods as described above. In Ukraine, the decline in selling expenses was sharper than in Russia for the periods concerned, because a greater proportion of sales of agricultural products from the Group's Ukrainian farms was switched to the more favourable "ex works" terms of delivery as compared to the Russian part of the business, where the Group's farms continued to incur more transportation and storage costs in accordance with their "free on board" sale terms.

Government grants recognised as income

The Group recorded a 48.6% increase of total income from government grants to USD 10.2 million for the year ended 31 December 2010 from USD 6.8 million for the year ended 31 December 2009. See "*State support for and regulation of agricultural production in Russia and Ukraine*".

The table set out below presents the components of government grants recognised by the Group as income for the periods concerned:

	Year ended 31 December		
	2010	**2009**	**Change**
	(USD in thousands)		*(%)*
VAT refunds	7,875	176	4,374.4
Crop production subsidies	2,070	6,496	(68.1)
Livestock subsidies	231	177	30.5
Governments grants recognised as income			
Total	***10,176***	***6,849***	***48.6***
Russia	**2,023**	**6,519**	**(69.0)**
Ukraine	**8,153**	**330**	**2,370.6**

VAT refunds are only available in Ukraine, so the Russian part of the Group did not account for VAT refunds. However, the Russian operations account for most of the government grants in the form of crop production subsidies. Livestock subsidies constitute insignificant amounts for both operational segments of the Group.

Whilst the Russian operations recorded a 69.0% decrease in income from government grants for the year ended 31 December 2010 as compared to the year ended 31 December 2009, the Ukrainian operations recorded a 2,370.6% increase in such income for the same period. However, in 2009, the Russian operations received USD 6.5 million of such grants, constituting 95.2% of total income from such grants for the Group. Due to a significant reduction in government grants in Russia in the year ended 31 December 2010, the Russian operations were not able to successfully secure the receipt of such government grants, receiving only approximately USD 2.0 million of such grants. In Ukraine, however, the Group, as an agricultural producer, retained approximately USD 0.2 million of accrued output VAT in the year ended 31 December 2009 out of USD 0.3 million of total government grants recognised as income of the Ukrainian operations for 2009, but was then able to retain approximately USD 7.9 million of accrued output VAT out of USD 8.2 million of total government grants recognised as income of the Ukrainian operations for 2010. This accounted for 80.1% of the Group's total income from government grants in 2010.

This significant growth in income from government grants in Ukraine occurred for two reasons. Firstly, in 2010, the Ukrainian operations increased its revenue by 48.9% as compared to 2009. Secondly, in 2009, the Group did not attribute most of the accrued output VAT relief to income from government grants in order to offset the accrued output VAT relief for the year ended 31 December 2008, which was overstated.

Other operating expenses, net

The Group recorded a 35.1% increase in total other operating expenses, net to USD 12.9 million for the year ended 31 December 2010 from USD 9.6 million for the year ended 31 December 2009. For the year ended 31 December 2010, the Group accounted for a loss on disposal of non-current assets, net in the amount of approximately USD 3.5 million, whereas it recorded USD 0.8 million of such loss for the year ended 31 December 2009. This significant increase in loss resulted from certain operations with non-current assets which were undertaken in 2010. The Group sold some of its non-current assets at a price lower than their fair market value. The difference between fair market value and the sale price of such assets was recorded as a loss. The other operating expenses, net line item within total other operating expenses, net increased from USD 2.0 million for the year ended 31 December 2009 to USD 3.8 million for the year ended 31 December 2010.

The increase in total other operating expenses, net was partially offset by a reduction in change in allowance for irrecoverable amounts and taxes and duties. Change in allowance for irrecoverable amounts decreased from USD 1.3 million for the year ended 31 December 2009 to USD 0.4 million for the year ended 31 December 2010. The Group recorded a reduction in taxes and duties attributable to other operating expenses, net from USD 1.7 million for the year ended 31 December 2009 to USD 0.6 million for the year ended 31 December 2010.

The Ukrainian operations accounted for a 91.2% increase in other operating expenses, net from USD 1.1 million for the year ended 31 December 2009 to USD 2.1 million for the year ended 31 December 2010, whereas the Russian operations recorded a 27.6% increase in total other operating expenses, net of the Russian operations from USD 8.5 million to USD 10.8 million for the periods concerned.

Operating foreign exchange losses, net

The Group recorded USD 0.5 million in operating foreign exchange losses for the year ended 31 December 2010, whereas for the year ended 31 December 2009 it accounted for USD 0.8 million operating foreign exchange losses. The operating foreign exchange losses for the year ended 31 December 2009 were caused by unfavourable currency exchange fluctuations in Ukraine partially mitigated by favourable sharp currency exchange fluctuations in Russia. Due to more favourable currency exchange fluctuations in the year ended 31 December 2010, the Group recorded a 43.5% decrease in operating foreign exchange losses.

Operating profit/(loss) before loss on impairment

The Group recorded a 860.8% increase in operating profit before loss on impairment to USD 82.6 million for the year ended 31 December 2010 from USD 8.6 million for the year ended 31 December 2009. The Russian operations recorded a 332.1% increase in operating profit before loss on impairment to USD 64.4 million for the year ended 31 December 2010 from USD 14.9 million for the year ended 31 December 2009. In Ukraine, the Group recorded an operating profit before loss on impairment of USD 18.2 million for the year ended 31 December 2010, but an operating loss before loss on impairment of USD 6.3 million for the year ended 31 December 2009. The Russian operations accounted for 78.0% of the Group's total operating profit for the year ended 31 December 2010.

Impairment loss on goodwill and property, plant and equipment

The Group recorded USD 9.6 million impairment loss on property, plant and equipment for the year ended 31 December 2009, whereas it accounted for no impairment loss on goodwill and property, plant and equipment for the year ended 31 December 2010. The loss in the year ended 31 December 2009 was primarily due to a decline in fair value of certain items of property, plant and equipment in all four of the Group's cash generating units (being the Russian farms, the Ukrainian farms, the Russian elevators and the Ukrainian elevators). This decline occurred as a result of a revaluation carried out by the Group's internal and external appraisers in order to revalue its property, plant and equipment, because Management believed that the fair value of the relevant assets differed materially from their carrying amount. At the same time, as a result of such revaluation, certain other items of property, plant and equipment were appreciated. According to applicable accounting rules, the increase in fair value of such appreciated assets was recorded under "Revaluation reserve" in the balance sheet and amounted to USD 71.2 million for the year ended 31 December 2009. No such revaluation was carried out in the year ended 31 December 2010. Accounting rules also require periodical reduction of revaluation reserves by the amount of depreciation attributable thereto. The Group recorded USD 70.1 million in revaluation reserve as at 31 December 2010 reducing the amount recorded as at the year ended 31 December 2009 by USD 1.1 million of depreciation attributable to the revaluation reserve.

Operating profit/(loss)

For the reasons discussed above, the Group recorded USD 82.6 million of operating profit for the year ended 31 December 2010, as opposed to USD 1.0 million of operating loss for the year ended 31 December 2009. The Russian operations accounted for USD 64.4 million of operating profit for the year ended 31 December 2010 as compared to USD 9.5 million of operating profit for the year ended 31 December 2009, recording a 581% year-to-year increase. The Ukrainian operations accounted for USD 18.2 million of operating profit for the year ended 31 December 2010 as compared to USD 10.5 million of operating loss for the year ended 31 December 2009.

As discussed above, the operating loss of the Group for the year ended 31 December 2009 was due to an operating loss recorded by the Ukrainian operations which resulted from the lower efficiency of Ukrainian farms of the Group as compared to its Russian farms. Over the year ended 31 December 2010, the Group significantly improved the operational efficiency of its Ukrainian farms and maintained the efficiency levels at its Russian farms. This allowed the Group to significantly increase its revenue and income from changes in fair value of biological assets and agricultural produce, maintain its cost of sales at approximately the same level as in the year ended 31 December 2009 and reduce its selling expenses as compared to the same year.

Finance costs, net

Finance costs decreased 8.7% to USD 38.7 million for the year ended 31 December 2010 from USD 42.4 million for the year ended 31 December 2009. This was primarily due to a decrease in interest expense accruing on loans and borrowings, and other costs including bank fees and costs related to valuation and insurance of collateral for the relevant borrowings. The decrease was partially offset by an increase in interest expense on finance lease for the year ended 31 December 2010 as compared to the year ended 31 December 2009. For the years ended 31 December 2010 and 2009, the Group also offset its finance costs by USD 1.8 million and USD 1.0 million of government grants received as compensation for the finance costs of agricultural producers, respectively.

Finance income

Finance income increased 21.0% to USD 3.9 million for the year ended 31 December 2010 from USD 3.2 million for the year ended 31 December 2009. This was primarily due to an increase in lending to the trading companies controlled by the Selling Shareholder.

Non-operating foreign exchange gains/(losses), net

Due to favourable foreign currency exchange fluctuations in 2010, the Group had USD 0.4 million of non-operating foreign exchange gains as opposed to USD 0.3 million of non-operating foreign exchange losses as a result of unfavourable fluctuations of foreign currency exchange rates in 2009 related to the Group's loans denominated in U.S. dollars.

Gain realised from acquisitions of subsidiaries

Gain realised from acquisitions of subsidiaries fell to zero for the year ended 31 December 2010 from USD 28.0 million for the year ended 31 December 2009. This was because no subsidiaries were acquired in 2010. In 2009, the Group acquired three farms, two of which are located in Russia and one in Ukraine and a Ukrainian sugar refining plant processing sugar beet from the Ukrainian farm. The difference between the fair value of the consideration paid for such companies and the fair value of their net assets (tangible and intangible) formed negative goodwill leading to a USD 28.0 million gain for the Group for the year ended 31 December 2009.

Profit/(loss) before tax

For the reasons given above, profit before tax amounted to USD 48.2 million for the year ended 31 December 2010, whereas for the year ended 31 December 2009 the Group recorded loss before tax of USD 12.5 million.

Income tax benefit/(expense)

The Group recorded income tax benefit in the amount of USD 1.4 million for the year 31 December 2010, resulting from deferred tax benefit, partially offset by current income tax expense. For the year ended 31 December 2009, the Group recorded income tax expense in the amount of USD 6.6 million when the Group accounted for both current income tax expense and deferred tax expense.

Profit/(loss) for the year

For the reasons set out above, the Group’s profit for the year ended 31 December 2010 was USD 49.6 million as opposed to a USD 19.0 million loss for the year ended 31 December 2009.

Adjusted EBITDA

The table set out below presents Adjusted EBITDA for the years ended 31 December 2010 and 2009 with a breakdown between Russia and Ukraine:

	Year ended 31 December					
	2010			2009		
	Russia	**Ukraine**	**Total**	**Russia**	**Ukraine**	**Total**
	(USD in thousands)					
Profit/(loss) for the year	-----	-----	**49,608**	-----	-----	**(19,009)**
Income tax (benefit)/expense	-----	-----	(1,385)	-----	-----	6,554
Gain realised from acquisitions of subsidiaries	-----	-----	--	-----	-----	(28,006)
Non-operating foreign exchange (gains)/losses, net	-----	-----	(416)	-----	-----	296
Finance income	-----	-----	(3,902)	-----	-----	(3,226)
Finance costs, net	-----	-----	38,711	-----	-----	42,399
Impairment loss on goodwill and property, plant and equipment	-----	-----	--	-----	-----	9,591
Operating profit/(loss) before loss on impairment	**64,448**	**18,168**	**82,616**	**14,914**	**(6,315)**	**8,599**
Depreciation and amortisation	15,919	9,464	25,383	14,657	8,682	23,339
Loss/(gain) on disposals	4,198	(657)	3,541	875	(118)	757
Adjusted EBITDA[(1)]	**84,565**	**26,975**	**111,540**	**30,446**	**2,249**	**32,695**

(1) See footnote (1) to the table in "S*elected Financial and Operational* I*nformation*" for the Company's definition of Adjusted EBITDA.

No Material Change

Save as disclosed in "– *Recent Developments*", no material change relating to the matters described above has occurred since 31 December 2010 and up to the date of this Prospectus.

Results of operations for year ended 31 December 2009 and 31 December 2008

Summary

The following table sets out the Group's results of operations for the years ended 31 December 2009 and 2008, respectively, derived from the audited consolidated financial statements, with the financial components forming operating profit before loss on impairment of the Group segmented into the countries where the relevant companies operate:

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Revenue			
Total	*165,059*	*135,924*	*21.4*
Russia	120,135	99,651	20.6
Ukraine	44,924	36,273	23.8
Net change in fair value of biological assets and agricultural produce			
Total	*15,860*	*(21,032)*	--
Russia	8,249	(15,314)	--
Ukraine	7,611	(5,718)	--
Cost of sales			
Total	*(148,344)*	*(115,357)*	*28.6*
Russia	(95,938)	(74,518)	28.7
Ukraine	(52,406)	(40,839)	28.3
Gross profit/(loss)			
Total	***32,575***	***(465)***	**--**
Russia	**32,446**	**9,819**	**230.4**
Ukraine	**129**	**(10,284)**	**--**
Administrative expenses			
Total	*(13,752)*	*(14,761)*	*(6.8)*
Russia	(9,863)	(11,276)	(12.5)
Ukraine	(3,889)	(3,485)	11.6
Selling expenses			
Total	*(6,661)*	*(6,772)*	*(1.6)*
Russia	(5,261)	(4,720)	11.5
Ukraine	(1,400)	(2,052)	(31.8)
Government grants recognised as income			
Total	*6,849*	*7,859*	*(12.9)*
Russia	6,519	4,733	37.7
Ukraine	330	3,126	(89.4)

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Other operating expenses, net			
Total	*(9,573)*	*(7,353)*	*30.2*
Russia	(8,450)	(4,336)	94.9
Ukraine	(1,123)	(3,017)	(62.8)
Operating foreign exchange (losses)/gains, net			
Total	*(839)*	*536*	**--**
Russia	(477)	654	--
Ukraine	(362)	(118)	206.8
Operating profit/(loss) before loss on impairment			
Total	***8,599***	***(20,956)***	--
Russia	**14,914**	**(5,126)**	--
Ukraine	**(6,315)**	**(15,830)**	**(60.1)**
Impairment loss on goodwill and property, plant and equipment	(9,591)	(671)	1,329.4
Operating loss	**(992)**	**(21,627)**	**(95.4)**
Finance costs, net	(42,399)	(27,104)	56.4
Finance income	3,226	494	553.0
Non-operating foreign exchange losses, net	(296)	(6,101)	(95.1)
Gain realised from acquisitions of subsidiaries	28,006	112,710	(75.2)
(Loss)/profit before tax	**(12,455)**	**58,372**	**--**
Income tax (expense)/benefit	(6,554)	13,899	**--**
(Loss)/profit for the year	**(19,009)**	***72,271***	--

Revenue

The Group's total revenue increased 21.4% to USD 165.1 million for the year ended 31 December 2009 from USD 135.9 million for the year ended 31 December 2008.

The following table sets out the Group's revenue by segment for the periods indicated with a breakdown of total revenue into the countries where the members of the Group operate:

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Revenue from the sale of goods	*156,366*	*127,389*	*22.7*
Revenue from the rendering of services	*8,693*	*8,535*	*1.9*
Revenue			
Total	***165,059***	***135,924***	***21.4***
Russia	**120,135**	**99,651**	**20.6**
Ukraine	**44,924**	**36,273**	**23.8**

The most significant proportion of the Group's revenue comes from its primary business of the sale of crops, which represented 94.7% and 93.7% of total revenue for the years ended 31 December 2009 and 2008, respectively. The Group's revenue from the sale of goods increased 22.7% to USD 156.4 million for the year ended 31 December 2009 from USD 127.4 million for the year ended 31 December 2008, primarily due to an increase in production and sale volumes and the prices received for the Group's products in comparison to 2008. The higher sale volumes resulted from the fact that in 2008 a higher proportion of the Group's production was retained in storage, with such stored production being sold in 2009. The remaining revenue was generated by rendering harvesting, storage and other incidental agricultural services, which increased 1.9% to USD 8.7 million for the year ended 31 December 2009 from USD 8.5 million for the year ended 31 December 2008.

Revenue generated in Russia accounted for approximately 72.8% and 73.3% of total revenue for the years ended 31 December 2009 and 2008, respectively. Revenue generated in Ukraine accounted for approximately 27.2% and 26.7% of total revenue for the years ended 31 December 2009 and 2008, respectively. This difference can be explained by the fact that approximately 62.8% and 65.7% of the Group's harvested land was situated in Russia, with the remaining approximately 37.2% and 34.3% of the Group's harvested land situated in Ukraine as at the years ended 31 December 2009 and 2008, respectively. The Group did not control most of the land prior to 2008 and therefore a significant proportion of the crops in 2008 were planted and grown by previous owners of the farms in both segments of the Group. In addition, this difference was caused by lower productivity of the Group's Ukrainian farms as compared to its Russian farms. This is because most of the Group's Ukrainian farms were acquired in 2008 in worse condition than the Russian farms and the Group did not have sufficient time to improve the yields at its Ukrainian farms following their acquisitions.

Revenue in Russia increased 20.6% for the year ended 31 December 2009 as compared to the year ended 31 December 2008, whereas revenues in Ukraine increased 23.8% for the same period. In both countries the growth in revenues was the result of an increase in market prices for agricultural products and planting more commercially valuable crops and improvement in land fertility. The higher rate of revenue growth in Ukraine reflects the enhancement of productivity of most of the farms, because the efficiency of the Group's Ukrainian farms began to improve in 2009 as compared to 2008, whereas the targeted operating efficiency of the Group's Russian farms was realised earlier.

The following table sets out the volume of crops sold and the revenues generated from the sale of such crops broken down by crops produced, as well as supplementary activities including sales of milk and products from its sugar factories and bakeries:

	Year ended 31 December 2009				**Year ended 31 December 2008**			
	Sales (*in tonnes*)	Sales as a percentage of total sales (*%*)	Revenue from sales (*USD in thousands*)	Revenue as a percentage of total revenue from sales (*%*)	Sales (*in tonnes*)	Sales as a percentage of total sales (*%*)	Revenue from sales (*USD in thousands*)	Sales as a percentage of total sales (*%*)
Winter wheat	543,670	53.1%	63,132	40.4%	350,372	53.5%	69,043	54.2%
Barley	77,088	7.5%	6,938	4.4%	29,786	4.6%	4,499	3.5%
Corn	98,785	9.6%	11,756	7.5%	82,545	12.6%	9,916	7.8%
Sunflower	150,919	14.7%	42,584	27.2%	55,881	8.5%	14,839	11.6%
Rapeseed	29,130	2.8%	8,384	5.4%	22,985	3.5%	8,668	6.8%
Sugar beet	79,062	7.7%	3,207	2.1%	76,745	11.7%	3,893	3.1%
Other (produced only)	33,535	3.3%	4,409	2.8%	13,660	2.1%	2,717	2.1%
Total agricultural production	**1,012,189**	**98.8%**	**140,408**	**89.8%**	**631,974**	**96.6%**	**113,575**	**89.2%**
Supplementary activities	11,780	1.2%	15,958	10.2%	22,339	3.4%	13,814	10.8%
Total	**1,023,969**	**100%**	**156,366**	**100%**	**654,313**	**100%**	**127,389**	**100%**

Net change in fair value of biological assets and agricultural produce

The Group recorded losses from the net change in fair value of biological assets and agricultural produce of approximately USD 21.0 million for the year ended 31 December 2008 with a USD 15.3 million and a USD 5.7 million loss in Russia and Ukraine, respectively. The loss occurred because, prior to their acquisition by the Group, a number of its farms bore significant expenses in connection with planting crops at high prices that were set before the financial crisis. A crisis-related decline in the market prices of products concerned in 2008 contributed to a loss from fair value of biological assets and agricultural produce. However, for the year ended 31 December 2009, the Group recorded gain of a USD 15.9 million from net change in fair value of biological assets and agricultural produce, with a USD 8.2 million and USD 7.6 million gain in Russia and Ukraine, respectively. The gain was primarily due to the post-crisis growth in prices of the agricultural products concerned and planting more commercially valuable crops and improvement in technology.

For the year ended 31 December 2009, net change in fair value of biological assets and agricultural produce in Russia accounted for 52.0% of the Group's total income from such changes, amounting to USD 8.2 million, whereas the Ukrainian part of the business accounted for 48.0% of the Group's total income from such changes, amounting to USD 7.6 million for the same period. For the year ended 31 December 2008, the Russian operations recorded a USD 15.3 million loss from change in fair value of biological assets and agricultural produce, or 72.8% of total loss for that period, whereas the Ukrainian operations accounted for a USD 5.7 million loss, or 27.2% of total loss from change in fair value of biological assets and agricultural produce for the same period. The differences between the Russian and the Ukrainian results are primarily the result of the different size of the cultivated portfolios of land located in Russia and Ukraine.

Cost of sales

The Group's total cost of sales increased 28.6% to USD 148.3 million for the year ended 31 December 2009 from USD 115.4 million for the year ended 31 December 2008. This increase in cost of sales was primarily due to an increase in the total cost of sale of goods by 30.1% to USD 145.1 million for the year ended 31 December 2009 from USD 111.5 million from the year ended 31 December 2008. Total cost of rendering of services decreased 15.4% to USD 3.3 million for the year ended 31 December 2009 from USD 3.8 million for the year ended 31 December 2008.

The following table sets out a breakdown of the Group's cost of sales for the periods indicated:

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Cost of sale of goods			
Raw materials	85,553	43,640	96.0
Depreciation and amortisation	21,649	25,197	(14.1)
Payroll and related charges	12,366	12,117	2.1
Rental expenses	7,904	12,144	(34.9)
Services	10,125	10,013	1.1
Repair and maintenance costs	2,694	2,598	3.7
Taxes and duties	2,469	1,900	29.9
Other costs	2,332	3,906	(40.3)
Total cost of sale of goods	**145,092**	**111,515**	**30.1**
Cost of rendering of services			

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Depreciation and amortisation	958	1,172	(18.3)
Payroll and related charges	692	942	(26.5)
Raw materials	620	807	(23.2)
Services	380	324	17.3
Taxes and duties	136	177	(23.2)
Repair and maintenance costs	301	254	18.5
Rental expenses	115	114	0.9
Other costs	*50*	52	(3.8)
Total cost of rendering of services	**3,252**	**3,842**	**(15.4)**
Total cost of sales			
Total	***(148,344)***	***(115,357)***	***28.6***
Russia	**(95,938)**	**(74,518)**	**28.7**
Ukraine	**(52,406)**	**(40,839)**	**28.3**

Out of the total cost of sales of the Group for the year ended 31 December 2009, USD 95.9 million, or 64.7%, are attributable to Russia and USD 52.4 million, or 35.3%, are attributable to Ukraine. This is compared to USD 74.5 million, or 64.6%, for Russia and USD 40.8 million, or 35.4%, for Ukraine for the year ended 31 December 2008. These differences in cost of sales between the two countries correspond to the difference in size of the Group's cultivated land located in Russia and Ukraine.

In terms of year-to-year growth, cost of sales both in Russia and Ukraine showed almost equal rates of growth. The Russian operations recorded a 28.7% rate of growth of total cost of sales and the Ukrainian operations recorded a 28.3% rate of growth of total cost of sales for the year ended 31 December 2009 as compared to the year ended 31 December 2008. Since the availability of credit on acceptable commercial terms in the year ended 31 December 2009 was limited, investment in the Group's Ukrainian farms was also limited despite their lower operational efficiency as compared to the Russian farms. Such investment mostly related to the purchase of raw materials in both segments of the Group.

Cost of sale of goods

The cost of sale of goods constituted 97.8% of total cost of sales for the year ended 31 December 2009 and 96.7% for the year ended 31 December 2008. Cost of sales of goods increased 30.1% to USD 145.1 million for the year ended 31 December 2009 from USD

111.5 million for the year ended 31 December 2008. The primary reasons for such increase are discussed below.

Raw materials increased 96.0% to USD 85.6 million for the year ended 31 December 2009 from USD 43.6 million for the year ended 31 December 2008. The consumption of raw materials is directly related to the land area under cultivation. The high year-to-year rate of growth in raw materials was due to the fact that the Group increased its portfolio of land under cultivation by approximately 50,000 hectares for the year ended 31 December 2009 as compared to the year ended 31 December 2008. In addition, the increase in raw materials was due to procurement of higher than normal volumes of fertilisers, chemicals, fuel and other raw materials in order to enhance the fertility of the Group's land portfolio in Ukraine. The expenses related to raw materials in the Russian segment of the Group were incurred in volumes necessary to maintain the operational efficiency of the Russian farms.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased by 14.1% to USD 21.6 million for the year ended 31 December 2009 from USD 25.2 million for the year ended 31 December 2008. In terms of country-to-country breakdown, the Russian operations accounted for USD 13.3 million of depreciation and amortisation for the year ended 31 December 2009, whereas in Ukraine the Group recorded depreciation and amortisation in the amount of USD 8.3 million for the same period. For the year ended 31 December 2008, the Russian operations recorded USD 16.0 million in depreciation and amortisation as compared to USD 9.2 million for Ukraine for the same period. Therefore, the Russian operations recorded a 16.9% decrease in depreciation and amortisation attributable to the cost of sale of goods, and the Ukrainian operations accounted for a 9.8% decrease. The decline in depreciation and amortisation in Russia and Ukraine was primarily due to a decline in fair value of the relevant assets in both operational segments as a result of a revaluation carried out by the Group in the year ended 31 December 2009.

Payroll and related charges remained almost at the same level showing only a 2.1% increase to USD 12.4 million for the year ended 31 December 2009 from USD 12.1 million for the year ended 31 December 2008.

Rental expenses decreased 34.9% to USD 7.9 million for the year ended 31 December 2009 from USD 12.1 million for the year ended 31 December 2008, primarily due to the decline in market rates for rent which were linked to the price of agricultural products. The decline in prices resulted from the financial crisis. For the years ended 31 December 2008 and 2009, respectively, all rent attributable to cost of sale of goods was paid by the Group under its land lease agreements. As the rent under the land lease agreements is linked to the prices of agricultural products and may be paid in kind by the delivery of the relevant agricultural products (see *"Structure of lease payments"*), a decrease in the land lease rates in Russia for the year ended 31 December 2009 as compared to the year ended 31 December 2008 resulted in the rent payable by the Group for the leased land in Russia decreasing 44.5% to USD 5.7 million for the year ended 31 December 2009 from USD 10.2 million for the year ended 31 December 2008. However, in Ukraine such rent increased 15.7% to USD 2.2 million for the year ended 31 December 2008 from USD 1.9 million for the year ended 31 December 2009. This increase in Ukraine was due to the nature of the Ukrainian land market. In circumstances where valuable land plots are in demand, landlords typically require higher rent for such land plots. In order to retain control over certain land leased by the Group in Ukraine, the Group had to pay higher rent, which resulted in a greater rate of increase in rental expenses for the Ukrainian operations.

Service costs remained at approximately the same level showing a slight increase of 1.1% to USD 10.1 million for the year ended 31 December 2009 from USD 10.0 million for the year ended 31 December 2008.

Repair and maintenance costs remained at approximately the same level showing a slight increase of 3.7% to USD 2.7 million for the year ended 31 December 2009 from USD 2.6 million for the year ended 31 December 2008.

Cost of rendering of services

The cost of rendering of services constituted 2.2% and 3.3% of total cost of sales for the years ended 31 December 2009 and 2008, respectively. The cost of rendering of services decreased 15.4% to USD 3.3 million for the year ended 31 December 2009 from USD 3.8 million for the year ended 31 December 2008. This increase in cost of rendering of services occurred primarily due to a decrease in depreciation and amortisation, payroll and related charges, taxes and duties and raw materials attributable to cost of rendering of services, partially offset by an increase in repair and maintenance costs.

Gross profit/(loss)

The Group's gross profit margin, calculated as gross profit divided by revenue, was 19.7% for the year ended 31 December 2009. For the year ended 31 December 2008, the Group recorded a gross loss of USD 0.5 million. The Group's gross profit for the year ended 31 December 2009 was primarily due to USD 15.9 million income from change in fair value of biological assets and agricultural produce in the year ended 31 December 2009 as opposed to a USD 21.0 million loss from change in fair value of biological assets and agricultural produce in the year ended 31 December 2008.

Gross profit was USD 32.6 million for the year ended 31 December 2009 as opposed to a gross loss of USD 0.5 million for the year ended 31 December 2008. For the year ended 31 December 2008, gross profit of USD 9.8 million was generated in Russia as opposed to a USD 10.3 million loss in the Ukrainian operations. This gross loss in Ukraine was primarily due to the high cost of sales incurred by the previous management of the Group's Ukrainian farms, relatively low revenue and losses from changes in fair value of biological assets and agricultural produce (the latter two factors both being adversely affected by the financial crisis). Gross profit in the Russian operations resulted from higher operational efficiency of the Group's farms in the year ended 31 December 2008. For the year ended 31 December 2009, gross profit of USD 32.4 million was generated in Russia due to growing market prices of agricultural products, as compared to only USD 0.1 million gross profit in Ukraine for the year ended 31 December 2009. Such low gross profit was primarily due to the relatively low revenue the Ukrainian farms generated for the same period and relatively high cost of sales paid in 2009 in order to increase their productivity. Nevertheless, the Ukrainian operations recorded gross profit for the year ended 31 December 2009, as opposed to gross loss for the year ended 31 December 2008, by increasing its revenue due to favourable changes in market prices for the products concerned and the corresponding income from change in fair value of biological assets and agricultural produce.

Administrative expenses

Administrative expenses decreased 6.8% to USD 13.8 million for the year ended 31 December 2009 from USD 14.8 million for the year ended 31 December 2008. This decrease was primarily due to a reduction in the cost of services from USD 3.3 million in 2008 to USD 0.4 million in 2009 and also a reduction in depreciation and amortisation from USD 1.4 million in 2008 to USD 0.5 million in 2009. This reduction was partially offset by an increase in materials used from USD 1.9 million in 2008 to USD 3.7 in 2009 and also an increase in taxes and duties from USD 0.6 million in 2008 to USD 1.0 million in 2009.

The following table lists the components of administrative expenses of the Group for the periods concerned:

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
Salaries and related charges	6,396	6,246	2.4
Management fees	874	545	60.4
Services	377	3,279	(88.5)
Taxes and duties	993	593	67.5
Materials used	3,655	1,853	97.2
Depreciation and amortisation	488	1,371	(64.4)
Rental expenses	135	177	(23.7)
Other expenses	834	697	19.7
Total			
Total	***(13,752)***	***(14,761)***	***(6.8)***
Russia	**(9,863)**	**(11,276)**	**(12.5)**
Ukraine	**(3,889)**	**(3,485)**	**11.6**

In terms of geographical breakdown, for the year ended 31 December 2009, 71.7% of total administrative expenses were attributable to Russia and 28.3% to Ukraine, amounting to USD 9.9 million and USD 3.9 million, respectively. Administrative expenses decreased 12.5% in Russia and increased 11.6% in Ukraine for the year ended 31 December 2009, as compared to the year ended 31 December 2008. For the year ended 31 December 2008, 76.4% of total administrative expenses were attributable to Russia and 23.6% to Ukraine, amounting to USD 11.3 million and USD 3.5 million, respectively. The Ukrainian operations incurred extra costs in setting up a Ukrainian administrative office in the year ended 31 December 2009, which resulted in the aforementioned trends in administrative expenses in the Ukrainian and Russian parts of the Group.

Selling expenses

The Group's total selling expenses decreased by 1.6% to USD 6.7 million for the year ended 31 December 2009 from USD 6.8 million for the year ended 31 December 2008. This decrease was primarily due to a decrease in the cost of other expenses from USD 0.9 million in 2008 to USD 0.2 million in 2009. This decrease was partially offset by small increases in transportation costs, cost of storage and shipped grain and other services.

The Russian operations accounted for 79.0% and 69.7% of the Group's total selling expenses for the years ended 31 December 2009 and 2008, respectively, recording a 11.5% year-to-year increase in selling expenses. The Ukrainian operations accounted for 21.0% and 30.3% of the Group's total selling expenses for the years ended 31 December 2009 and 2008, respectively, recording a 31.8% year-to-year decrease in selling expenses. The change in country-to-country proportions occurred because the Ukrainian operations reduced its transportation costs by changing the contractual terms of delivery of agricultural products to a more favourable "ex works" basis from FOB as compared to the Russian operations.

Government grants recognised as income

The Group recorded a 12.9% decrease of total income from government grants to USD 6.8 million for the year ended 31 December 2009 from USD 7.9 million for the year ended 31 December 2008. See *"State support for and regulation of agricultural production in Russia and Ukraine"*.

The table set out below presents the components of government grants recognised by the Group as income for the periods concerned:

	Year ended 31 December		
	2009	**2008**	**Change**
	(USD in thousands)		*(%)*
VAT refunds	176	1,255	(86.0)
Crop production subsidies	6,496	5,773	12.5
Livestock subsidies	177	831	(78.7)
Governments grants recognised as income			
Total	***6,849***	***7,859***	***(12.9)***
Russia	**6,519**	**4,733**	**37.7**
Ukraine	**330**	**3,126**	**(89.4)**

Only Ukrainian legislation enables agricultural producers to avail themselves of VAT refunds, therefore the Russian operations did not account for VAT refunds. However, the Russian operations accounted for most of the government grants in the form of crop production subsidies. Livestock subsidies constituted insignificant amounts for both operational segments of the Group.

Whilst the Russian part of the business recorded a 37.7% increase in income from government grants for the year ended 31 December 2009 as compared to the year ended 31 December 2008, the Ukrainian operations recorded a 89.4% decrease in such income for the same period. The Russian operations received USD 6.5 million of such grants, constituting 95.2% of total income from such grants for the entire Group for the year ended 31 December 2009. In Ukraine, the Group, as an agricultural producer, retained approximately USD 0.2 million of accrued output VAT in the year ended 31 December 2009 out of USD 0.3 million of total government grants recognised as income of the Ukrainian operations for 2009 as compared to recording USD 1.3 million income from the output VAT for the year ended 31 December 2008.

This significant decrease in income from government grants in Ukraine occurred because, in 2009, the Group did not attribute most of the accrued output VAT relief to income from government grants in order to offset the accrued output VAT relief for the year ended 31 December 2008 which was overstated.

Other operating expenses, net

The Group recorded a 30.2% increase in total other operating expenses, net to USD 9.6 million for the year ended 31 December 2009 from USD 7.4 million for the year ended 31 December 2008. The increase in total other operating expenses, net was primarily due to an increase in change in allowance for irrecoverable amounts, non-refundable financing provided, and other operating expenses, net, partially offset by a reduction in loss on disposal of non-current assets, net.

Change in allowance for irrecoverable amounts increased from USD 0.5 million for the year ended 31 December 2008 to USD 1.3 million for the year ended 31 December 2009. The Group recorded an increase in non-refundable financing provided from USD 0.7 million for the year ended 31 December 2008 to USD 1.5 million for the year ended 31 December 2009. The other operating expenses, net line item within total other operating expenses, net increased from USD 1.4 million for the year ended 31 December 2008 to USD 2.0 million for the year ended 31 December 2009. The Group recorded a decrease in loss on disposal of non-current assets, net from USD 1.8 million for the year ended 31 December 2008 to USD 0.8 million for the year ended 31 December 2009.

The Ukrainian operations accounted for a 62.8% decrease in total other operating expenses, net from USD 3.0 million for the year ended 31 December 2008 to USD 1.1 million for the year ended 31 December 2009, whereas the Russian operations recorded a 94.9% increase in total other operating expenses, net of the Russian operations from USD 4.3 million to USD 8.5 million for the periods concerned.

Operating foreign exchange (losses)/gains, net

The Group recorded USD 0.5 million operating foreign exchange gains for the year ended 31 December 2008, whereas for the year ended 31 December 2009 it accounted for USD 0.8 million operating foreign exchange losses. Gains for the year ended 31 December 2008 resulted from devaluation of ruble and hryvnia against U.S. dollar caused by the global financial downturn, whereas the operating foreign exchange losses for the year ended 31 December 2009 were caused by unfavourable currency exchange fluctuations in Ukraine partially mitigated by favourable sharp currency exchange fluctuations in Russia.

Operating profit/(loss) before loss on impairment

Due to the factors described above, the Group recorded operating profit before loss on impairment in the amount of USD 8.6 million for the year ended 31 December 2009, compared to a USD 21.0 million loss for the year ended 31 December 2008. The Russian operations accounted for operating profit before loss on impairment of USD 14.9 million for the year ended 31 December 2009 as compared to a loss of USD 5.1 million for the year ended 31 December 2008, whereas the Ukrainian operations accounted for losses in the amount of USD 6.3 million and USD 15.8 million for the years ended 31 December 2009 and 2008, respectively.

Impairment loss on goodwill and property, plant and equipment

The Group recorded a USD 9.6 million impairment loss on property, plant and equipment for the year ended 31 December 2009, whereas it accounted for a USD 0.7 million impairment loss on goodwill for the year ended 31 December 2008, constituting a 1329.4% increase in impairment loss over the period concerned. This increase in loss occurred as a result of a decline in fair value of certain assets in all four of the Group's cash generating units (being the Russian farms, the Ukrainian farms, the Russian elevators and the Ukrainian elevators) due to a revaluation carried out by the Group at the end of 2009. However, as a result of this revaluation certain other items of property, plant and equipment were appreciated. According to accounting rules, the increase in fair value of such appreciated assets was recorded in "Revaluation reserve" in the balance sheet and amounted to USD 71.2 million for the year ended 31 December 2009. In 2008, the Group recorded a loss on goodwill due to the decline in fair value of goodwill in relation to the Russian elevators.

Operating loss

For the reasons discussed above, the Group recorded USD 1.0 million of operating loss for the year ended 31 December 2009 as compared to USD 21.6 million of operating loss for the year ended 31 December 2008. The Russian operations recorded USD 9.5 million of operating profit for the year ended 31 December 2009 and recorded losses in the amount of USD 5.8 million for the year ended 31 December 2008. The Ukrainian operations recorded a 33.9% decrease in operating losses to USD 10.5 million for the year ended 31 December 2009 from USD 15.8 million for the year ended 31 December 2008.

As discussed above, the operating loss of the Group for the year ended 31 December 2008 was due to the financial downturn and due to the fact that, initially, the newly acquired Ukrainian farms required significant improvement in their productivity. For the year ended 31 December 2009, the Group significantly improved the performance of the Russian operations and also enhanced the performance of the Ukrainian operations by increasing its revenue and reducing selling and other operating expenses.

Finance costs, net

Finance costs increased 56.4% to USD 42.4 million for the year ended 31 December 2009 from USD 27.1 million for the year ended 31 December 2008. This increase in finance costs was primarily due to an increase in interest rates accruing on loans and borrowings of the Group. For the years ended 31 December 2009 and 2008, the Group also offset its finance costs by USD 1.0 million and USD 0.9 million of government grants received as compensation for the finance costs of agricultural producers, respectively.

Finance income

Finance income increased 553.0% to USD 3.2 million for the year ended 31 December 2009 from USD 0.5 million for the year ended 31 December 2008. This was primarily due to an increase in lending in favour of the trading companies controlled by Management. See "– *Related Party Transactions – Transactions with the Valars Group*".

Non-operating foreign exchange losses, net

The Group recorded a 95.1% decrease in non-operating foreign exchange losses due to recording a USD 6.1 million loss for the year ended 31 December 2008 and a USD 0.3 million loss for the year ended 31 December 2009. The losses associated with non-operating foreign currency exchange in each period concerned were the result of favourable fluctuations of foreign currency exchange rates for foreign currency.

Gain realised from acquisitions of subsidiaries

Gains realised from acquisitions of subsidiaries fell from USD 112.7 million for the year ended 31 December 2008 to USD 28.0 million for the year ended 31 December 2009. This was because of the acquisition of 49 operating companies during 2008, whereas in 2009 the Group only acquired four operating companies as described immediately below. Out of the 49 companies acquired in 2008, six owned silos and the rest were farms controlling agricultural land in both Ukraine and Russia. Out of the four companies acquired in 2009, three were farms, two of which were located in Russia and one in Ukraine, holding agricultural land, and a Ukrainian sugar refining plant processing sugar beet from the Ukrainian farm. The difference between the fair value of the consideration paid for such companies and the fair value of their net assets (tangible and intangible) formed negative goodwill leading to a USD 28.0 million and a USD 112.7 million gain for the Group for the years ended 31 December 2009 and 2008, respectively.

(Loss)/profit before tax

The Group recorded profit before tax in the amount of USD 58.4. million for the year ended 31 December 2008 as opposed to a loss before tax in the amount USD 12.5 million for the year ended 31 December 2009. This change in profit before tax was primarily due to the fact that fewer acquisitions of subsidiaries were completed by the Group in 2009 as compared to 2008.

Income tax (expense)/benefit

The Group recorded income tax benefit in the amount of USD 13.9 million for the year 31 December 2008 resulting from a deferred tax benefit, partially offset by current income tax expense. For the year ended 31 December 2009, the Group recorded income tax expense in the amount of USD 6.6 million when the Group accounted for both current income tax expense and deferred tax expense.

(Loss)/profit for the year

For the reasons set out above the Group's profit for the year ended 31 December 2008 was USD 72.3 million and the Group's loss for the year ended 31 December 2009 was USD 19.0 million.

Adjusted EBITDA

The table set out below presents Adjusted EBITDA for the years ended 31 December 2009 and 2008 with a breakdown between Russia and Ukraine:

	Year ended 31 December

	2009			2008		
	Russia	Ukraine	Total	Russia	Ukraine	Total
	(USD in thousands)					
(Loss)/profit for the year	**-----**	**-----**	**(19,009)**	**-----**	**-----**	**72,271**
Income tax (benefit)/expense	-----	-----	6,554	-----	-----	(13,899)
Gain realised from acquisitions of subsidiaries	-----	-----	(28,006)	-----	-----	(112,710)
Non-operating foreign exchange (gains)/losses, net	-----	-----	296	-----	-----	6,101
Finance income	-----	-----	(3,226)	-----	-----	(494)
Finance costs, net	-----	-----	42,399	-----	-----	27,104
Impairment loss on goodwill and property, plant and equipment	-----	-----	9,591	-----	-----	671
Operating profit/(loss) before loss on impairment	**14,914**	**(6,315)**	**8,599**	**(5,126)**	**(15,830)**	**(20,956)**
Depreciation and amortisation	14,657	8,682	23,339	17,934	9,850	27,784
Loss/(gain) on disposals	875	(118)	757	(98)	1,911	1,813
Adjusted EBITDA[(1)]	**30,446**	**2,249**	**32,695**	**12,710**	**(4,069)**	**8,641**

[(1)] See footnote (1) to the table in "S*elected Financial and Operational* I*nformation*" for the Company's definition of EBITDA.

Liquidity and Capital Resources

Liquidity

The Group's liquidity needs arise principally from the need to finance its working capital and capital expenditures. In the periods under review, the Group has met most of its liquidity needs through cash generated from its operating activities and financing activities, consisting of credit lines, overdrafts and loans.

Working capital

Working capital, defined as current assets minus current liabilities, was USD 55.7 million, USD 12.0 million and USD 36.6 million as at 31 December 2010, 2009 and 2008, respectively. The Group's current assets primarily consist of inventories, biological assets, current tax assets, trade accounts receivable, other current assets and cash and cash equivalents.

As at 31 December 2010, the Group had inventories of USD 25.8 million compared to USD 27.4 million and USD 55.1 million as at 31 December 2009 and 2008, respectively. The significant decrease in inventories in 2009 as compared to 2008 occurred because of lower prices for the products that were retained by the Group until 2009 to be sold at higher prices. Therefore, finished goods declined from a value of USD 26.5 million as at 31 December 2008 to USD 11.4 million as at 31 December 2009 and further to USD 6.3 million as at 31 December 2010. For the same reason, raw materials and supplies declined significantly to USD 10.6 million as at the year ended 31 December 2009 from USD 16.6 million as at the year ended 31 December 2008 and work in progress declined over this period to USD 5.4 million from USD 12.0 million.

As at 31 December 2010, the Group had USD 135.3 million in biological assets compared to USD 92.5 million and USD 47.9 million as at 31 December 2009 and 2008, respectively. Current biological assets increased due to an increase in the volume of crops grown and the value of such crops.

As at 31 December 2010, the Group had USD 16.5 million of current tax assets as compared to USD 10.4 million and USD 9.7 million as at 31 December 2009 and 2008, respectively. The increase in current tax assets was primarily due to an increase in the VAT receivable from USD 9.4 million as at 31 December 2008 to USD 10.0 million as at 31 December 2009 and USD 16.1 million as at 31 December 2010.

As at 31 December 2010, the Group had USD 17.1 million of trade accounts receivable, net as compared to USD 14.1 million and USD 13.6 million as at 31 December 2009 and 2008, respectively. The increase in the trade accounts receivable resulted from increase in revenue and prices for the products concerned.

As at 31 December 2010, the Group had USD 83.7 million other current assets, net as compared to USD 64.8 million and USD 68.7 million as at 31 December 2009 and 2008, respectively. The increase in other current assets, net was primarily due to an increase in interest free financing provided to related parties from USD 11.6 million as at 31 December 2008 to USD 26.8 million as at 31 December 2009 and USD 56.6 million as at 31 December 2010, as well as an increase in interest bearing borrowings issued to related and third parties from USD 5.0 million to USD 11.6 million and USD 12.0 million as at the same period ends. Management expects that some of the interest-free financing provided to related parties will be netted by the end of 2011. This increase was partially offset by a decline in amounts arising on restructuring with related parties from USD 40.1 million as at 31 December 2008 to USD 13.0 million as at 31 December 2009 and USD 6.7 million as at 31 December 2010. Amounts arising on restructuring with related parties represent the balances that formed in the process of the Restructuring. Management expects that some of these balances will be netted off with the relevant line in other current liabilities by the end of 2011. In addition, the Group recorded USD 8.3 million, USD 5.0 million and USD 7.3 million in advances issued to suppliers as at the years ended 31 December 2008, 2009 and 2010, respectively. The decrease in advances issued to suppliers as at 31 December 2009 was due to the fact that the Group lacked funds and used the advance payment structure with its suppliers to a lesser extent. The Group also recorded USD 0.3 million, USD 0.8 million and USD 0.1 million in interest receivable on borrowings issued as at 31 December 2008, 2009 and 2010. The Group accounted for no allowance for irrecoverable amounts in the year ended 31 December 2010, as compared to a USD 1.2 million of write-off of such allowance in the year ended 31 December 2009. The Group accounted for no allowance for irrecoverable amounts in the year ended 31 December 2008. For more detail on interest-free financing provided to related parties and interest bearing borrowings issued to related parties, see *"Related Party Transactions"*.

As at 31 December 2010, the Group had USD 7.8 million in cash and cash equivalents as compared to USD 1.3 million and USD 2.2 million as at 31 December 2009 and 2008, respectively. The increase in cash and cash equivalents as at the year ended 31 December 2010 was primarily due to a significant increase in revenue over the period concerned.

The Group's current liabilities increased to USD 230.5 million as at 31 December 2010 from USD 198.5 million as at 31 December 2009. This increase was primarily due to an increase in other current liabilities from USD 59.0 million to USD 99.0 million and current tax liabilities from USD 4.6 million to USD 10.5 million, partially offset by a decrease in short-term loans and borrowings, current portion of long-term loans and borrowings from USD 117.1 million to USD 98.0 million. See *"- Indebtedness"* for more detail. Other current liabilities increased primarily due to the fact that the Group recorded an increase in interest free financing received from related parties from USD 45.1 million to USD 78.9 million as at 31 December 2009 and 2010, respectively, recorded USD 7.7 million in amounts due under an option agreement with Fiduciaria Limited, a related party of Alfa Bank Ukraine, (which represents interest payable) as at 31 December 2010 and recorded no such amounts as at 31 December 2009, and recorded an increase in amounts arising on restructuring with related parties from USD 0.1 million to USD 6.7 million, as at 31 December 2009 and 2010, respectively. This increase in other current liabilities was partially offset by the fact that the Group recorded no payables for acquisition of subsidiaries as at 31 December 2010 as compared to USD 8.0 million of such payables as at 31 December 2009.

The Group's current liabilities increased to USD 198.5 million as at 31 December 2009 from USD 160.6 million as at 31 December 2008. This increase was primarily due to an increase in short-term loans and borrowings, current portion of long-term loans and borrowings from USD 53.0 million to USD 117.1 million (see *"Indebtedness"* for more detail), partially offset by a decrease in other current liabilities from USD 77.0 million to USD 59.0 million and trade payables and advances from customers from USD 24.1 million to USD 12.3 million. The decrease in other current liabilities and trade payables and advances was primarily due to the fact that the Group was able to repay its indebtedness to its suppliers and deliver increased quantities of agricultural products to its customers. Other current liabilities decreased due to a reduction in payables for acquisitions of subsidiaries from USD 21.2 million to USD 8.0 million, in amounts arising on restructuring with related parties from USD 20.0 million to USD 0.1 million and in rent payable from USD 1.8 million to USD 0.4 million, partially offset by an increase in interest-free financing received from related parties from USD 23.4 million to USD 45.1 million as at 31 December 2008 and 2009, respectively.

Cash flows

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

	For the year ended 31 December		
	2010	2009	2008
		(USD in thousands)	
Net cash generated by/(used in) operating activities	78,100	(15,577)	(17,707)
Net cash used in investing activities	(10,063)	(37,854)	(89,009)
Net cash (used in)/generated by financing activities	(61,650)	52,573	109,719
Net increase/(decrease) in cash and cash equivalents	**6,387**	**(858)**	**3,003**
Cash and cash equivalents at the end of the year	**7,758**	**1,321**	**2,211**

Net cash flow from operating activities

Net cash inflow from operating activities for the year ended 31 December 2010 was USD 78.1 million as opposed to USD 15.6 million net cash outflow from operating activities for the year ended 31 December 2009. This change was primarily due to an increase in revenues and cancellation of debt owed to companies engaged in trading.

The Group had net cash outflows from operating activities for the year ended 31 December 2008 of USD 17.7 million. This was primarily because the indebtedness of the newly acquired members of the Group was repaid in 2008 and because farms previously managed by other owners were less capable of generating cash inflow from their operating activities.

Net cash flow from investing activities

The Group's net cash outflow from investing activities decreased to USD 10.1 million for the year ended 31 December 2010, as compared to USD 37.9 million for the year ended 31 December 2009. This decrease was primarily a result of a decrease in financing provided to third and related parties from USD 45.5 million for the year ended 31 December 2009 to USD 34.9 million for the year ended 31 December 2010 and a decrease in purchases of property, plant and equipment from USD 20.8 million for the year ended 31 December 2009 to USD 8.1 million for the year ended 31 December 2010. The Group also recorded a decrease in cash outflow from acquisition of subsidiaries (net of cash acquired) from USD 13.2 million for the year ended 31 December 2009 to USD 8.0 million for the year ended 31 December 2010. The Group recorded a decrease in cash inflow from financing repaid by third and related parties from USD 38.2 million for the year ended 31 December 2009 to USD 34.5 million for the year ended 31 December 2010. The decrease in cash outflow from investing activities was partially offset by an increase in cash inflow from interest received and proceeds from disposals of property, plant and equipment. The Group recorded an increase in interest received from USD 2.7 million for the year ended 31 December 2009 to USD 4.6 million and in proceeds from disposals of property, plant and equipment from USD 0.8 million to USD 1.9 million for the year ended 31 December 2009 and 2010, respectively.

The Group's net cash outflow from investing activities was USD 89.0 million for the year ended 31 December 2008. This was primarily due to the acquisition of new operating companies. The Group recorded USD 64.5 million in cash outflow from acquisition of subsidiaries (net of cash acquired) in the year ended 31 December 2008. The cash outflow was also due to the provision of loans to companies engaged in the trading business which were, at that time, under common control with the Group. The Group accounted for USD 20.0 million in loans provided to third and related parties for the year ended 31 December 2008. The Group also recorded USD 12.0 million in purchases of property, plant and equipment for the same year. The Group also recorded USD 9.7 million in cash outflow from the acquisition of a non-controlling interest due to the fact that the Group acquired some of its operating companies in several steps whereby it first acquired controlling stakes and then acquired the relevant minority stakes pursuant to Russian mandatory buyout procedures, and where required, after obtaining antimonopoly clearance for concentration. The cash outflow from investing activities was partially offset by a cash inflow of USD 16.0 million in financing repaid by third and related parties and USD 1.1 million in proceeds from disposals of property, plant and equipment for the year ended 31 December 2008.

Net cash flow from financing activities

Net cash used in financing activities was USD 61.7 million for the year ended 31 December 2010, whereas net cash generated by financing activities was USD 52.6 million for the year ended 31 December 2009. In 2010, the Group was primarily making payments under loans, borrowings and finance leases and limiting its borrowing activity, whereas in 2009 its borrowings exceeded repayments under loans and financial leases. The Group recorded USD 72.5 million in proceeds from loans and borrowings for the year ended 31 December 2010 as compared to USD 176.5 million in proceeds from loans and borrowings for the year ended 31 December 2009. The Group accounted for an increase in repayment of loans and borrowings to USD 121.8 million for the year ended 31 December 2010 from USD 114.5 million for the year ended 31 December 2009. Finance lease payments also increased over the same period to USD 12.7 million for the year ended 31 December 2010 from USD 9.5 million for the year ended 31 December 2009. Such increase was due to the purchase by the Group of additional production equipment.

Net cash generated by financing activities for the year ended 31 December 2008 was USD 109.7 million. In 2008, the Group assumed loans primarily for the purposes of acquisition of new operating companies in Russia and Ukraine to support the growth of its business. The Group recorded USD 211.5 million in proceeds from loans and borrowings, whereas it accounted for only USD 93.5 million in repayment of loans and borrowings and USD 8.2 million in finance lease payments for the same period.

Capital expenditure

The Group has been expanding its operations and expects to continue to make significant investments for the expansion of its business primarily in relation to increasing its harvested land portfolio, purchase of new machinery and equipment, renovation of its property, plant and equipment.

The Group invested approximately USD 8.1 million, USD 20.8 million and USD 12.0 million in its capital expenditure programmes in 2010, 2009 and 2008, respectively. Approximately 47% of total capital expenditure in 2008 was spent on machinery and equipment while approximately 30% related to the land portfolio. Approximately 10% of the Group’s capital expenditure was applied to vehicles. Higher capital expenditure in 2009 was attributable to the Group’s investment in the fixed assets required to maintain the growth of its business, with approximately 60% of total capital expenditure in 2009 being applied to machinery and equipment. Only 18% of capital expenditure in 2009 related to the land portfolio. Due to the fact that in 2009 the Group purchased a considerable number of items of machinery and equipment which satisfied most of its operational needs, the Group curtailed its investment in fixed assets in 2010. Of its capital expenditure in 2010, approximately 38% of total expenditure related to the Group's land portfolio while approximately 27% related to machinery and equipment.

The principal sources of funding for capital expenditure are cash flows from operating activities and short- and medium-term hryvnia, ruble and U.S. dollar denominated bank loans. Net cash from operating activities gradually improved from USD 17.7 million of cash outflow in 2008 to USD 15.6 million of cash outflow in 2009 to USD 78.1 million of cash inflow in 2010.

There has been no capital expenditure by the Group in 2011.

Indebtedness

The Group's indebtedness primarily consists of long-term and short-term loans and borrowings and long-term finance lease obligations. As at 31 December 2010, the outstanding balance of long-term loans and borrowings was USD 120.2 million, the outstanding balance of short-term loans and borrowings, current portion of long term loans and borrowings was USD 98.0 million and outstanding balance of long-term finance lease obligations was USD 11.6 million.

Certain loans entered into with related parties, together with certain trade payables owed to related parties, have been subordinated on an interest free basis for up to five years. For further information, see "*Business – Material Contracts – Arrangements with Deutsche Bank*". The Company and the Selling Shareholder have each undertaken that none of the related party payables of the Group that fall outside the subordination arrangements entered into with Deutsche Bank under the Deutsche Bank First Facility Agreement shall be repaid from the proceeds of the Offering, cash from operating activities or from any additional debt or equity financing. All such related party payables will be extinguished by way of non-cash set-off against related party receivables as soon as practicable, but in any event, no later than 31 December 2012.

The following table sets out details of the Group's long-term and short-term bank loans and borrowings as at the periods indicated:

	31 December 2010		**31 December 2009**		**31 December 2008**	
	Weighted average interest rate	**Outstan-ding balance**	**Weighted average interest rate**	**Outstan-ding balance**	**Weighted average interest rate**	**Outstan-ding balance**
Long-term loans	*(%)*	*(USD in thousands)*	*(%)*	*(USD in thousands*	*(%)*	*(USD in thousands*
RUR	13.86	21,725	15.71	13,033	15.60	20,260
UAH	25.05	1,532	15.92	69	17.23	1,574
USD	19.00	100,000	19.00	100,000	19.00	100,000
Long-term borrowings						

RUR	17.00	8	15.83	32,044	12.52	44,083
UAH	17.00	8	17.00	212	17.00	206
USD	--	--	16.96	7,307	17.00	670
		123,273		**152,665**		**166,793**
Less: current portion of long-term loans and borrowings		**(3,042)**		**(2,424)**		**(1,146)**
Total long-term loans and borrowings		**120,231**		**150,241**		**165,647**
Short-term loans						
RUR	11.67	35,968	16.28	45,924	14.08	26,660
UAH	20.76	2,964	24.54	12,347	20.74	3,778
USD	11.36	22,568	11.79	16,041	11.62	2,137
Short-term borrowings						
RUR	20.41	240	14.28	10,906	12.35	12,366
UAH	17.00	13,797	17.00	17,362	17.00	590
		75,537		**102,580**		**45,531**
Interest accrued		**19,396**		**12,066**		**6,322**
Current portion of long-term loans and borrowings		**3,042**		**2,424**		**1,146**
Total short-term loans and borrowings, current portion of long-term loans and borrowing and accrued interest		**97,975**		**117,070**		**52,999**

The following table sets out certain information with respect to the Group's long-term finance lease liabilities for the periods indicated:

	Minimum lease payments			**Present value of minimum lease payments**		
	As at 31 December			**As at 31 December**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Not later than one year	9,170	6,807	6,789	7,165	5,487	3,935
Later than one year and not later than five years	13,982	7,717	12,742	11,516	6,641	8,612
Later than five years	100	118	--	42	114	--
Total	**23,252**	**14,642**	**19,531**	**18,723**	**12,242**	**12,547**
Less: future finance	(4,529)	(2,400)	(6,984)	--	--	--

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2010	2009	2008	2010	2009	2008
charges						
Present value of minimum lease payments	**18,723**	**12,242**	**12,547**	**18,723**	**12,242**	**12,547**

Off-Balance Sheet Arrangements

There were no significant off-balance sheet arrangements other than the contractual obligations and commitments and contingencies described below. These relate to instances where operating companies of the Group secure the obligations of companies which were members of the Former Group, but which are not currently members of the Group. The total outstanding amount of principal obligations of related parties secured by the Group was approximately USD 22.6 million as at 31 May 2010. The total contractual value of such security is USD 16.6 million. The Group pledged only non-key production facilities and any possible foreclosure thereon is unlikely to result in a material adverse effect on the financial performance of the Group. These finance and security arrangements are as follows:

- Volary Export, a member of the Valars Group, as borrower, was granted a loan by PJSC "Bank Boguslav", as lender, in the amount of approximately USD 4.4 million and as at 31 May 2011 the amount of outstanding indebtedness was approximately USD 4.1 million. The loan is secured by a mortgage of a grain storage complex belonging to "Kamyanomostivske hlibopriymalne pidpriemstvo" PJSC, an oil storage complex belonging to "Agrostroi" LLC, and a pledge over some other fixed assets owned by "Kamyanomostivske hlibopriymalne pidpriemstvo" PJSC. The terms of the security arrangements may be interpreted as imposing unlimited liability on the security providers (being members of the Group) and therefore entitling PJSC "Bank Boguslav" to claim the entire outstanding amount from such security providers, rather than just the value of the pledged and mortgaged property;

- Volary-Agro, a member of the Valars Group, as borrower, was granted a loan by LLC "Ukrsibbank" JSCIB in the amount of approximately USD 3.3 million and as at 31 May 2011 approximately the same amount was outstanding. The loan is secured by a mortgage over a grain storage complex of the Group's subsidiary, "Pidgorodnyanskiy elevator" PJSC. The liability of the security provider under the loan is limited to the value of the mortgaged property;

- "Yugtransitservice" LLC, a member of the Valars Group, as borrower, was granted a credit line by "Ukrsibbank" JSCIB in the amount of up to USD 10.0 million and as at 31 May 2011 the amount of outstanding indebtedness was approximately USD 6.3 million. The credit line is secured by a mortgage over certain real property and a pledge over certain fixed assets owned by "Razvilensky Kombinat Khlebnih Produktov" OJSC. The liability of the security provider under the loan is limited to the value of the mortgage and pledged property;

- "Yugtransitservice-Agro" LLC, a member of the Valars Group, as borrower, was granted a credit line by "UniCredit Bank" CJSC, as lender, in the amount of up to USD 17.0 million and as at 31 May 2011 the amount of outstanding indebtedness was approximately USD 6.8 million. The credit line is secured by a mortgage of certain real property and pledge over equipment owned by "Matveevkurgankhleboproduct" OJSC. The liability of the security provider under the loan is limited to the value of the pledged and mortgaged property; and

- Volary Export, a member of the Valars Group, as borrower, was granted a loan by OJSC "BG Bank", as lender, in the amount of approximately USD 2.0 million and as at 31 May 2011 approximately the same amount was outstanding. The loan is secured by a mortgage over a grain storage complex belonging to "Agrostroi" LLC and a pledge over equipment of "Agrostroi" LLC, "Batkivschyina" LLC and "Lebid" PJSC. The liability of security providers (being members of the Group) is not limited to the value of the pledged and mortgaged property and OJSC "BG Bank" may claim the entire outstanding amount from such security providers, rather than just the value of the pledged and mortgaged property.

Contractual Commitments

The following table summarises the Group's contractual obligations, commercial commitments and principal payments that it was obliged to make as at the dates indicated with respect to land. The information presented in the table below reflects the contractual maturities of the Group's obligations, which may differ significantly from the actual maturity of these obligations.

	As at 31 December					
	2010		**2009**		**2008**	
	(USD in thousands)					
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	16,089	16,089	15,079	15,079	14,250	14,250
In the second to the fifth year inclusive	52,159	41,514	46,794	35,752	52,032	36,745
Thereafter	42,200	19,873	41,339	17,697	54,767	18,705
Total:	**110,448**	**77,476**	**103,212**	**68,528**	**121,049**	**69,700**

Quantitative and Qualitative Disclosures about Market Risks and Other Risks

The Group is exposed to market risks with respect to prices of agricultural products, foreign currency exchange rates and interest rates. The Group is also exposed to credit risk and liquidity risk.

Agricultural products price risk

The Group is exposed to the effect of adverse fluctuations in prices of agricultural products. See "*– Factors Affecting the Group's Results of Operations – Prices of agricultural products*".

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group sets limits on the level of exposure by currencies.

The carrying amounts of the Group's USD denominated monetary assets and liabilities as at 31 December 2010, 2009 and 2008 were as follows:

Liabilities	**31 December 2010**	**31 December 2009**	**31 December 2008**
		(*USD in thousands*)	
Trade payables	47	56	172
Other current liabilities	--	13	--
Short-term loans and borrowings, current portion of long-term loans and borrowings and accrued interest	18,934	14,759	--
Short-term finance lease obligations	516	--	--
Total current liabilities	**19,497**	**14,828**	**172**
Long-term finance lease obligations	4,523	--	--
Total non-current liabilities	**4,523**	**--**	**--**
Total liabilities	**24,020**	**14,828**	**172**

The Group did not have any assets denominated in USD as at 31 December 2010, 2009 or 2008.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk principally in relation to its outstanding borrowings. The Group's borrowings are at fixed rates. There is a risk that over the life of the loan, the rate payable will be higher than the market rate. As at 31 December 2010, the Group had financial liabilities with a fixed interest rate of USD 218.2 million.

Credit risk

Credit risk is the risk of financial loss due to the non-fulfilment of the obligations of the Group’s customers and counterparties. The Group’s credit risk is mainly related to its trade accounts receivable. The majority of the Group’s customers are long-standing and there were no significant losses during 2010, 2009, 2008 resulting from non-fulfilment of obligations by clients. The Group has made allowance for irrecoverable amounts relating to trade accounts receivable in 2010, 2009 and 2008 of USD 83,000, USD 19,000 and USD 17,000, respectively.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer or group of customers. The approved credit period for major customers is set at 30 to 90 days.

Limits on the level of credit risk in respect of a customer are approved and monitored on a regular basis by Management. Management assesses amounts receivable from the Group's customers for recoverability once the debt is overdue by 90 days. Approximately 73%, 64% and 83% of trade receivables comprised amounts due from the Group's five largest customers for the years ended 31 December 2008, 2009 and 2010, respectively.

For the year ended 31 December 2010, trade accounts receivable comprised USD 17.1 million as compared to USD 14.1 million for the year ended 31 December 2009. This increase was primarily due to an increase in revenue and prices for the products concerned.

For the year ended 31 December 2009, trade accounts receivable comprised USD 14.1 million as compared to USD 13.6 million for the year ended 31 December 2008.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to fulfil its financial liabilities at the date of their maturity.

As at 31 December 2010, the Group’s current assets exceeded its current liabilities by USD 55.7 million, compared to USD 11.9 million as at 31 December 2009 and USD 36.6 million as at 31 December 2008.

The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following table details the maturity profile of the Group’s financial liabilities as at 31 December 2010 based on contractual undiscounted payments. The amounts in the table may not be equal to the balance sheet carrying amounts since the table includes all cash outflows on an undiscounted basis.

2010	**Carrying amount**	**Contractual amounts**	**Less than 1 year**	**From 2nd to 5th year**	**After 5th year**

			(*USD in thousands*)		
Loans and borrowings	218,206	259,287	102,198	157,089	--
Finance lease obligations	18,723	23,252	9,170	13,982	100
Total	**236,929**	**282,539**	**111,368**	**171,071**	**100**

The Group believes that its other liabilities will be settled at their carrying value.

The Group's target is to maintain its current ratio, defined as a proportion of current assets to current liabilities, at the level of not less than 1. As at 31 December 2010, 2009 and 2008, the Group's current ratio was as follows:

		As at 31 December	
	2010	**2009**	**2008**
		(*USD in thousands*)	
Current assets	286,243	210,436	197,165
Current liabilities	(230,529)	(198,457)	(160,600)
Working capital	**55,714**	**11,979**	**36,565**
Current ratio	**1.24**	**1.06**	**1.23**

Significant Accounting Policies

The Group's significant accounting policies are described in its consolidated financial statements included elsewhere in this Prospectus. The Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare its consolidated financial statements in conformity with IFRS. These estimates and assumptions are based on historical experience and various other factors that Management believed to be reasonable under the circumstances, the results for which are not readily available from other sources. Actual results could differ from these estimates.

See note 4 *"Critical accounting judgements and key sources of estimation uncertainty"* to audited consolidated financial statements of the Group under *"Financial Information"* for accounting policies that Management believes are the most critical to an understanding of the results of operations and financial condition of the Group.

Recent Accounting Developments

There were no recent accounting developments affecting the Group.

INDUSTRY OVERVIEW

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

Certain information relating to crop production, land acreage and other metrics is presented in this section by "agricultural year". An agricultural year runs from 1 July to 30 June and is the period during which substantially all of a crop or product is harvested and normally marketed. This assumes that a crop harvested in the second half of a calendar year (i.e. the first half of the relevant agricultural year) is normally marketed during the first half of the following calendar year (i.e. the second half of the same agricultural year). For example "2010/11 agricultural year" means the period from when crops are harvested after 1 July 2010, to when they are assumed to have been normally marketed, being prior to 30 June 2011. The term is reproduced here solely for presentational purposes in order to demonstrate industry trend information. As a result, although figures for the "2010/11 agricultural year" could imply that all crops harvested in the second half of 2010 will necessarily be marketed by 30 June 2011, this may not necessarily be the case, either for the Group's crop production, or otherwise.

The Russian and Ukrainian Economies

The Russian Economy

The Russian economy is driven principally by the export of commodities. In recent years, a significant part of the Russian Government's federal budget revenue has come from the fuel and energy sector. However, domestic consumption has also become an important driver of overall economic growth.

Following the August 1998 Russian debt crisis, the Russian economy enjoyed a sustained period of growth. Between 2000 and 2008, Russian GDP grew at an average real rate of approximately 7.0%, GDP per capita significantly increased from approximately USD 6,940 in 2006 to approximately USD 11,710 in 2008 and private consumption per capita grew from approximately USD 3,390 in 2006 to approximately USD 5,730 in 2008. The growth was largely due to favourable prices for oil and other commodities, and a substantial inflow of foreign direct investment. The global economic crisis has had a negative impact on the Russian economy, resulting in a 7.8% real GDP decline in 2009 and the unemployment rate increasing from 6.4% in 2008 to 8.4% in 2009. The global economic crisis also led to a decline in real disposable income with 2008 growth of only 1.7% compared to 12.6% in 2007 and private consumption per capita falling by 18% to USD 4,710 in 2009 compared to 2008.

Rosstat estimates that, in 2010, Russia's real GDP grew by 4%. In 2011, Russia's GDP is expected to grow by approximately 4.3% to 4.6%, according to international financial institutions such as the International Monetary Fund (the "**IMF**"), the World Bank and the European Bank for Reconstruction and Development (the "**EBRD**"), as a result of recent positive developments in Russia, including an improvement in consumer lending, and increasing consumption and investment activity.

The table below summarises key macroeconomic indicators in Russia:

	2006	**2007**	**2008**	**2009**	**2010**
Nominal GDP (USD in billions)	990	1,300	1,660	1,222	1,479
Real GDP growth (%)	8.2%	8.5%	5.2%	-7.8%	4.0%
GDP per capita (USD)	6,940	9,130	11,710	8,610	10,440
GDP per capita at PPP (USD in thousands)	13.3	14.9	16.1	14.9	15.7
Real disposable income growth (%)	12.9%	12.6%	1.7%	2.1%	4.5%
CPI (% pa, average) [(1)]	9.7%	9.0%	14.1%	11.7%	6.9%
USD/RUB exchange rate (average) [(2)]	27.2	25.6	24.9	31.7	30.4
Private consumption per capita (USD)	3,390	4,450	5,730	4,710	5,420
Unemployment rate (%)	7.2%	6.1%	6.4%	8.4%	7.5%
Average nominal wages growth (%)	25.5%	26.7%	27.2%	7.8%	13.2%

Source: The Economist Intelligence Unit

Notes:
[(1)] Calculated as an average of end of period data for the previous and forecasted year.
[(2)] For historical periods, the average of the exchange rates on the last business day of each month for the relevant annual periods and on each business day for which the CBR quotes the ruble to the U.S. dollar exchange rate for the relevant monthly period.

According to the Economist Intelligence Unit, the Russian economy will continue to recover in 2011, with a projected real GDP growth of 4.2% and GDP per capita reaching USD 12,580, exceeding the pre-financial crisis level. The Russian consumer price index ("**CPI**") is expected to decrease from 11.7% in 2009 to 9.2% in 2011. This projected recovery is supported by current macroeconomic data, with the unemployment rate decreasing from 8.4% in 2009 to 7.5% in 2010 and the cumulative yearly CPI decreasing from 11.7% in 2009 to 6.9% by 31 December 2010.

Russian Demographics

According to the Economist Intelligence Unit, the Russian population level is estimated to have fallen recently and is expected to stabilise at around 140 million over the next five years. Russia is by far the largest consumer market in Central & Eastern Europe. The greater part of the Russian population is concentrated in the Central Federal District, comprising 26% of the total Russian population in 2009, with Moscow and the Moscow Oblast's population amounting to 7% and 5% of the total, respectively.

The Ukrainian Economy

From 2000, Ukraine enjoyed a sustained period of economic growth. GDP per capita increased significantly from approximately USD 640 in 2000 to approximately USD 3,010 in 2010 and private consumption per capita increased from approximately USD 430 in 2000 to approximately USD 2,310 in 2010. The global economic crisis had a negative impact on the Ukrainian economy, resulting in a 14.8% real GDP decline in 2009 and an increase in the rate of unemployment from 6.4% in 2008 to 8.8% in 2009.

Following this economic contraction, Ukraine returned to a positive real GDP growth rate which is estimated will be 4.2% in 2010. This growth was largely driven by growth in the export sector, assisted by the nominal depreciation of the hryvnia, from approximately UAH5.04/USD in the first quarter of 2008 to approximately UAH7.95/USD in March 2011, which has boosted the competitiveness of the country's exports. State infrastructure projects in Russia also generate significant demand for Ukraine's heavy industry and steel exports, which form a significant part of Ukraine's total exports.

The table below summarises key macroeconomic indicators in Ukraine:

	2006	**2007**	**2008**	**2009**	**2010**
Nominal GDP (USD in billions)	108	143	180	117	138
Real GDP growth (%)	7.3%	7.9%	2.4%	-14.8%	4.2%
GDP per capita (USD)	2,320	3,090	3,920	2,560	3,010
GDP per capita at PPP (USD in thousands)	6.3	7.0	7.4	6.3	6.7
Real disposable income growth (%)	15.4%	17.0%	12.8%	-18.8%	8.0%
CPI (4) (% pa, average) (1)	9.1%	12.8%	25.2%	15.9%	9.4%
USD/UAH exchange rate (average) (2)	5.05	5.05	5.27	7.79	7.94
Private consumption per capita (USD)	1,380	1,840	2,440	1,650	2,310
Unemployment rate (%)	6.8%	6.4%	6.4%	8.8%	8.1%
Average nominal wages growth (%)	29.2%	29.7%	33.7%	5.5%	17.5%

Source: The Economist Intelligence Unit

Notes:
(1) Calculated as an average of end of period data for the previous and forecasted year.
(2) For historical periods, the average of the exchange rates on the last business day of each month for the relevant annual periods and on each business day for which the NBU quotes the hryvnia to the U.S. dollar exchange rate for the relevant monthly period.

According to the Economist Intelligence Unit, the Ukrainian economy will continue to recover in 2011, with a projected real GDP growth of 4.5% and GDP per capita reaching USD 3,490, which is comparable to pre-financial crisis level. The Ukrainian CPI is expected to decrease from 15.9% in 2009 to 9.4% in 2011. This expected recovery is supported by current macroeconomic data, with the unemployment rate decreasing from 8.8% in 2009 to 8.1% in 2010.

Ukrainian Demographics

According to Global Insight, Ukraine's population is expected to fall below 45 million over the next couple of years. Despite its shrinking population, Ukraine remains one of the largest consumer markets in Central & Eastern Europe. The Ukrainian population is concentrated in the regions of Donetsk (9.7%), Dnipropetrovsk (7.3%), Kyiv (6.1%), Kharkiv (6.0%) and Lviv (5.6%).

The Global Agricultural Market

Renewed economic growth following the global recession is generally expected to lead to growth in world demand and trade for agricultural products. Consequently, the United States Department of Agriculture ("**USDA**") projects that crop prices will remain high, and above pre-2006 levels. This is due primarily to increasing world demand for grains, oilseeds, and livestock products; devaluation of the U.S. dollar relative to currencies in food producing countries; continuing high energy prices and further growth in the production of biofuels. Developing countries have been the main source of growth in world demand and trade for agricultural products. Food consumption and feed use are particularly responsive to income growth in these countries, where movement away from staple and/or traditional foods towards increased dietary diversification is occurring. Demand from developing countries is further driven by population growth rates which are nearly double those of developed countries.

Key Drivers in Demand for Agricultural Products

Population growth

Population growth continues to outpace food availability in many countries. Pressure is therefore being placed on the utilisation of arable land in order to provide adequate supplies of food and animal feed. According to United Nations projections, the world's population is expected to reach 7.3 billion people in 2015 and 9.1 billion by 2050 from its 2010 level of 6.9 billion. As the world population continues to expand, the challenge of feeding human and animal populations will increase and prices of agricultural commodities are likely to grow.

Global Economic Growth

According to the IMF, global real GDP is expected to grow by 4.8% and 4.2% in 2010 and 2011, respectively. Advanced economies (defined by the IMF to include the United States, the Euro zone, Japan, the United Kingdom and Canada) are projected to grow at average rates of 2.7% and 2.2% in 2010 and 2011, respectively. Over the same periods, emerging and developing economies (defined by the IMF to include Africa, Central and Eastern Europe, developing Asia, the Middle East and emerging countries from the Western Hemisphere) are expected to grow at 7.1% and 6.4%, respectively. While developing countries have been affected by the global recession to different degrees, many have shown the strongest recovery. Management expects that as the global economy recovers, renewed growth in the demand for primary commodities and an increase in world commodity prices will occur. Economic growth in developing economies has also resulted in growth in disposable income, allowing people in these economies to increase their food consumption. As a result of these trends, world agricultural commodity prices have increased.

Climate Change

Climate change and climate variability present a challenge to ecologically, economically and socially sustainable land management. Drought, floods and temperature fluctuations due to climate change can directly affect agricultural operations through damage to crops and livestock. Indirect effects of climate change include higher soil erosion rates, an increase in invasive species and changes in soil and vegetative relationships. In 2010, Russia recorded the highest temperatures seen in 130 years of recordkeeping, experienced the most widespread drought in more than three decades and endured massive wildfires that stretched across seven regions of the country.

A study by researchers at the Lawrence Livermore National Labs and Stanford University compared yields for the world's six main staple crops (wheat, rice, corn, soybeans, barley and sorghum) and found a 3% to 5% decline for every one degree of temperature increase. These six crops account for at least 55% of non-meat calories consumed by people globally and more than 70% of the world's animal feed.

Rising global temperatures, as well as soil erosion, are therefore likely to constrain the growth of agricultural production. However, Management believes that "black earth" agricultural regions may be better placed to withstand the effects of climate change and soil erosion than other agriculturally productive regions because of the highly fertile nature of the soil.

Scarcity of Arable Land and Water

Globally, the amount of arable land available per person has fallen steadily over recent decades, even taking into account the amount of land converted to agricultural use from forest cover, from 0.39 hectares per person in 1960 to 0.21 hectares per person in 2007, despite large-scale deforestation bringing more cropland into production over the same period.

Reductions in the amount of land available for arable crops has been offset by improved yields on the land that is available. As a result, even as arable land per capita almost halved from 1960 to 2007, global food production was able to keep pace with the world's growing population, thanks to the "Green Revolution", which saw use of new greater yielding seed varieties, increased use of fertiliser and expanded irrigation between the 1940s and the late 1970s, that increased agricultural production around the world. However, this productivity growth has fallen significantly since 1970 as scarcity trends, particularly for water, have resulted in a more resource-efficient approach to agriculture.

Availability of water is likely to be the most important scarcity issue affecting food production in the short term. As population and average per capita water use have grown, so the amount of fresh water withdrawn globally each year has grown, from 579 cubic kilometres in 1900 to 3,973 cubic kilometres in 2000. Demand is projected to rise further to 5,235 cubic kilometres in 2025. Much of the increase in demand has come from agriculture, which today accounts for approximately 70% of human water use, with the majority used for irrigation. Demand is also growing from industrialisation and growth of the world's cities. Unsustainable rates of water extraction from both rivers and groundwater are already a major global problem. Approximately 1.2 billion people live in areas where human use has exceeded sustainable limits and by 2025 this figure is expected to rise to 1.8 billion, with up to two thirds of the world's population living in water-stressed conditions. Conversely, others are likely to suffer from too much water, often because of poor drainage or flooding, with land becoming waterlogged, salts building up in soil and fertility decreasing, which could affect 10% to 15% of irrigated land. Land degradation has also had an adverse impact on agricultural productivity due to declines in land quality as a result of erosion or the build up of sedimentary deposits and other factors.

Rising Life Expectancy

Average life expectancy in the world is rising. Global life expectancy at birth, which is estimated by the United Nations to have risen from 58 years in 1970-1975 to 67 years in 2005-2010, is expected to continue to rise to reach 75 years in 2045-2050 according to United Nations data. In more developed regions, the UN projects an increase from 77 years life expectancy today to 82 years life expectancy by mid-century, and in the less developed regions an increase from 65 years life expectancy in 2005-2010 to 74 years life expectancy in 2045-2050. Increases in life expectancy will also increase food consumption demand.

Growth in Global Livestock Markets

Increasing global meat consumption has driven an increase in livestock production. This increase in livestock production has subsequently led to an increase in demand for grain for animal feed. Extra livestock production requires large areas of farmland and water to provide the requisite animal feed. According to Food and Agricultural Policy Research Institute data, annual meat consumption per capita in Russia increased by 53% between 2000 to 2010, reaching 56 kilograms. Meat consumption in Ukraine also increased by 59% between 2000 to 2010 and reached 44 kilograms per capita. This trend is expected to continue.

Biofuel Demand

Rising oil prices, environmental concerns and a trend towards diversification of energy supplies have made many countries adopt policies that promote and encourage the use of biofuels as an alternative energy source. An increase in the production of biofuels has led to an increase in demand for end feedstocks and has further driven high agricultural commodity prices. Biofuels, which is a general term for both bioethanol and biodiesel, are produced mainly from feedstocks such as corn and sugarcane in the case of bioethanol and from rapeseed and soybean oil in the case of biodiesel. Other feedstocks being used include barley, wheat, rye, wine, and cassava for ethanol production and a variety of other first-use vegetable oils and recycled oils and fats from the food industry for biodiesel. Each country producing such fuels is subsidising its own crop mixture to produce biofuels efficiently. Investment in biofuel production capacity is occurring in many countries. USDA projections assume that the most significant increases in foreign biofuel production over the next decade will be in the European Union, Brazil, Argentina and Canada. Land that would be used for agricultural production is therefore increasingly used to produce biofuels.

Arable and Harvested Land

According to the Food and Agriculture Organisation of the United Nations ("**FAO**"), some 11% (approximately 1.5 billion hectares) of the Earth's land surface (approximately 13.4 billion hectares) is used in crop production. This area represents slightly over a third (36%) of the land estimated to be, to some degree, suitable for crop production.

Agricultural land refers to the share of land area that is arable, under permanent crops or under permanent pastures, each as determined by the criteria set by the FAO. According to the FAO, in 2008, the world's total area of agricultural land amounted to 4,884 million hectares, while total arable land was estimated to be 1,381 million hectares. Arable land includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens and land temporarily fallow. Land abandoned as a result of shifting cultivation is excluded. Russia's total area of arable land amounts to approximately 122 million hectares (8.8% of the world's total arable land) and Ukraine's total area of arable land is estimated to be 32 million hectares (2.3% of the world's total arable land).

According to the USDA, total global crop area harvested decreased from 894 million hectares in the 1996/1997 agricultural year to 859 million hectares in the 2002/2003 agricultural year and subsequently grew annually at an average rate of 0.4%, to reach 933 million hectares in the 2010/2011 agricultural year. Increases in global agricultural production have therefore resulted mainly from gains in productivity per hectare rather than from increases in arable acreage.

The following table shows the total area of wheat harvested in major wheat producing countries during the period from the 2004/2005 agricultural year to the 2010/2011 agricultural year:

Wheat harvested area	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	Million hectares						
Argentina	6.4	5.5	6.2	6.6	5.3	3.7	4.3
Australia	13.4	12.5	11.8	12.6	13.5	14.0	13.4
Canada	9.4	9.4	9.7	8.6	10.0	9.6	8.3
China	21.6	22.8	23.6	23.7	23.6	24.3	24.3
European Union	26.0	25.8	24.5	24.7	26.7	25.7	25.9
India	26.6	26.5	26.4	28.0	28.2	27.8	28.5
Kazakhstan	12.0	12.6	12.4	12.9	13.5	14.8	14.5
Russia	**24.0**	**25.4**	**23.6**	**24.4**	**26.7**	**28.7**	**26.6**
Ukraine	**5.9**	**6.6**	**5.5**	**6.0**	**7.1**	**6.8**	**6.3**
United States	20.2	20.3	18.9	20.6	22.5	20.2	19.3
World	217.6	219.7	213.3	217.9	225.3	226.5	221.8

Source: USDA

From the 1960/1961 agricultural year to the 2010/2011 agricultural year, the total area devoted to wheat production worldwide increased by approximately 10%. The total area devoted to wheat production worldwide has remained generally unchanged over the past decade, generally fluctuating within an annual range of 1% to 3%. However, the area devoted to wheat production in Russia and Ukraine increased during the period from the 2006/07 agricultural year to the 2009/2010 agricultural year by 22% and 23%, respectively, reaching approximately 28.7 million hectares in Russia and approximately 6.8 million hectares in Ukraine. Due to unfavourable weather conditions, the total area devoted to wheat production declined by 7% in both Russia and Ukraine during the period from the 2009/2010 agricultural year to the 2010/2011 agricultural year, falling to approximately 26.6 million hectares in Russia and to approximately 6.3 million hectares in Ukraine.

The total global area devoted to sunflower seed production increased by 14% over the last decade, while the total global area devoted to rapeseed production increased by 30% during the same period.

Global Production and Stock Levels

The USDA's data shows that between the 2000/2001 agricultural year and the 2010/2011 agricultural year, total tonnage of global crop production increased 56% for rapeseed, 38% for corn, 32% for sunflower seed and 11% for wheat. Total tonnage of global production of barley decreased by 6% during the same period.

With respect to the 2010/11 agricultural year, wheat production declined by 5% in comparison with the 2008/09 agricultural year. Wheat consumption has risen from the 2008/09 agricultural year to the 2010/11 agricultural year by a compound annual growth rate (or CAGR) of 1.7%. Wheat ending stocks decreased by 8% from the 2009/10 agricultural year to the 2010/11 agricultural year.

According to the USDA, sunflower production, consumption and ending stocks have declined between the 2008/2009 agricultural year and the 2010/11 agricultural year by a CAGR of 3.7%, 3.7% and 22.1%, respectively. Over the same period, rapeseed production and consumption have grown by a CAGR of 0.6% and 5.4%, respectively, and ending stocks have declined by a CAGR of 13%, as shown in the table below:

Global output, consumption and ending stocks	**2008/09**	**2009/10**	**2010/11**	**CAGR 2008/09-2010/11**
		(million tonnes)		
Wheat production	682.2	683.8	647.6	-2.6%
Wheat consumption	641.5	652.6	663.0	1.7%
Wheat ending stocks	166.7	197.9	182.5	4.6%
Sunflower seed production	33.3	30.5	30.9	-3.7%
Sunflower seed consumption	31.3	31.8	30.7	-3.7%
Sunflower seed ending stocks	2.8	1.5	1.7	-22.1%
Rapeseed production	57.9	60.6	58.6	0.6%
Rapeseed consumption	54.8	59.8	60.9	5.4%
Rapeseed ending stocks	6.6	7.4	5.0	-13.0%

Source: USDA, FAPRI

Agricultural Yields and Yield Improvements

Global growth in agricultural productivity has been a more significant contribution to production increases than the expansion of the area planted. Gains in crop yields in recent decades are largely attributable to genetic improvements and the increased use of fertiliser, crop protection products and irrigation.

According to the USDA, global aggregate grain yield growth more than doubled from the 1960/1961 agricultural year to the 2010/2011 agricultural year, as shown in the table below.

Wheat yields development 1960-2010

			(tonnes per hectare)			
	1960/61	**1970/71**	**1980/81**	**1990/91**	**2000/01**	**2010/11**
Argentina	1.1	1.33	1.55	1.9	2.49	3.49
Australia	1.37	1.22	0.96	1.63	1.82	1.95
Canada	1.42	1.79	1.74	2.28	2.42	2.8
China	0.78	1.15	1.89	3.19	3.74	4.71
European Union	1.84	2.47	3.84	4.83	4.98	5.26

Wheat yields development 1960-2010

	(tonnes per hectare)					
	1960/61	**1970/71**	**1980/81**	**1990/91**	**2000/01**	**2010/11**
India	0.77	1.21	1.44	2.12	2.78	2.83
Kazakhstan	-	-	-	1.15	0.87	0.67
Russia	-	-	-	**2.05**	**1.49**	**2.10**
Ukraine	-	-	-	**4.02**	**1.98**	**2.90**
United States	1.76	2.08	2.25	2.66	2.82	3.12
World	1.15	1.48	1.84	2.54	2.67	2.92

Source: USDA, Rosstat, Ukrstat

Over the same period, the global harvested area of wheat increased by only 10%.

However, there have been significant regional differences in the pace of global agricultural productivity improvement. In developed countries, there have been a wide range of technical advances in agricultural industry genetic improvement, use of chemical fertilisers and pesticides and improvements in farm equipment and machinery and management practices. Yields have largely stabilised in developed countries with there being limited potential, barring technological or scientific developments, for future large-scale yield increases. For example, according to the USDA, global wheat yield grew by a CAGR of 2.7% between 1960 and 1990 but only by a CAGR of 0.7% between 1990 and 2010. With respect to developing countries, such technical advances have not generally taken place to the same extent. For example, the agricultural sector in Russia and Ukraine has only recently started to emerge from years of underinvestment dating from the Soviet period and therefore optimal yield potential has not been realised in most instances.

Growth of Agriculture Product Prices

During the period from the 2003/2004 agricultural year to the 2010/2011 agricultural year, global prices for wheat, corn and barley have significantly increased above the rate of cumulative worldwide inflation for this period of 31%, as shown in the following table:

Growth of agriculture product prices

	(USD per metric tonnes)		
	2003/04	**2010/11**	**Change %**
Wheat[(a)]	145	201	39%
Rice[(b)]	330	425	29%
Sunflower seed[(c)]	325	422	30%
Rapeseed[(d)]	320	409	28%
Soybean[(e)]	312	382	22%
Corn[(f)]	104	168	62%
Barley[(g)]	92	132	43%
Sugar[(h)]	460	552	20%

Source: FAPRI

Notes: (a) U.S. FOB Gulf, (b) FOB U.S. Houston, (c) CIF Lower Rhine Price, (d) CIF Hamburg, (e) CIF Rotterdam, (f) FOB Gulf, (g) Canada Feed, (h) New York spot

World market prices for major food commodities have risen sharply during the last two years. During the period from January 2000 and April 2011, the wheat future price grew by a CAGR of 10.9% and the FAO food price index, a measure of the monthly change in international prices of a basket of food commodities, grew by a CAGR of 9%. Many factors have contributed to this increase in food commodity prices. Generally there has been slower growth in production and more rapid growth in demand for grains and oilseeds over the last decade. Recent factors that have further tightened world markets include increased global demand for biofuels and feedstocks and adverse weather conditions in some major grain and oilseed-producing areas. Other factors that have added to global food commodity price inflation include the declining value of the U.S. dollar, rising energy prices, increasing agricultural costs of production, growing foreign exchange holdings by major food importing countries, and policies adopted recently by some exporting and importing countries to mitigate domestic food price inflation.

Global Trade and Food Security

USDA data indicates that international trade in wheat accounts for only 19% of global wheat production, as most countries are able to meet their food needs through domestic production. According to the USDA, in the 2008/2009 agricultural year, wheat exports grew significantly by 22% in comparison with the 2007/2008 agricultural year. During the 2009/2010 agricultural year and the 2010/2011 agricultural year, global wheat exports declined by 5% and 9%, respectively, and reached approximately 123 million tonnes in the 2010/2011 agricultural year. Traditional exporters of a wide range of agricultural commodities, such as Argentina, Australia, Canada, the European Union and the United States, are expected to remain significant participants in the global trade for such commodities in the coming decade. In addition, countries that are making significant investments in their agricultural sectors and increasingly pursuing policies to encourage agricultural production, including Brazil, Russia, Ukraine and Kazakhstan, are expected to have an increasing presence in export markets for basic agricultural commodities.

From 2004 to 2010, Russia and Ukraine have been ranked among the top eight global wheat exporters. Russian and Ukrainian combined wheat exports in the 2008/2009 agricultural year and the 2009/2010 agricultural year accounted for 22% and 21%, respectively, of total global exports. Export restrictions imposed by Russian and Ukrainian authorities in 2010 resulted in the reduction of their combined share of the global wheat export market to 6% in the 2010/2011 agricultural year. The following table shows the quantity of wheat exported from major wheat producing countries during the period from the 2004/05 agricultural year to the 2010/2011 agricultural year:

Wheat export	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	(million tonnes)						
Argentina	11.9	9.6	10.7	11.2	6.8	5.1	8.5
Australia	14.7	16.0	8.7	7.5	14.7	14.8	13.5
Canada	14.9	16.0	19.4	16.1	18.8	19.0	17.5
European Union	14.7	15.7	13.8	12.3	25.3	22.1	21.0
Kazakhstan	3.0	3.8	8.1	8.2	5.7	7.9	5.0
Russia	**8.5**	**10.7**	**10.8**	**12.2**	**18.4**	**18.6**	**4.0**
Ukraine	**4.4**	**6.5**	**3.4**	**1.2**	**13.0**	**9.3**	**4.0**
United States	29.0	27.3	24.7	34.4	27.6	24.0	34.7
World	111.8	117.0	111.8	117.3	143.7	135.8	123.1

Source: USDA

Ukraine is the largest exporter of sunflower seeds in the world, while Russia is among the top five global sunflower seed exporters. Their combined share of the global sunflower seed export market in the 2008/2009 agricultural year and 2009/2010 agricultural year amounted to 63% and 68%, respectively. In the 2010/2011 agricultural year, the combined Russian and Ukrainian share of the global sunflower seed export market decreased to 62% due to adverse weather conditions. The following table shows the quantity of sunflower seeds exported from major sunflower seed producing countries during the period from the 2004/2005 agricultural year to the 2010/2011 agricultural year:

Sunflower seed export	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	(million tonnes)						
Argentina	1,176	1,221	853	1,219	850	690	950
EU	184	128	147	109	120	150	130
Russia	**226**	**616**	**711**	**322**	**802**	**504**	**170**
Turkey	22	99	34	54	131	68	60
Ukraine	**642**	**1,514**	**1,867**	**1,325**	**2,098**	**2,645**	**2,500**
World	2,572	3,907	4,038	3,484	4,568	4,651	4,329

Source: USDA

The diversity of exporting countries provides significant stability to world wheat trade and prices. Most of the world's wheat production is grown as winter wheat in the Northern Hemisphere, but Canada, Kazakhstan, Russia and the United States have large spring wheat production, which is planted much later. Moreover, in the Southern Hemisphere, Australia and Argentina plant after the Northern Hemisphere's spring wheat. With wheat being planted and harvested at different times, countries can respond quickly to changing market conditions.

While a handful of nations dominate wheat exports, there are many wheat-importing countries. A few countries account for a large share of world wheat imports, including Japan, South Korea and Brazil, as well as the European Union. However, most wheat exports are imported by developing countries with limited production potential. Population growth in Egypt, Algeria, Iraq, Brazil, Mexico, Indonesia, Nigeria and other developing countries will be the basis of future expansion of world wheat trade. The principal export markets for grain and oilseeds originating in Russia and Ukraine include Egypt, Turkey, Saudi Arabia and Jordan.

Food export and import flows are increasingly driven by governmental policies to maintain food security. Food security in 70 developing countries is estimated by USDA to have improved between 2009 and 2010, in part due to economic recovery in many of these countries. According to USDA projections, the number of "food-insecure" people in developing countries is estimated to have decreased from 953 million in 2009 to 882 million in 2010 (or by 7.5%). "Food-insecure" people are defined as those consuming less than the nutritional target of 2,100 calories per day per person. However, the aggregate number of food-insecure people will not improve much over the next decade, declining by approximately only 1%. While there will be notable improvements in Asia and Latin America, the situation in Sub-Saharan Africa is projected to deteriorate. In response to this trend, countries such as Kazakhstan and China have adopted measures (including export taxes or holding additional grain reserves) to control food security and guarantee self-sufficiency.

Agricultural Chemicals

Current fertiliser consumption levels in Russia are very low in comparison with consumption levels in 1990. However, in the seven years from 2002 to 2009, the proportion of fertilised to unfertilised arable land increased from 30.1% in 2002 to 45.4% in 2009 and the volume of drilled fertiliser increased from 1.5 million tonnes to 2.4 million tonnes over the same period. At the same time, fertiliser consumption in Russia increased significantly from 19 kg/ha in 2000 to 36 kg/ha in 2009.

In Ukraine, use of mineral fertilisers in agriculture started to increase from the mid-1960s onwards. From 1966 to 1970, an average of 1.4 million tonnes (or 46 kg/ha) of fertiliser was applied annually. In the second half of the 1980s, this figure reached 4.0 to 4.7 million tonnes of fertiliser. According to official statistics, Ukrainian fertiliser consumption fell from 4.2 million tonnes in 1990 to 0.4 million tonnes in 1999. This fall was due to unfavourable economic conditions in the Ukranian agricultural sector. During the last decade, however, fertiliser consumption in Ukraine grew significantly from 13kg/ha in 2000 to 48 kg/ha in 2009.

The table set out below illustrates comparative average fertiliser consumption in selected countries in 2007:

Country	**Fertiliser consumption, kilograms per hectare**
United Kingdom	254.6
Poland	212.6
France	207.8
Germany	194.2
United States	171.2
India	142.3
World	**129.4**
Austria	113.9
Canada	105.3
Argentina	55.2
Ukraine	32.7
Russian Federation	14.1

Source: World Bank, 2007

Agricultural Machinery

According to United States Agency for International Development estimates, the current level of physical depreciation (being the decline in the productive or service capability of a capital asset due to the effects of the environment and gradual physical deterioration from age, use, and/or weathering) of agricultural machinery and equipment is about 70-90% in Russia and 70-80% in Ukraine. Replacement of obsolete agricultural machinery and equipment with high-quality agricultural machinery and equipment has a positive effect on agricultural productivity in both countries. The table below illustrates comparative average quantities of tractors per 100 square kilometres of arable land in selected countries in 2007:

Country	Tractors per 100 km^2
Austria	2,393.6
Poland	1,242.5
United Kingdom	728.0
Germany	646.0
France	615.7
United States	257.6
India	198.5
World	**195.3**
Canada	162.6
Ukraine	103.9
Russian Federation	33.4

Source: World Bank, 2007

Russian and Ukrainian Agricultural Markets

Russia and Ukraine have favourable climates for large scale agriculture, rich agricultural soils and access to abundant land and water resources. Russia comprises approximately 10% of the world's arable land. It has approximately 215 million hectares of agricultural land, being 17% of the country's total surface area. 57% of agricultural land in Russia is arable.

The agricultural area of Ukraine totals approximately 41 million hectares or about 69% of the country's total surface area. 78% of Ukrainian agricultural land is arable land. In comparison, this figure is only 57% for the European Union. Due to Ukraine's favourable geographic location and its diversified system of railway, road, and sea transport, Ukraine serves as a transit country for cargo from many different countries and has easy access to foreign markets.

The table below compares the agricultural areas of Russia and Ukraine to other selected countries as at 2008:

Country	Total agricultural area, (million ha)	Arable land, (million ha)
China	523	109
United States	411	171
Brazil	265	61
Russia	**215**	**122**
EU	190	109
India	180	158
Argentina	133	32
Canada	68	45
Ukraine	**41**	**32**
France	29	18
United Kingdom	18	6
Germany	17	12
Poland	16	13
World	**4,884**	**1,381**

Source: FAO

Climate

Russia has a highly continental influenced climate with warm to hot dry summers and cold winters with low temperatures and snowfalls varying from region to region. The regions where the Group operates in Russia include Stravropol, Krasnodar and Rostov.

Stavropol experiences a humid continental climate and hot summers. Precipitation is comparatively low compared with other regions in Russia, with an annual average of 571 millimetres. The average annual temperature in Stavropol usually ranges from +14°C to +28°C in summer and from -7°C to +3°C in winter.

The climate in the Krasnodar region varies from temperate continental to subtropical. Average winter temperatures range from -8°C in the mountains (above 2000m) and -4°C on the plains to +5°C on the seacoast. Average summer temperatures vary from +13°C in the mountains to +23°C on the plains and coast. Precipitation ranges from 400 millimetres to 3,200 millimetres annually with the higher amounts prevalent in mountain regions.

The climate of Rostov is humid and continental. The winter is cold with average temperatures in January ranging from −7°C to +2°C. The summer is hot and continuous with average temperatures ranging from +16°C to +29°C. Precipitation is approximately 618 millimetres annually.

Ukraine has a milder climate and is highly suitable for agricultural production. Seasonal changes are evident throughout the year. Average annual precipitation is about 500 millimetres, including approximately 300 millimetres that fall during the growing season (from April to October), which makes it ideal for the cultivation and seeding of both winter and spring crops of wheat, sunflower and corn.

The average annual temperature in Ukraine usually ranges from +20°C to +25°C in summer and from -10°C to -3°C in winter. Above-average snow cover protects most winter crops from sudden frosts. Snow generally covers the ground for 70-90 days in most areas, from early December to the end of February, but sometimes lasting until April.

Soil

The two main belts of soil comprising humus-rich *chernozem* ("black earth") in the world are located in Ukraine, through southern Russia and into Siberia, as well as and in the Canadian Prairies. Chernozem areas, which are characterised by an enriched humus layer of between approximately 40 to 60 centimetres, are the highest-quality black soils in the world. The average depth of the humus layer in both Russia and Ukraine is approximately 50 centimetres. The land's high percentage of humus enables it to generate high agricultural yields. Roughly one-third of the worldwide stock of chernozem is located in Ukraine.

Winter wheat and spring barley are the predominant grains in western Russia, each comprising roughly 25% of the regional total grain area. Winter wheat, the region's most profitable grain, is grown mainly in the fertile chernozem zone, which includes the Southern district, the southern tier of the Central district, and the southern and central Volga district. Sunflowers and corn are grown throughout Russia but chiefly in the Southern district. In the

Rostov region, 65% of land benefits from chernozem soil with an enriched humus layer of up to 150 centimetres. Krasnodar's and Stavropol's soil is also primarily chernozem, although Stavropol's soil typically has a lower percentage of humus, with a depth of approximately 30 centimetres.

Chernozem areas and related soils occupy 44% of Ukraine's surface and 62% of its agricultural land. The Kyiv, Vinnytsia, Mykolaiv, Sumy, Poltava and Cherkasy regions all have intensively cultivated chernozem areas with fertile soils and favourable moisture conditions for the production of wheat and sunflowers. The Poltava region, on average, has a humus layer of more than one metre.

Russian and Ukrainian Crop Markets

Wheat

Wheat, which includes both high yielding winter wheat and lower yielding spring varieties, is one of the most produced grains in the world with total production of 647.6 million of tonnes produced in the 2010/2011 agricultural year, down 5.3% from the 2009/10 agricultural year.

Globally, wheat is the leading source of vegetable in food for human consumption, having a higher protein content than corn or rice, the other major grains. The following table shows wheat production levels in the principal wheat producing countries for the agricultural years 2008/2009 to 2010/11:

	Agricultural year					
Wheat production by country	**2008/09**		**2009/10**		**2010/11**	
	million tonnes	*% by country*	*million tonnes*	*% by country*	*million tonnes*	*% by country*
EU-27	151.1	22%	138.1	20%	136.1	21%
China	112.5	16%	115.1	17%	114.5	18%
India	78.6	12%	80.7	12%	80.8	13%
US	68.0	10%	60.4	9%	60.1	9%
Russia	**63.8**	**9%**	**61.7**	**9%**	**41.5**	**6%**
Australia	21.4	3%	21.9	3%	26.0	4%
Pakistan	21.0	3%	24.0	4%	23.9	4%
Canada	28.6	4%	26.8	4%	23.2	4%
Turkey	16.8	2%	18.5	3%	17.0	3%
Ukraine	**25.9**	**4%**	**20.9**	**3%**	**16.8**	**3%**
Others	94.6	14%	115.7	17%	107.7	17%
World	**682.2**	**100%**	**683.8**	**100%**	**647.6**	**100%**

Source: USDA

Wheat is the most utilised cereal produced in Russia, Ukraine, the CIS and Europe. It is grown throughout Ukraine and many parts of Russia. Russia and Ukraine are typically wheat exporting countries given that production, except in instances of extreme weather conditions or natural disaster, has historically been greater than domestic demand. Wheat grain is a staple food and used, for example, to make flour and fermented to manufacture beer, alcohol or biofuel. Wheat is also planted to a limited extent as a forage crop for livestock. The quality of wheat (for example, milling wheat or wheat fodder) is affected by a number of factors, including weather conditions, the quality and variety of grain seeds and the type and use of technology, fertilisers and chemical plant protection.

After two consecutive bumper harvests in the 2008/09 agricultural year and the 2009/10 agricultural year, wheat prices returned to relative calm after prices grew dramatically in the 2007/2008 agricultural year due to fears of imminent shortages. Producers responded to higher prices by charging up to USD 313 per tonne while demand growth was subdued due to the economic crisis. In consequence, wheat stocks reached levels not seen since a decade ago as prices declined and became less volatile. However, the severe Russian and Ukrainian drought of the 2010 summer led to a significant decrease in wheat production in the 2010/2011 agricultural year as compared to the 2009/2010 agricultural year, with production decreasing 33% in Russia and 19% in Ukraine. Despite this, the combined Russian and Ukrainian wheat harvest amounted to 58.4 million tonnes in the 2010/2011 agricultural year, being 9% of total world production, making the combined region the fifth largest producer of wheat in the world for this period.

Wheat accounts for over half of Russia's grain production, with average annual output of approximately 47 million tonnes. Planted area typically ranges from 23 to 26 million hectares. Winter wheat comprises about one-third of the total wheat area but only half of total production because of its higher yield. Roughly 70% of Russia's wheat is classified as food-grade, or milling quality, and 30% as feed-grade for animal feed.

Russia is traditionally the third largest wheat exporter in the world. The combination of reduced feed demand and several bumper crops since 2001 led to sharply increased Russian wheat exports and lower imports. However, due to the summer drought experienced in 2010, Russia banned wheat exports for the 2010/2011 agricultural year and had to import one million tonnes of wheat. As a result, domestic wheat prices increased significantly to RUB 7,045 per tonne in January 2011 compared to RUB 3,598 per tonne in March 2010. However, increases in domestic wheat prices in Russia have slowed and prices even declined to RUB 6,650 in March 2011 after the Russian government intervened in the market and started selling wheat at below market prices. Experts forecast that the Russian grain crop in the 2011/2012 agricultural year will be between 75 and 85 million tonnes. The Russian export ban on wheat is to be lifted on 1 July 2011. See "- *State Support for Agricultural Producers in Russia and Ukraine – Export Controls and Other Market Intervention*".

Approximately 95% of wheat produced in Ukraine is winter wheat. Wheat yield production declined during the 1990's following the breakup of the Soviet Union and the loss of heavy state subsidies for agriculture. Due to a combination of favourable weather conditions and a modest but steady improvement in the financial condition of many farms, wheat production improved in recent years, with the exception of the 2003/2004 agricultural year due to extreme weather conditions.

The drop in yields in the 2009/2010 and 2010/2011 agricultural years is due to the non-recurrence of unusually favourable weather conditions in the 2008/2009 agricultural year, which led to significant increases in production.

Russia and Ukraine are leaders in wheat production growth, with production increasing 20% in Russia and 65% in Ukraine during the period from the 2000/2001 agricultural year to the 2010/2011 agricultural year. Production growth for the same period was 15% in China and 6% in India, while US production declined by 1%. The following tables show the growth trend in Russian and Ukrainian wheat production and consumption from the 1990/1991 agricultural year to the 2010/2011 agricultural year:

Historic wheat production in Russia

		1990 /91	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010/ 11
Production	million tonnes	49.6	46.9	50.6	34.1	45.4	47.7	44.9	49.4	63.8	61.8	41.5
Yield	tonnes/ha	-	-	-	-	1.9	1.9	1.9	2.0	2.4	2.5	2.1
Consumption	million tonnes	57.3	37.1	38.3	35.5	37.4	38.4	36.4	37.7	38.9	42.0	47.5
Prices(1)	USD	-	-	-	-	129	129	188	313	206	177	n/a

Source: USDA, Bloomberg,Rosstat, SovEcon
(1) Wheat four class FOB Novorossiysk prices.

Historic wheat production in Ukraine

		1990 /91	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009/ 10	2010/ 11
Production	million tonnes	30.4	21.3	20.6	3.6	17.5	18.7	14.0	13.9	25.9	20.9	16.8
Yield	tonnes/ha	-	-	-	-	3.2	2.9	2.5	2.3	3.7	3.1	2.9
Consumption	million tonnes	28.0	13.5	14.5	9.0	11.7	12.5	11.7	12.3	11.9	12.3	11.6
Prices	USD	-	-	-	-	109	112	147	252	159	137	181

Source: USDA, Bloomberg, Apk-inform, Ukrstat

Barley

World production of barley reduced by 3.6% in the 2010/2011 agricultural year compared to the 2009/2010 agricultural year as a result of a reduction of the sowing area for barley and adverse weather conditions in some countries. Drought in Russia and Ukraine destroyed a large part of the barley harvest. Production in Russia fell very considerably during the 2010/2011 agricultural year and ended up comprising only 7% of the world's total production, from 12% in the 2009/2010 agricultural year. The following table shows barley production levels in the principal barley producing countries for the agricultural years 2008/2009 to 2010/11:

	Agricultural year					
Barley production by country	**2008/09**		**2009/10**		**2010/11**	
	million tonnes	*% by country*	*million tonnes*	*% by country*	*million tonnes*	*% by country*
EU-27	65.5	42%	62.0	41%	53.2	43%
Australia	8	5%	7.9	5%	9.8	8%

Barley production by country	Agricultural year 2008/09		2009/10		2010/11	
Ukraine	**12.6**	**8%**	**11.8**	**8%**	**8.5**	**7%**
Russia	**23.1**	**15%**	**17.9**	**12%**	**8.3**	**7%**
Canada	11.8	8%	9.5	6%	7.6	6%
Turkey	5.7	4%	6.5	4%	5.9	5%
US	5.2	3%	4.9	3%	3.9	3%
Iran	2.0	1%	2.6	2%	3.1	2%
China	2.8	2%	2.5	2%	2.4	2%
India	1.2	1%	1.7	1%	1.3	1%
Others	9.8	6%	10.6	7%	9.6	8%
World	**155.6**	**100%**	**149.6**	**100%**	**124.7**	**100%**

Source: USDA

In Russia, barley production currently does not exceed the historic levels reached in the Soviet Union, and in the 2010/2011 agricultural year it fell to almost half the level of production in the 2009/2010 agricultural year due to extremely bad weather conditions. Russian domestic demand for barley is fulfilled entirely by domestic production. The principal regions of barley production are concentrated in the south-western part of Russia. The Russian domestic price of barley has increased by almost three times, from RUB 2,545 per tonne to RUB 6,937 per tonne, from the 2009/2010 agricultural year to the 2010/2011 agricultural year.

In Ukraine, barley is the second largest grain crop after wheat. Current barley production levels exceed levels recorded during the years of the Soviet Union. The crop is grown in all geographical regions and is mostly spring-sown. Barley can be used to substitute damaged winter wheat fields. The rapid development of the beer industry has stimulated demand for high quality barley, but the share of malting barley in total barley volume remains low, at less than 10%.

The following tables show the trend in Russian and Ukrainian barley production and consumption from the 1990/1991 agricultural year to the 2010/2011 agricultural year:

Historic barley production in Russia

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	27.2	19.5	18.7	18.0	17.2	15.8	18.1	15.7	23.1	17.9	8.3
Yield	tonnes/ha	-	-	-	-	3.6	3.2	3.6	3.8	4.1	3.7	3.7
Consumption	million tonnes	30.5	14.3	15.5	18.6	16.5	15.5	16.4	15.1	17.1	16.8	9.8
Prices(1)	USD	-	-	-	-	120	127	165	296	167	136	n/a

Source: USDA, Bloomberg, Rosstat, SovEcon
(1) Barley FOB Novorossiysk prices.

Historic barley production in Ukraine

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	9.2	10.2	10.4	6.9	11.1	9.0	11.4	6.0	12.6	11.8	8.5
Yield	tonnes/ha	-	-	-	-	2.5	2.1	2.1	1.5	3.0	2.5	2.1
Consumption	million tonnes	9.3	7.0	7.4	6.4	6.5	5.3	6.3	5.0	5.9	5.7	5.2
Prices	USD	-	-	-	-	97	112	142	214	131	104	192

Source: USDA. Apk-inform

Corn

According to the USDA, corn is the second largest globally produced grain and has a wide variety of uses, including, among others, baking, food ingredients and beverage production. Corn is also used as a source of starch and cooking oil. It is widely grown as nourishment for livestock, as forage, silage or grain. Globally, production of corn grew insignificantly in the 2010/2011 agricultural year as compared to the 2009/2010 agricultural year (0.2%) with the United States continuing to be its largest producer (39% of total production). The following table shows corn production levels in the principal corn producing countries for the agricultural years 2008/09 to 2010/11:

	Agricultural year					
Corn production by country	**2008/09**		**2009/10**		**2010/11**	
	million tonnes	*% by country*	*million tonnes*	*% by country*	*million tonnes*	*% by country*
United States	307.1	38%	332.5	41%	316.2	39%
China	165.9	21%	158.0	19%	168.0	21%
EU-27	62.3	8%	57.1	7%	55.2	7%
Brazil	51.0	6%	56.1	7%	51.0	6%
Mexico	24.2	3%	20.4	3%	24.0	3%
Argentina	15.5	2%	22.8	3%	22.0	3%
India	19.7	2%	16.7	2%	21.0	3%
South Africa	12.6	2%	13.4	2%	12.5	2%
Ukraine	**11.4**	**1%**	**10.5**	**1%**	**11.9**	**1%**
Canada	10.6	1%	9.6	1%	11.7	1%
Others	77.3	10%	74.8	9%	77.8	10%
World	**798.4**	**100%**	**812.3**	**100%**	**814.3**	**100%**

Source: USDA

Russia plants millions of hectares of corn, but less than 20% is harvested for grain. The remainder is chopped for silage, usually in August. The area of silage corn declined by about 60% during the 1990's, from around ten million hectares to less than four million hectares. The level of corn cultivated for grain can fluctuate from year to year depending on the weather, with reductions in dry years, but typically ranges from 0.6 to 0.8 million hectares. The main markets for Russian corn grain are Egypt, Turkey and Israel.

Corn is the third largest fodder crop in Ukraine and has gained popularity in recent years mainly due to a growing demand from poultry and swine feed producers. During the last several years, Ukrainian corn export has shifted from Russia, Belarus, Turkey and several European Union countries to the markets of North Africa and the Middle East.

The following tables show the growth trend in Russian and Ukrainian corn production and consumption from the 1990/1991 agricultural year to the 2010/2011 agricultural year:

Historic corn production in Russia

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	2.5	0.8	1.6	2.1	3.5	3.2	3.6	4.0	6.6	4.0	3.1
Yield	tonnes/ha	-	-	-	-	3.8	3.7	3.4	2.5	3.7	3.5	3.0
Consumption	million tonnes	8.6	1.4	1.6	2.6	3.6	3.6	3.6	4.3	5.2	3.7	4.1
Prices	USD	-	-	-	-	-	155	194	296	144	150	233

Source: USDA, SovEcon, Rosstat

Historic corn production in Ukraine

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	4.7	3.6	4.2	6.9	8.8	7.2	6.4	7.4	11.4	10.5	11.9
Yield	tonnes/ha	-	-	-	-	3.9	4.3	3.7	3.9	4.7	5.1	4.6
Consumption	million tonnes	5.0	3.3	3.5	5.6	6.0	5.1	5.3	5.8	5.9	5.5	6.4
Prices	USD	-	-	-	-	-	-	-	-	140	147	191

Source: USDA, Apk-Inform

Oilseed crops

The main world oilseeds are coconut, cottonseed, palm kernel, peanut, rapeseed, soybean and sunflower seed. Rapeseed constitutes 13% of global oilseed production and sunflower seed constitutes 7% of global oilseed production.

The main oil crops produced in Russia and Ukraine are sunflower seed and rapeseed. Sunflower seed is primarily used in food production and for animal fodder, and in cosmetic formulations as an emollient, while rapeseed is grown for animal fodder, vegetable oil and bio-diesel production. The increase in demand for rapeseed in the past five years has been primarily driven by demand from European Union countries, where rapeseed oil is a common biofuel. The following tables show sunflower seed and rapeseed production levels in the principal oilseed producing countries for the agricultural years 2008/2009 to 2010/2011:

Sunflower seed production by country	**Agricultural year**		
	2008/09	**2009/10**	**2010/11**

	million tonnes	% by country	million tonnes	% by country	million tonnes	% by country
EU-27	7.1	21%	6.9	23%	6.9	23%
Ukraine	**7.0**	**21%**	**6.5**	**21%**	**6.8**	**22%**
Russia	**7.4**	**22%**	**6.4**	**21%**	**5.5**	**18%**
Argentina	2.4	7%	2.3	8%	2.8	9%
China	1.8	5%	1.6	5%	1.7	6%
United States	1.6	5%	1.4	5%	1.2	4%
Turkey	0.8	2%	0.8	3%	0.9	3%
India	1.0	3%	0.8	3%	0.7	2%
Pakistan	0.7	2%	0.7	2%	0.7	2%
South Africa	0.8	2%	0.5	2%	0.7	2%
Others	2.7	8%	2.4	8%	2.6	9%
World	**33.3**	**100%**	**30.4**	**100%**	**30.4**	**100%**

Source: USDA

Rapeseed production by country	**Agricultural year**					
	2008/09		**2009/10**		**2010/11**	
	million tonnes	*% by country*	*million tonnes*	*% by country*	*million tonnes*	*% by country*
EU-27	19.0	33%	21.6	36%	20.3	35%
China	12.1	21%	13.7	23%	12.8	22%
Canada	12.6	22%	12.4	20%	11.9	20%
India	6.7	12%	6.4	11%	7.0	12%
Australia	1.8	3%	1.9	3%	2.2	4%
Ukraine	**2.9**	**5%**	**1.9**	**3%**	**1.5**	**3%**
US	0.7	1%	0.7	1%	1.1	2%
Russia	**0.8**	**1%**	**0.7**	**1%**	**0.5**	**1%**
Belarus	0.6	1%	0.7	1%	0.4	1%
Pakistan	0.2	0%	0.2	0%	0.2	0%
Others	0.5	1%	0.6	1%	0.6	1%
World	**57.9**	**100%**	**60.6**	**100%**	**58.4**	**100%**

Source: USDA

Sunflower seed is Russia's chief oilseed crop, and Russia is one of the world's top producers. Because of a combination of high prices, low costs of production relative to wheat and increased demand, sunflower seed has become one of the world's most consistently profitable crops.

During the last decade, sunflower production in Russia more than doubled from 2.7 million tonnes in the 2001/2002 agricultural year to 5.5 million tonnes in the 2010/2011 agricultural year. Rapeseed production in Russia more than tripled from 0.14 million tonnes 0.5 million tonnes over the same period.

In Ukraine, strong demand and relatively low production costs have resulted in sunflower seed production expanding at a CAGR of 6% from the 2001/2002 agricultural year to the 2010/2011 agricultural year, to a total production of 6.8 million tonnes, according to the

USDA. Rapeseed production increased from 0.14 million tonnes to 1.4 million tonnes over the same period. Most rapeseed is grown in the western and central regions of Ukraine and is very often used in crop rotation along with wheat and sugar beet. Historically, sunflower seed has been one of the main agricultural export crops of Ukraine.

The following tables show the growth trend in Russian and Ukrainian sunflower seed production and consumption from the 1990/1991 agricultural year to the 2010/2011 agricultural year:

Historic sunflower seed production in Russia

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	3.4	2.7	3.7	4.9	4.8	6.5	6.8	5.7	7.4	6.4	5.5
Yield	tonnes/ha	-	-	-	-	1.0	1.2	1.1	1.1	1.2	1.2	1.0
Consumption	million tonnes	3.3	2.7	3.5	4.3	4.8	6.0	6.5	5.6	6.9	6.7	5.6
Prices	USD	-	-	-	-	267	159	241	678	327	360	587

Source: USDA, Rosstat, SovEcon

Historic sunflower seed production in Ukraine

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	2.7	2.3	3.3	4.3	3.1	4.7	5.3	4.2	7.0	6.5	6.8
Yield	tonnes/ha	-	-	-	-	0.9	1.3	1.4	1.2	1.5	1.5	1.6
Consumption	million tonnes	2.6	2.2	2.9	3.2	3.1	4.6	4.9	4.1	6.3	6.2	6.4
Prices	USD	-	-	-	-	-	-	-	-	320	338	495

Source: USDA, Apk-inform

The following tables show the growth trend in Russian and Ukrainian rapeseed production and consumption from the 1990/1991 agricultural year to the 2010/2011 agricultural year:

Historic rapeseed production in Russia

		1990/91	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	million tonnes	0.26	0.14	0.12	0.19	0.28	0.30	0.52	0.63	0.75	0.67	0.50
Yield	tonnes/ha	-	-	-	-	-	-	-	-	1.8	1.8	1.9
Consumption	million tonnes	0.27	0.11	0.11	0.14	0.23	0.24	0.39	0.51	0.61	0.69	0.52
Prices	USD	-	-	-	-	-	-	-	-	409	247	341

Source: USDA, Rosstat, SovEcon

		Historic rapeseed production in Ukraine										
		1990 /91	**2001 /02**	**2002 /03**	**2003 /04**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**	**2008 /09**	**2009 /10**	**2010/ 11**
Production	million tonnes	0.08	0.14	0.06	0.05	0.15	0.29	0.60	1.10	2.90	1.90	1.47
Yield	tonnes/ha	-	-	-	-	1.4	1.5	1.7	1.3	2.1	1.8	1.7
Consumption	million tonnes	0.08	0.07	0.04	0.02	0.07	0.10	0.12	0.20	0.27	0.12	0.12
Prices	USD	-	-	-	-	-	-	-	-	367	350	497

Source: USDA, Apk-inform

Grain Storage

Grain is typically stored in elevators, grain-collecting outlets, grain-product centres or storage facilities owned by grain producers, grain storage facility operators or grain processing companies. In 2010, Russia had 1,150 elevators with a total capacity of 118.3 million tonnes. Regional markets for grain storage in Russia are becoming increasingly vertically integrated with production, storage, processing, and sales being consolidated into single operators.

As at 24 May 2011, the total capacity of Ukrainian grain elevators providing grain storage services was estimated at around 30.2 million tonnes, provided by 705 grain silos. There is no official data on total Ukrainian grain storage capacity, as grain processing plants or other private companies that store grain for their own purposes do not report their storage capacity. Based on expert estimates, current total grain silo capacities (both certified and non-certified) in Ukraine exceed 35 million tonnes, with a loading capacity of 1.4 million tonnes per day. Most grain elevators are owned by private companies, but the largest operator is the state-run SJSC “Khlib Ukrainy” which operates 105 grain handling facilities having a total grain storage capacity of approximately six million tonnes. The Ukrainian State Reserve owns 28 grain elevators but a significant majority of grain storage silos in Ukraine are privately owned. The record grain harvest in the 2008/2009 agricultural year highlighted a lack of grain storage capacity when, as a result, grain elevators were overloaded.

In early 2008, many grain production and trading companies planned to build additional grain elevators but few succeeded due to adverse economic conditions restricting finance for the same. The quality of Soviet era grain storage facilities is generally low, with limited loading capacity. For example, some grain silos with a storage capacity of 100,000 tonnes can only load ten railway cars per day. In response to both a lack of available high capacity silos and the increased fees charged by external storage facility operators, some grain producers, such as the Group, developed on-farm storage facilities as an alternative.

Agricultural Employment

According to Rosstat, in 2008, 7.8% of Russia’s working population was engaged in agricultural production, compared with 9.7% in 2005. Wages in the Russian agricultural sector tend to be much lower than average wages in Russia. The Russian rural labour unemployment rate grew from 6.1% in 2007 to 8.4% in 2009 but is forecasted to decrease to 6.8% in 2011.

Ukraine’s rural population is mostly engaged in agricultural production. Currently, Ukraine has a large surplus of labour in the agricultural industry. The Ukrainian rural labour unemployment rate increased from 6.4% in 2007 to 8.8% in 2009. As a result of this oversupply of rural labour, agricultural companies pay wage levels that are almost half the level of those paid to workers in other industries. The Ukrainian rural labour unemployment is forecasted to decrease to 7.5% in 2011.

Implications of Joining the WTO

Russia is currently negotiating to become a member of the WTO. All WTO members, except certain lesser-developed countries, are committed to reducing tariffs and subsidies on the production and export of agricultural goods. On the one hand, WTO membership is expected to offer Russia better access to world markets. However, membership is expected to result in a decline in certain manufacturing sectors, such as machinery and equipment, food processing and light and construction material industries, which are the least competitive sectors in the Russian economy.

Ukraine became a member of the WTO on 16 May 2008. This has required the country to reduce tariffs and eliminate export quotas, in accordance with WTO rules.

Land Market Overview

Pre-reform agriculture in the USSR was characterised by a state monopoly on land ownership and by land use that did not require any payment. The legal principles of land reform in Russia and the rest of the former Soviet Union were established in 1989 by the Basic Law on Land Legislation in the USSR and the Soviet Republics. This law established the right of citizens to have permanent or temporary use of land (but not ownership) for agricultural production or for construction a family house. It also introduced, for the first time, the notion of payment for land in the form of lease payments and land tax. The right of private ownership for land used in agricultural production was declared in the 1990 USSR Law "On Land Reform" (passed in October 1990). The Law "On Peasant Farms" (passed in December 1990) legalised peasant farms as a form of free entrepreneurship and allowed the land in collective and state farms (*kolkhozes* and *sovkhozes*) to be divided among their member-employees in the form of land shares, which are paper certificates of entitlement to a certain amount of land in an unspecified location. This "paper" privatisation did not involve immediate distribution of land plots to the new owners. The law stipulated, however, that the owners of land shares could take from the relevant farm enterprises a land plot equal in size to their land share for the purpose of establishing a peasant farm. Pending the separation of a physical plot, agricultural land represented by paper shares remains in the status of so-called "joint shared ownership".

These laws (passed before the collapse of the USSR) created the legal basis for the privatisation of agricultural land. The passage of these laws was accompanied by dramatic political debates, and the right to buy and sell land, a precondition for the development of a land market, was never implemented. As a result, problems with transactions in land were only resolved in Russia in January 2003 with the adoption of the Federal Law "On Agricultural Land Transactions". The ability to mortgage agricultural land was permitted by a special amendment to the mortgage law passed in February 2004. In Ukraine, some issues relating to land law were classified with the passing of the Land Code in 2001.

Ownership or Lease of Agricultural Land in Russia

The principal types of agricultural land owned by rural citizens in Russia comprise the following:

- Land plot - an identified plot of land included in the state land register comprising:
  - plots on which houses are located;
  - small "household plots" (also called "subsidiary plots") near a village that are allocated to each family in the village for growing vegetables; and
  - dacha plots, which are usually owned by urban families.

- Land allotment - a partial interest in a land plot previously owned by the state, held jointly with other land shareholders. The boundaries of the land allotment cannot be known until it is converted into a land plot, and the holder of the land allotment does not have the right to cultivate the land personally. The only way in which the holder of the land allotment can derive any benefit from the land share is to lease the share to a third party.

In Russia, lease terms typically range from one to ten years, but they can be for a period of up to 50 years. Leases can be for a shorter period than one year, but these cannot be registered. Annual lease rates reach USD 100 per hectare for agricultural land in Russia. The lease rate is established according to a direct agreement between the lessee and the lessor and the terms of any lease typically provide for rent to be reassessed when the lease is renewed. Lease payments may also be index-linked in accordance with the official inflation rate on the day of payment.

Lease payments can be paid in cash or by payment in kind in crops with the agreement of the parties. The barter rate for these payments is two to 3.5 tonnes of wheat or barley per unit per annum (each unit normally having a size of seven hectares), resulting in a per hectare payment of between 0.286 tonnes of wheat or barley and 0.5 tonnes of wheat or barley. There remains a preference among landowners Russia for payments in kind for lease payments.

Ownership or Lease of Agricultural Land in Ukraine

Land lease is currently the only form of transaction permitted with regard to agricultural land in Ukraine, as the law imposes a ban on sales of agricultural land. However, under Ukrainian legislation, lessees have pre-emptive right to purchase leased land. As a result of their dominant position in local markets, it is likely that agricultural companies will enjoy substantial bargaining power in the process of land acquisition once this ban is lifted.

Land may be leased in Ukraine for a period of up to 50 years. Upon expiration of the lease term, a land owner may extend the contract lease let to a different tenant or to cultivate the land itself. Finding a different tenant for cultivating the land may be difficult or impossible because plots are usually located within a large field and therefore not of interest to other agricultural enterprises and cultivating the land itself may be difficult because land plots are too small to be viable, with an average land plot size of 1.7 hectares. Therefore, prolonging the contract is common.

Annual lease rates vary from USD 20 to USD 60 per hectare for agricultural land in Ukraine. Minimum lease rates are calculated as a fixed percentage of, on average, three per cent of the cadastral valuation of the leased land, as required by Ukrainian legislation. This valuation is not determined by the market. Typically, as in Russia, rent is reassessed when a lease is renewed. Lease payments may also be index-linked to the official inflation rate on the day of payment.

As in Russia, lease payments can be paid in cash or by payment in kind in crops with the agreement of the parties. In Ukraine, lease rates are fixed in U.S. dollars or hryvnia but the landowners can elect to receive a fixed volume of produce per unit. The size of each unit is not fixed, however they are generally smaller than the unit measurements applied in Russia. Typically, per hectare barter rates for these payments in Ukraine range from 0.25 tonnes of wheat or barley and 0.30 tonnes of wheat or barley.

Although the ban on the sale of Ukrainian agricultural land expired on 1 January 2008, it has been extended a number of times. UkrAgroConsult, a Ukrainian agricultural consultancy, predicts that the Ukrainian Parliament will lift the agricultural land sale moratorium between July and December 2011. It is expected that adoption of the relevant legislation to achieve this will generate significant debate between various interest groups. It is also unlikely that the opposition will be able to gather the votes necessary needed to pass a law to extend the moratorium after 2012.

In the event the agricultural land sale moratorium is lifted, UkrAgroConsult predicts that the best land plots within the black earth belt of Ukraine will be purchased first. Management are reviewing the political situation carefully and intends to acquire agricultural land in these regions, should it become available at reasonable rates.

For a description of the risks related to lease valuation and purchase in Ukraine, see "*Risk Factors – Risks related to the Group's Business and Industry – The Group's financial performance and portfolio of land may be adversely affected by a lifting of the moratorium on the sale of agricultural land in Ukraine.*"

Land Taxation in Russia and Ukraine

Land Taxation in Russia

Land tax is a local tax and its application is therefore governed by local regulation as well as the Russian Tax Code. Land tax applies to legal entities and individuals who own land or have a permanent right to its use. Legal entities and individuals who use land free of charge, or under lease agreements, are not subject to land tax. The tax base is the cadastral value of the land as determined on 1 January of the relevant reporting year. The cadastral value for a specific plot is determined in accordance with the Russian Land Code. In the case of joint ownership, the tax base is determined for each taxpayer's share of the land. The tax base of land formed during a tax period is the cadastral value on the date of its cadastral registration.

Local authorities set the land tax rate. Under the Russian Tax Code, these rates may not exceed the following limits:

- 0.3% of the cadastral value of land which is either: (i) used for agricultural purposes; (ii) occupied by residential properties or utilities; or (iii) used as personal subsidiary plots, for gardening, horticulture or animals; or

- 1.5% of the cadastral value of other land.

Although the tax period for land tax is a calendar year, most taxpayers must make advance tax payments on a calendar quarterly basis. Also, regional authorities can exempt certain other categories of taxpayer from remitting quarterly advance payments.

The amount of advance tax payable is derived by multiplying one quarter of the applicable tax rate by the cadastral value of the land subject to taxation, as determined on 1 January of the current tax period. From 2011, legal entities and individual entrepreneurs do not have to provide a calculation of quarterly advance payments to the local tax authorities, but must file an annual tax return (and pay the balance of tax due) no later than 1 February of the following year. Regional authorities have the right to amend the deadlines for tax payments, including advance payments.

Land Taxation in Ukraine

Other than FAT payers, owners of land and those with permanent rights to use land must pay a land tax. Entities which lease land from local councils must pay rent as set out in the lease agreement. Currently, the general land tax for land plots located within city limits, subject to certain exceptions established by the Ukrainian Tax Code, is 1% per year of the state appraised value of the land, which is updated periodically. The general land tax for agricultural land is established at the rate of 0.1% per year of the state appraised value of land used for arable or pasture purposes and 0.03% per year of the state appraised value of land used for perennial plantations. Ukrainian land tax is paid on a monthly basis at one-twelfth of the annual tax liability.

Owners who lease land plots to FAT payers enjoy an exemption from land tax for the duration of the liability of the relevant lessee to pay FAT. Newly established farms enjoy an exemption from land tax for three years after receiving the land or for five years after receiving the land in the case of newly established agricultural entities operating in areas with a scarcity of labour.

The appraisal of land is carried out by authorised licensing organisations in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine (the "**CMU**"). This methodology takes various factors into account, 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 piece of land pursuant to a formula adopted by the CMU is carried out at least once every five years with respect to agricultural land compared to at least once every seven years with respect to non-agricultural land. The market value of land is not uniform across Ukraine and varies significantly depending on a number of factors such as fertility and access to infrastructure.

State Support for Agricultural Producers in Russia and Ukraine

As a matter of state policy, and to enhance the development of its agricultural industry, Russia and Ukraine provide various types of support to agricultural producers.

State Support in Russia

In accordance with the Federal Law No. 264-FZ "On the Development of Agriculture", dated 29 December 2006, the government of the Russian Federation must regularly adopt state programmes for the purposes of agricultural development, in order to regulate the agricultural product market and state financial support of agriculture. The Russian Government has adopted Decree No. 446 "On the State Program of Agriculture Development and Regulation of Agricultural Product, Raw Material and Food Supply Market for the Years 2008-2012", dated 14 July 2007, which establishes, among other means of state support, subsidies in the form of partial refunds of interest which producers have paid on bank loans, costs of leasing agricultural machinery and on premiums for crop insurance. The amount of such subsidies paid to the Group amounted to approximately USD 10.2 million for the year ended 31 December 2010.

The Russian government also supports agricultural producers through the use of the Government Intervention Fund. In the wake of the summer drought of 2010, the Russian government provided almost RUB 150 billion (approximately USD 4.9 billion) worth of support to agribusinesses. Additional state support programmes for agriculture amounted to RUB 108 billion in 2010 (approximately USD 3.5 billion), and the government allocated a further RUB 35 billion (approximately USD 1.2 billion) for regions hit hard by the drought.

The taxation of Russian legal entities is regulated primarily by the Russian Tax Code. The Russian Tax Code provides for two tax regimes with reduced tax rates applicable to qualifying agricultural producers: (i) the unified agricultural tax regime and (ii) the beneficial corporate income tax regime for entities which have not transferred to the unified agricultural tax regime.

The unified agricultural tax regime sets a 6% tax rate on profits and provides relief from corporate income tax (except for corporate income tax payable in respect of dividends and interest on certain state and municipal bonds), property tax and, in most cases, VAT (except for VAT which is imposed on imports or supplies under simple partnership, trust or concession agreements). In addition, according to Federal Law No. 212-FZ "On Insurance Contributions to the State Pension Fund, Social Insurance Fund, Federal Obligatory Medical Insurance Fund and Local Obligatory Medical Insurance Fund" dated 24 July 2009 agricultural producers applying for the unified agricultural tax regime may pay insurance contributions to these funds at reduced rates for the period 2011-2014, although there is some uncertainty about the applicability of reduced insurance contribution rates for agricultural producers which apply the beneficial corporate income tax regime.

Alternatively, the beneficial corporate income tax regime can be applied. According to Federal Law No. 110-FZ "On Amendments And Additions To Part Two Of Russian Tax Code And Certain Other Russian Tax Legislation and Alteration Of Certain Other Provisions Of Tax Legislation" dated 6 August 2001, as amended, corporate income tax is payable by qualifying agricultural companies at the rate of 0% for the years from 2004 to 2012 inclusive. However, effective from 1 January 2013, the rate of corporate income tax for qualified agricultural companies will be 18% and, starting from 1 January 2016, will be further increased to the level of general corporate income tax which is currently 20%. VAT and other taxes are payable at general tax rates according to the usual rules. Most Russian subsidiaries of the Group apply the beneficial corporate income tax regime and are entitled to apply the reduced corporate income tax rate as Russian agricultural companies.

For a description of the risks relating to state support for agriculture in Russia, see "*Risk Factors – Risks Related to the Group's Business and Industry – The Group currently benefits from tax exemptions, which may be discontinued in the future*" and "*Risk Factors – Risks Related to the Group's Business and Industry – The Group benefits from state subsidies, which may be discontinued in the future*".

State Support in Ukraine

The Ukrainian government provides various types of financial support to agricultural producers, including an annual subsidy for each hectare of wheat, rapeseed and sugar beet grown and subsidies on interest rates for loans extended by Ukrainian banks to agricultural companies to finance the acquisition of certain agricultural machinery. Every year the government adopts detailed criteria setting out the terms of such compensation. However, these subsidies are dependent on the condition of the state's finances and fiscal policies and certain of them were not paid or in full or at all in previous years.

The Ukrainian Government is providing nearly UAH 5 billion (approximately USD 628 million) for harvest funding for the 2011/2012 agricultural year.

According to the Ukrainian Tax Code, Ukrainian agricultural producers also benefit from a special VAT regime whereby they are permitted to retain the difference between the VAT that they charge on their agricultural products (currently at a rate of 20% and 17% starting from 1 January 2014) and the VAT that they pay on items purchased for their activities, rather than remitting such amounts to the state budget as other taxpayers are required to do. The amounts so retained are transferred to special bank accounts and may be used for payments for goods and services related to agricultural activities. The special VAT regime is in force until 1 January 2018.

In addition, according to the Ukrainian Tax Code, producers of agricultural products in Ukraine, including the Ukrainian subsidiaries of the Group, are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, certain agricultural companies engaged in the production, processing and sale of agricultural products may choose to be registered as FAT payers. If a FAT payer's production of agricultural goods produced in a reporting year falls below 75% of total gross production, the company must register as a corporate income tax payer under the general rules, starting from the next tax year.

FAT is paid in lieu of corporate income tax, land tax (except for land tax payable for the land plots which are not used in agricultural production), trade patent fees and special water usage tax. The amount of FAT payable is calculated as 0.15% of the deemed value of all land plots (determined as of 1 July 1995) used for agricultural production that are leased or owned by the taxpayer. This rate applies to pasture and arable lands, the types of land which are predominantly farmed by the Group.

Pursuant to the Ukrainian Tax Code, the FAT regime is in force for an unlimited period of time. There is, however, no guarantee that the FAT regime will not be discontinued in the future.

For a description of the risks relating to state support for agriculture in Ukraine, see "*Risk Factors – Risks Related to the Group's Business and Industry – The Group currently benefits from tax exemptions, which may be discontinued in the future*" and "*Risk Factors – Risks Related to the Group's Business and Industry – The Group benefits from state subsidies, which may be discontinued in the future*".

State Price Control

Price Control in Russia

On 1 February 2010, the Federal law "On the Fundamentals of Governmental Regulation of Trade in the Russian Federation" (the "**Trade Law**") came into force. In accordance with the Trade Law, suppliers of goods are entitled to set the prices on products they sell at their sole discretion, unless otherwise stipulated by federal laws, in which case the prices must be established in accordance with such legislation. The Trade Law permits state regulation of prices and limits mark-ups and surcharges to prices for specific products.

The Trade Law further provides that a supplier and a reseller may agree on a bonus to be paid to the reseller for the purchase of a certain volume of food products. This bonus must be reflected in the relevant agreement. However, it may not be added to the price of food products and it may not exceed 10% of the total purchase value. Volume bonuses are not permitted in relation to "socially important" goods, which include certain meat and fish products, certain milk products, certain types of bakery goods, potatoes and certain vegetables. In addition, maximum prices may be imposed for "socially important" foods sold to retail customers in a particular region if prices for such foods in that region increase by 30% or more within a period of 30 days. The fixed maximum prices may remain in effect for up to 90 days. For a description of the risks relating to price controls in Russia, see "*Risk Factors – Risks Related to the Group's Business and Industry – Governmental intervention in grain trading and other elements of the Group's business could affect the Group's business*".

Price Control in Ukraine

The Ukrainian Government's powers in relation to price control on certain agricultural products, including, among others, wheat, barley, corn, soybeans, buckwheat and peas, are primarily regulated by the Law of Ukraine "On the State Support of Agriculture in Ukraine" No. 1877-IV as of 24 June 2004 (the "**Ukrainian State Support Law**"). This provides price control instruments for the government including the right to set:

- limits on extra charges/discounts for certain types of agricultural products;
- limits on profitability of wholesale and retail traders of agricultural products; and
- the minimum and/or maximum intervention prices for certain types of agricultural products.

Non-compliance with these limits results in the imposition of serious penalties on the offending companies, including the seizure of proceeds in excess of established limits and a fine in the amount of 200% of the total amount of such sale.

For a description of the risks relating to price controls in Ukraine, see "*Risk Factors – Risks Related to the Group's Business and Industry – Governmental intervention in grain trading and other elements of the Group's business could affect the Group's business*".

Export Controls and Other Market Intervention

Russia

After the 2010 summer drought, the Russian Government banned grain exports for the whole of the 2010/2011 agricultural year to prevent a rise in domestic bread prices. The ban was announced for the period from 15 August 2010 till 31 December 2010. This moratorium was cancelled with effect from 1 July 2011 due to improved weather conditions in Russia, which have resulted in more grain being sown and an increase domestic grain stockpiles.

In accordance with the Federal Law No. 264-FZ “On the Development of Agriculture” dated 29 December 2006 and certain by-laws, the Russian government is entitled to conduct “interventions” on the product market in case the prices for certain agricultural products fall below the minimum settlement prices, or rise above the maximum settlement prices, in order to stabilise prices and maintain the level of income of agricultural producers.

As a result, the Russian State Intervention Fund has the power to acquire agricultural products at prices higher than those commercially available if it considers the price for them to be too low. In 2009, the fund acquired 39,411 tonnes of the Group’s products, although it acquired none in 2010. Once it has acquired these products, the fund is then free to on-sell the products at a later date at prices below market value which can have a destabilising effect on market prices. Since February 2011, Russia has sold over 800,000 tonnes of grain from 9.5 million tonnes held by the State Intervention Fund. Milling wheat and fodder barley have accounted for the majority of these volumes. As a result of these intervention sales, Russian domestic prices for these products have become further discounted to international prices, according to ProZerno.

Ukraine

As a result of the 2010 summer drought, Ukraine harvested 39.2 million tonnes of grain in 2010 in clean weight, 14.8% less than in 2009. In order to prevent a shortage of grain on the domestic market, the government imposed a quota of 2.7 million tonnes on the export of grain from 19 October 2010 until 31 December 2010. These quotas also included 500,000 tonnes for wheat, 200,000 tonnes for barley, two million tonnes for corn and 1,000 tonnes each for rye and buckwheat. Subsequently, the Ukrainian grain export quota was extended to the end of March 2011 and increased by 1.5 million tonnes, set at 500,000 tonnes for wheat and one million tonnes for corn. The most recent extension, until 30 June 2011, and the further increase, by two million tonnes, of the export quota for corn took place on 30 March 2011.

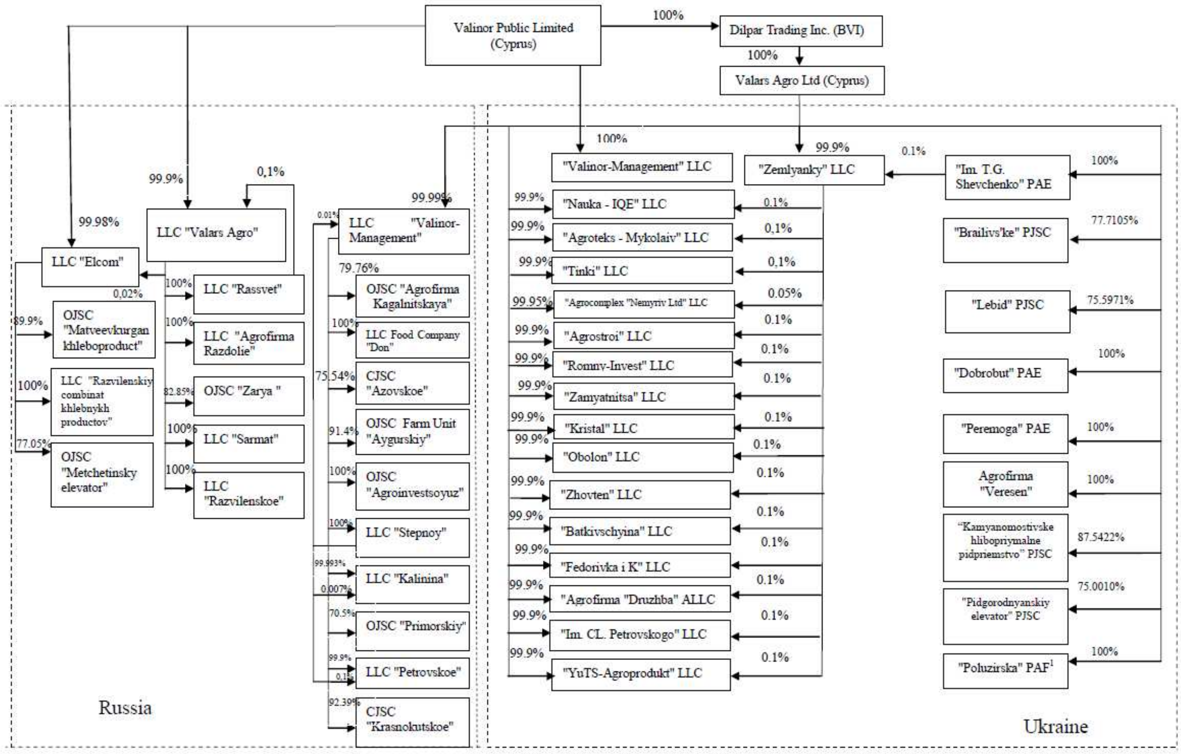
On 5 May 2011, the Ukrainian government lifted the export quota on corn and on 4 June 2011 it cancelled the export quotas on wheat, mix of wheat and rye and barley. Rye, buckwheat and buckwheat products were subject to export quotas until 30 June 2011. However, on 19 May 2011, the Ukrainian Parliament adopted a law introducing customs duties on the export of grain for the period from 1 July 2011 to 1 January 2012. These duties are set at 9%, (but not less than EUR 17 per tonne) for wheat; 14%, (but not less than EUR 23 per tonne) for barley; and 12%, (but not less than EUR 20 per tonne) for corn. No similar customs duties were previously applicable to the export of grain in Ukraine and these duties are likely to be extended beyond 1 January 2012.

According to the Ukrainian State Support Law, Ukraine’s Agrarian Fund is responsible for grain market stabilisation and price regulation. The main purpose of Ukraine's Agrarian Fund is to purchase grain during the harvesting season and to release this grain onto the market during periods of excessive demand. Intervention by Ukraine’s Agrarian Fund resulted in the purchase of one million tonnes of grain from the 2009 harvest compared to 1.1 million tonnes bought from the 2008 harvest. In the 2010/2011 agricultural year, Ukraine's Agrarian Fund purchased, among others, 1,084,000 tonnes of wheat and maslin, 106,000 tonnes of rye, 8,800 tonnes of barley and 5,600 tonnes of corn.

For a description of the risks relating to export controls and market intervention in Russia and Ukraine, see "*Risk Factors – Risks Related to the Group's Business and Industry – The ability of the Company's subsidiaries to export commodities may be limited*" and "*Risk Factors – Risks Related to the Group's Business and Industry – Governmental intervention in grain trading and other elements of the Group's business could affect the Group's business*".

GROUP STRUCTURE

The below chart describes the Company's subsidiaries and the interests therein as of the date of this Prospectus.



(1) The Group's ownership of "Poluzirska" PAF has not yet been registered due to litigation involving the former holder of corporate rights; see "*Business – Legal Proceedings – Litigation Concerning "Poluzirska"PAF*".

The Company was established in Cyprus on 21 September 2010 as a limited liability company by the Selling Shareholder. The Company is registered with the Cypriot companies registry under number HE 273907. On 21 March 2011 the Company was registered as a public limited company. The registered office of the Company is Stasandrou 8, 3rd floor, Office 301, P. C. 1060, Nicosia, Cyprus.

The Company is the parent company of the Group. The production assets of the Group are located in Russia and Ukraine. The Company, through one BVI and one Cypriot intermediate holding company, controls 25 Ukrainian and 21 Russian companies. In addition, one Ukrainian company is under the direct control of the Company.

The Group believes that the organisation and division of the Group allows it to conduct its operations, manage the Group and generate profits in the most efficient, flexible and beneficial way to create additional value for its shareholders.

The Group's headquarters in Russia are located at: 1, Pobedy Street, Andreyevo-Melentyevo Village, Neklinovsky District, Rostov Region, Russian Federation, 346841. Its telephone number is +7 8634 430544 and its fax number is +7 8634 733450.

The Group’s headquarters in Ukraine are located at: Office 51, Block 6A, 13 Mykoly Pymonenka Street, Kyiv Ukraine 04050. Its telephone number is +380 44 207 40 50 and its fax number is + 380 44 207 40 59.

Annex 1 to this Prospectus sets out key information on the Company and its subsidiaries.

RESTRUCTURING

Separation of Trading Activities from Production Activities

Until the end of 2010, the Company's shareholders operated agricultural trading, logistics and production activities through the Former Group. Trading operations were carried out by VHL, Valars SA, Valary-Trade, Valary, Volary, Volary-Agro and Volary Export, all of which are wholly-owned, directly or indirectly, by the Company's shareholders. These companies purchased agricultural products from both Company-controlled farming companies and independent third parties. Within the structure of the Former Group, some of the companies involved in production activities were under the direct or indirect control of companies involved in trading and logistic activities.

In 2010, it was decided to separate the production activities from the trading activities of the Former Group. As a part of the Restructuring, the Company was incorporated on 21 September 2010 and companies of the Former Group that were involved in production activities were, pursuant to a subscription agreement between the Selling Shareholder and the Company dated 9 December 2010, transferred to the Company for cash consideration or as an in kind contribution. Under the terms of this subscription agreement, the Selling Shareholder transferred to the Company the ownership of the Former Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 228,498,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 Existing Shares. In order to give effect to the arrangements contemplated by the subscription agreement, a series of sale and purchase agreements, governed by either Cypriot, Russian or Ukrainian law, between various members of the Group, as purchaser, and various holding and sub-holding companies of the trading companies and other third parties, as sellers, were entered into.

As a result, the Company became the holding company of the Group and currently holds all the Former Group's agricultural production assets. Companies of the Former Group that were involved in trading activities are now owned separately by the Selling Shareholder, in the Valars Group, and do not form part of the Group.

Both the Company and VHL remain controlled by the Selling Shareholder. Given both the Valars Group's extensive experience in grain trading activities and the prior cooperation between the Group and the Valars Group, the Group has historically sold a majority of its export grain through the Valars Group on an arm's length basis. However, in 2011, Management intends that all of its grain production will be sold on a tendering basis in which international grain traders will participate on the same terms as the Valars Group. The Company has recently designated two subsidiaries as a platform for future trading operations. The Valars Group will be given no preferential status within the scope of such tendering activities, see "*Related Party Transactions – Transactions with the Valars Group – Trading Arrangements*" and "*Business – Sales and Marketing – Future Trading Strategy*".

Debt Restructuring

Introduction

Prior to the Restructuring, certain financing extended to the trading businesses operated by the Former Group was secured and/or guaranteed by certain members of the Group. This financing was provided by, among others, Alfa Bank Ukraine, Sberbank, OJSC "Commercial Bank Petrocommerce" ("**Petrocommerce Bank**"), OJSC "Russian Agricultural Bank"

("**Russian Agricultural Bank**"), OAO "Vozrozhdenie Bank" ("**Vozrozhdenie Bank**"), CJSC "UniCredit Bank", PJSC "UkrSibbank" and certain other banks. In order to achieve the complete separation of the trading activities from the production activities of the Former Group, and to prevent the Group from incurring any material liability in respect of the financing used to fund the trading business, the vast majority of these financing arrangements have been restructured. Some, such as a loan granted by Petrocommerce Bank to VML which was secured by a pledge granted by VML in favour of Petrocommerce Bank over 20% of the Existing Shares, have been completely repaid, with all related security discharged, utilising funds received from Deutsche Bank pursuant to the Refinancing, see "*Business – Material Contracts – Arrangements with Deutsche Bank* ".

As a result of the debt restructuring, the vast majority of security and guarantees provided by the Group that secured financing for the trading business have been released (for details of the remaining arrangements securing indebtedness of non-Group entities, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements*"). In addition, those security and guarantee arrangements which relate to loans assumed by the Company's subsidiaries for the purpose of the Group's production business remain in effect, see "*Business – Material Contracts – Credit Agreements with Sberbank* ", "*Business – Material Contracts – Credit Agreements with Petrocommerce Bank*" and "*Business – Material Contracts – Credit Agreements with Vozrozhdenie Bank*".

Any subsisting arrangements, following the debt restructuring described above, relating to loans granted to certain members of the Former Group, who are now members of the Valars Group, but secured by members of the Group, are set out in further detail below. In respect of loans granted to members of the Former Group and which have not been restructured, who are now members of the Valars Group, but secured by members of the Group, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements*".

Arrangements with Sberbank

Prior to the Restructuring, certain members of the Former Group, who are now members of the Group, provided security in respect of loans granted by Sberbank to certain members of the Former Group involved in trading activities, who are now members of the Valars Group. The aggregate amount of debt outstanding under the secured loan agreements, as at 31 May 2011, is RUB 6,053,050,006.53 (approximately USD 198,590,880).

To release the members of the Group from the security granted in respect of this indebtedness, the Selling Shareholder agreed to pledge 40% of the Existing Shares in favour of Sberbank pursuant to the terms of the Sberbank Share Pledge. The Sberbank Share Pledge contains restrictive covenants in relation to the retention of the existing corporate structure of the Group, disposal of assets of the Group without adequate consideration, encumbrance of shares or participatory interest of members of the Group and certain other covenants.

The shareholders of the Selling Shareholder have further pledged 100% of their shares in the Selling Shareholder in favour of Sberbank to secure loan agreements between members of the Former Group who are not members of the Group and Sberbank. The pledge agreements are all dated 5 April 2011. In the event that there is a default under these loan agreements and proceedings are successfully taken to enforce the security, Sberbank may become the indirect controlling shareholder of the Company.

Pursuant to the Sberbank Use of Proceeds Agreement, the Selling Shareholder has agreed to use the proceeds of the sale of the Sale Shares in the Offering to repay certain indebtedness of members of the Former Group owed to Sberbank. Following such repayment, Sberbank has agreed to hold as collateral only those Shares the post-Offering value of which constitutes 190% of the outstanding indebtedness owed to Sberbank. Any Shares held in excess of this number will be released from the terms of the Sberbank Share Pledge provided, however, that at least 25% of the Shares plus one Share shall remain subject to the Sberbank Share Pledge.

Arrangements with Alfa Bank Ukraine

Prior to the Restructuring, certain members of the Former Group, who are now members of the Group, provided security in respect of loans granted by Alfa Bank Ukraine to certain members of the Former Group involved in trading activities, who are now members of the Valars Group. The aggregate amount of debt outstanding under the secured loan agreements, as at 31 May 2011, is the equivalent of approximately USD 44,371,520.55.

To release the members of the Group from the security granted in respect of this indebtedness, the Selling Shareholder agreed to pledge 15% of the Existing Shares in favour of Alfa Bank Ukraine pursuant to the terms of the Alfa Bank Ukraine Share Pledge. The Alfa Bank Ukraine Share Pledge contains restrictive covenants in relation to the retention of the existing corporate structure of the Group, disposal of assets of the Group without adequate consideration, encumbrance of shares or participatory interest of members of the Group and certain other covenants.

Pursuant to the Alfa Bank Ukraine Use of Proceeds Agreement, the Selling Shareholder has agreed to use the proceeds of the sale of the Sale Shares in the Offering to repay certain indebtedness of members of the Former Group owed to Alfa Bank Ukraine. Following such repayment, the Alfa Bank Ukraine Share Pledge shall be terminated.

For a description of the risks relating to the security granted under the aforementioned arrangements and that relate to the Company's Shares, see "*Risk Factors – Risks Related to the Group's Business and Industry – Certain secured lenders may acquire control of the Company if they enforce pledges over Existing Shares owned by the Selling Shareholder*".

BUSINESS

Overview

The Valinor Group is one of the largest agricultural businesses in the CIS both in terms of cultivated land area and crops harvested. It focuses on the production and sale of agricultural products in Russia and Ukraine.

As at the date of this Prospectus, the Valinor Group controls approximately 358,000 hectares of land, of which approximately 238,000 hectares is located in Russia and approximately 120,000 hectares is located in Ukraine. The Group's land is located in Rostov, Stavropol and Krasnodar in Russia and Vinnytsia, Sumy, Poltava, Cherkasy, Mykolaiv and Kherson in Ukraine, which are characterised by highly fertile soil known as "chernozem" or "black earth" and, in 2010, approximately 91.5% of the Group's land was arable.

The Valinor Group produces a variety of agricultural commodities, principally cereals (wheat, barley and corn), oilseeds (sunflower and rapeseeds) and sugar beet. In the year ended 31 December 2010, it harvested approximately 1.1 million tonnes of crops, representing an 18% increase in crops harvested in the previous year. In addition to its production facilities, the Group has approximately 972,000 tonnes of storage capacity, including on-farm storage, three silos in Russia and four silos in Ukraine, and a modern fleet of agricultural machinery and trucks, which facilitate the Group's core business of growing, harvesting, storing and selling crops. For the year ended 31 December 2010, approximately half of the Company's revenues were derived from the sale of wheat.

Valinor is led by a team of managers with extensive experience in the agricultural sector. Its management team, directly or indirectly, controls a majority of the issued share capital of Valinor.

Valinor has achieved significant revenue and production growth over the last two years. Its revenue was USD 224.4 million for the year ended 31 December 2010, which represents an increase of 35.9% over the year ended 31 December 2009. Adjusted EBITDA was USD 111.5 million for the year ended 31 December 2010, whereas Adjusted EBITDA for the year ended 31 December 2009 was USD 32.7 million, representing a 241.2% year-to-year increase. This increase was primarily due to an increase in production volumes and market prices for the Group's products. Adjusted EBITDA margin, calculated as Adjusted EBITDA divided by revenue, was 49.7% for the year ended 31 December 2010 and 19.8% for the year ended 31 December 2009.

Competitive Strengths

Management believes that Valinor benefits from the following competitive strengths which allow it to both optimise profits and maintain its position as one of the leading agricultural producers in the CIS.

Principle Focus on Crop Production

The Group's business activities are almost entirely related to crop production, with approximately 88% of its revenue attributable to crop production in 2010. Its operations embrace the complete crop production value chain and include the acquisition of arable land, crop planning, primary production, seed processing, crop handling, storage and sales.

Management intends to remain principally focused on crop production and to maintain only limited crop processing activities, which Management believes do not afford the Group the same advantages as a predominantly production focused business.

The Group's crop production involves the sale of highly liquid commodity products, which are easily sold via local and international commodity markets. Management believes that significant sales growth potential exists as the Group's production is not limited by domestic consumption because any excess production may, subject to any prevailing restrictions, be exported. Furthermore, the Group's focus on highly liquid commodity products means that it is not subject to many of the competitive pressures faced by companies focused on food processing. In addition, market prices for agricultural products are lower when overall harvest levels are higher and vice versa, which means that profit margins are partially hedged against adverse weather conditions.

Valinor's business model is easily scalable given access to high quality agricultural land in both Russia and Ukraine that is proximate to the Company's existing land. Furthermore, the Valinor management team has a proven track record of acquiring agricultural land and using modern farming techniques and technology to increase production on a cost-effective basis. Valinor's production focus also enables it to take advantage of numerous tax savings and subsidies available to agricultural producers, which are not generally available to processing businesses, including a low tax rate in Russia and Ukraine.

Good Land Quality and Locations

Valinor's land is located in regions of Russia and Ukraine with highly advantageous climate and soil conditions for crop production. All land under Valinor's control is characterised by "chernozem" or "black earth", which is highly fertile, and enjoys some of the highest yields in both Russia and Ukraine.

The land controlled by Valinor is concentrated in seven compact clusters. This affords the Group logistical advantages and economies of scale compared to having numerous small land parcels spread over a disparate area. The size of the Group's portfolio of land and the fact that its principal land clusters are spread over a broad geographical area in two countries further diversifies both climatic and non-climatic risks.

The location of Valinor's land provides convenient access to domestic customers, key export routes and its own silos and storage facilities. Proximity to seaport terminals, with significant annual export capacities, located on both the Black Sea and the Sea of Azov allows the Group to minimise inland logistic costs and shorten grain delivery times. As a result, those crops which are mostly traded in the international market, such as wheat, can be delivered easily to ports located within 30 to 300 kilometres from where it is produced. Land involved in the production of oilseeds is located close to the principal oil-producers' facilities in both Russia and Ukraine. This results in lower transport costs, more efficient inventory management, smaller delivery lag times and less exposure to commodity price volatility risks.

In addition, the land controlled by Valinor is located in historically specialised agricultural regions with a highly skilled agricultural workforce, good access to raw material suppliers, dedicated agricultural logistics infrastructure and agriculturally focused government support and regulatory environments.

Optimal Product Mix

Valinor has developed a product mix and crop rotation policy that maximises both productivity and profitability. Its crop mix of cereals and oilseeds includes wheat, barley, corn, sunflower seeds and rapeseeds, and is selected to match strong demand for each of these products on both the domestic and international markets.

Effective and commercially orientated crop mix management means that the crop split across the Group's land is adjusted on a seasonal basis to take into account crop seasonality, return per hectare for each type of crop, market demands and predicted price growth. An example of the Company's track record in adjusting the crop mix to focus on the most commercially viable crops is its recent focus on the production of oilseeds, which have been attracting favourable prices.

Efficiency of Operations

Management seeks to streamline the Group's operations to ensure that both the productive potential of its land and cost efficiencies are maximised.

Valinor minimises the amount of fallow land and all land is cultivated where this is technically possible subject to crop rotation. The Group generally acquires only highly fertile land which has already been cultivated and it has a track record of consistent yield improvements through the adoption of up-to-date farming techniques and agricultural machinery, crop rotation procedures and the use of high quality seeds, fertilisers and chemicals.

Valinor generally makes acquisitions of land only in those regions which surround land already under its control. This allows it to concentrate its resources in the same limited number of areas and to consolidate smaller farms with larger ones. Valinor has also increased the productivity of its employees through training and the adoption of modern farming techniques such as the effective use of crop protection products and GPS-aided harvesting. Accordingly, the Group has been able to rationalise staff numbers and concentrate on building a workforce of long term skilled workers.

Economies of Scale

The size of the Group's operations has resulted in the achievement of significant economies of scale with respect to many aspects of its production, logistics and raw material purchase activities. Such economies of scale are optimised by only acquiring new farming land in regions where the Group has existing operations.

The Group's size and production capacity means it can fulfil volume purchase orders, which tend to be the most lucrative because crop prices per tonne are generally higher the greater the size of the shipment. The Group has also been able to use its size and buying power to secure more competitive terms of business with its key suppliers.

Increased Distribution and Storage Capability

Management has increased the Group's distribution efficiency through fewer delivery time lags and decreased overall transportation costs. For example, the Group's products are principally transported to customers, ports or storage facilities by a fleet of trucks owned by the Group, which significantly decreases the Group's transportation and haulage costs.

The Group has sufficient capacity in its silos and warehouses for the total volume of its crop production each year, allowing it to store harvested products and to sell them throughout the year during periods when they can realise higher prices.

Experienced Management

The Management team has extensive experience in the Russian and Ukrainian agricultural sectors and has expertise in all aspects of agricultural land acquisition, land lease rights and ownership management, crop production, distribution and trade. In addition, Management are also familiar with a majority of the Group's land portfolio since its acquisition. The senior management team has worked together for over 12 years and directly or indirectly controls, and, following a completion of the Offering, will continue to control, a majority of the issued share capital of the Company. This ensures that Management's interests are aligned with Valinor's shareholders.

The growth of the business has been driven by Management's ability to identify, acquire control of, integrate, modernise and manage agricultural land. The size of Valinor's portfolio of land has grown each year and Management has been successful in maintaining the Group's control over its leased land with the vast majority of land leases being extended.

On acquiring new land, Management commences a detailed modernisation process covering all aspects of production and internal systems. In particular, the Group has acquired more than 50 former Soviet *kolkhozes* (or collective farms) and has been successful in transforming these largely inefficient enterprises into modern farms equipped with up to date machinery and technology. Management has demonstrated that yields can be increased significantly following the completion of such modernisation processes.

In addition, Management oversees the adoption of policies providing for greater oversight and accountability. This includes the implementation across the entire operation of an automated system of accounting, budgeting and reporting based on international standards.

Strategy

Management focuses on profit optimisation through the production and sale of commercially viable crops and seeks to invest in new agricultural assets in underdeveloped CIS and Ukrainian agricultural sectors. Key elements of this strategy include:

Maintaining Focus on Crop Production

Valinor's strategy is to maintain its focus on the production of cereals and oilseeds for which there is high demand on both the local and international commodity markets. Valinor does not seek to expand its existing processing activities, as processed goods are largely illiquid, subject to more complicated regulatory and export regimes, and generally result in a more inflexible business model.

The Group seeks to focus on the production of crops with the highest liquidity, commercial value and demand through the continuation of its existing crop management strategy. Given the flexibility of its business model, Valinor is able to adjust the combination of different crop types harvested in any given season so that the Group can focus on only those crops which yield the highest profits.

In addition, the Group plans to implement a pilot scheme to reconstruct and improve existing but non-operational irrigation systems, covering an initial approximately 4,000 hectares of the Group's land portfolio, to enable the production of water intensive crops, such as potatoes, and to expand its production of soya bean or other water intensive vegetables. The scheme is expected to commence in 2012. The total investment required is still being determined, and Management expects that some of the expenses required for infrastructure works relating to the scheme will be supported by relevant governmental authorities.

Improving Efficiency of Operations

Valinor aims to ensure that all of its currently managed land operates at its optimal production potential. Approximately 70% of farming land that is under the management of the Group has reached its optimal production potential through the application of modern farming techniques and the use of high quality machinery over a number of years. Land which is not currently operating at or near its optimal production potential is generally located in newly acquired former Soviet *kolkhozes*. Such land typically has insufficient production and storage facilities and has been farmed using out of date machinery and equipment. Valinor's strategy is to ensure that appropriate modernisation strategies are promptly put in place with respect to these properties so as to commence a modernisation process, which should result in substantially increased performance and yields. Such a process entails substantial capital investment in agricultural machinery and the adoption of improved farming practices on a continuous basis over a number of years. It takes approximately five years to transform a *kolkhoz* into a productive modern-era farm.

Valinor also intends to continue its current process of consolidating smaller farms into larger ones to concentrate its resources and use them more efficiently. This consolidation reduces administrative costs and machinery and equipment requirements, ensuring a more efficient use of the Group's human resources, easier planning, greater technological control and centralised wholesale purchases.

Through the adoption of modern farming techniques, the Group has been able to reduce its levels of unskilled staff, reduce its staff costs and increase employee productivity. This strategy will be applied to any land newly acquired by the Group.

Planned Expansion of the Group's Land Under Control

Valinor intends to invest in the acquisition of additional highly fertile agricultural land where it can achieve optimal levels of utilisation and which is located in close proximity to its existing land. In 2011, Management expects that up to an additional approximately 70,000 hectares, comprising up to 40,000 hectares in Russia and up to 30,000 hectares in Ukraine, will be acquired. In the period from 2012 to 2014, depending upon the price and availability of suitable land and prevailing market conditions, Management expects to be able to acquire and integrate at least 70,000 hectares of new land per annum.

The Group's strategy is to acquire land for its productive potential and not as an investment in itself. Therefore, the Group's policy is to lease land rather than own it. In any event, it is rare that highly fertile agricultural land becomes available for purchase in Russia and, when it does, prices per hectare are generally less beneficial than leasing equivalent land. With respect to Ukraine, a moratorium is currently in place preventing the sale of agricultural land (see "*Industry Overview – Land Market Overview*" for additional information). Accordingly, Valinor does not see any substantial additional value from land ownership and it is anticipated that any new land acquisitions will be by way of lease. Valinor has developed good working relationships with its existing landowners from whom it leases land and its landlords have rarely elected to terminate lease arrangements. Valinor would, however, consider purchasing land, dependent upon price and other factors, when an existing landlord wishes to sell upon the expiry of a lease term.

The Group will maintain its existing geographical focus of southern Russia and Ukraine. It does not plan to expand into northern Russia because this region experiences lower yields and access to port and logistics facilities is less optimal. Management expects that the proportion of land held by the Group in Russia versus Ukraine, as at 31 December 2010, will be generally maintained going forward.

History and Development of the Group

The foundations of the Group's business were formed in 2006 by the establishment of the Former Group by certain members of the former management team of the YTS Group, which was one of the largest agricultural production and trading businesses in Russia. Mr. Kirill Podolskiy, who directly or indirectly controls the majority of shares in the Company, established the YTS Group in 1997 together with certain other investors. However he left the YTS Group in 2006 to establish the Former Group. In 2008, the Former Group assumed control of the YTS Group and, as a result, acquired an additional approximately 180,000 hectares of agricultural land formerly controlled by the YTS Group.

Until the end of 2010, the Group was part of the Former Group. Trading operations for cereals and oilseeds in the Former Group were carried out by VHL, Valars SA, Valary-Trade, Valary, Volary, Volary-Agro and Volary Export. These companies purchased agricultural products from both Valinor-controlled farming companies, including companies which are now members of the Group, and independent third parties. Certain companies in the Former Group were involved in production activities and some of these companies were under the direct or indirect control of companies involved in trading and logistic activities.

In order to separate production and trading activities of the Former Group, the Restructuring took place. As part of the Restructuring, the Company was incorporated on 21 September 2010 and companies of the Former Group that were involved in production activities were, pursuant to a subscription agreement between the Selling Shareholder and the Company dated 9 December 2010, transferred to the Company for cash consideration or as an in-kind contribution. Under the terms of this subscription agreement, the Selling Shareholder transferred to the Company the ownership of the Former Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 228,498,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 Existing Shares. In order to give effect to the arrangements contemplated by the subscription agreement, a series of sale and purchase agreements, governed by either Cypriot, Russian or Ukrainian law, between various members of the Group, as purchaser, and various holding and sub-holding companies of the trading companies and other third parties, as sellers, were entered into.

As a result, the Company became the holding company of the Group and currently holds all the Former Group's agricultural production assets. Companies of the Former Group that were involved in trading activities are now owned separately by the Selling Shareholder, in the Valars Group, and do not form part of the Group.

The Group's current portfolio of land was formed from three main sources. In addition to the approximately 180,000 hectares which was previously under the control of the YTS Group and which was transferred to members of the Former Group, who are now members of the Group, a further approximately 152,000 hectares was acquired by members of the Former Group, who are now members of the Group, from various sources in 2008 and 2009 and a further approximately 27,000 hectares, which was previously under the control of the Valars Group, was acquired by the Group as a result of the Restructuring (see "*Restructuring*").

Below are the most significant milestones in the development of the Group and its management team.

1997	Mr. Kirill Podolskiy establishes the YTS Group along with certain other investors and becomes its chief executive officer.
1999	The YTS Group launches its grain export operations.
2001	The YTS Group begins establishing a linear grain silo network, acquires two large silos in Russia and significantly develops its grain export business.
2002	The shareholders of the YTS Group establish an international grain trading company.
2004	The YTS Group begins its own agricultural production, purchases its first farms with a total area of approximately 91,000 hectares and becomes one of the largest Russian grain exporters.
2005	The YTS Group also starts production in Ukraine, acquiring farms with an area of approximately 50,000 hectares.
2006	Mr. Kirill Podolskiy sells his shareholding in the YTS Group and, together with other members of the management team, establishes the Former Group in order to start agricultural operations in Russia and Ukraine.
2007	The Former Group accumulates production assets in Russia and Ukraine, including land, grain silos and other agricultural facilities.
2008	The Former Group takes over the YTS Group. The Former Group starts to use the Valinor name. Grain crop production reaches approximately 893,000 tonnes and its land portfolio reaches approximately 306,000 hectares.
2009	The Former Group achieves approximately one million tonnes of crop production from approximately 358,000 hectares of land.
2010	The Former Group's agricultural trading and production businesses are separated and the Group is established (see "*Restructuring*"). Crop production reaches approximately 1.1 million tonnes even though there is no material increase in the size of its land.
2011	The Group consolidates its position as a leading agricultural producer in the CIS. Valinor is incorporated as a public company in preparation for the Offering.

Overview of Operations

Organisational Structure

The Company, which is incorporated in Cyprus, is the holding company for the Group's operating subsidiaries in Russia and Ukraine. The Company's key governance bodies are its general meeting of Shareholders, its Board of Directors and its two principal committees, being its executive committee (the "**Executive Committee**") and its management committee (the "**Management Committee**"). Various other standing committees and certain executive officers for the Russian and Ukrainian operations, respectively, report directly to the Board of Directors.

Board of Directors

The general meeting of Shareholders elects the Directors following the advice of the nomination and remuneration committee. All Directors can be removed by a vote of the general meeting. The Board of Directors currently consists of ten members, two of whom the Company deems to be independent pursuant to the relevant WSE guidelines and two of whom are Cyprus residents. The Board of Directors are supported by a company secretary who performs various administrative and record keeping duties.

The other members of the Board of Directors comprise the chief executive officer of the Group and five deputy chief executive officers, being:

- the chief financial officer;
- the chief operating officer and general manager for Russia;
- the deputy chief executive officer for investor relations;
- the deputy chief executive officer for legal and property; and
- the general manager for Ukraine.

These six individuals manage the Group's Russian and Ukrainian operations on a day to day basis.

Board Committees

The Board of Directors has formed two principal committees, being the Executive Committee and the Management Committee.

The Executive Committee functions as the Group's highest management body. Its focus is on formulating appropriate management, expansion and development strategies for the Group. Its current members are Mr. Kirill Podolskiy, as chairman, and two Cyprus-resident non-executive directors, Ms. Elena Clerides and Mr. Alexey Ponomarenko.

The Management Committee, which reports to and receives directions from the Executive Committee, has responsibility for the day-to-day operations of the Group. It consists of both executive members of the Board of Directors, being the chief executive officer, the deputy chief executive officer for investor relations, the chief financial officer, the chief operating officer and general manager for Russia, and the general manager for Ukraine, and both

Cypriot and non-Cypriot residents Directors. Its current members are Mr. Kirill Podolskiy, as chairman, Mr. Mikhail Cherkasov, Ms. Marina Barbarash, Mr. Edward Kurochkin, Mr. Alexander Lavrinenko and Ms. Galina Ignatova.

The Board of Directors also currently maintains two further standing committees, being the audit committee and the nomination and remuneration committee, and two ad-hoc committees, being the investment committee and the tendering committee (for further information, see "*Management and Corporate Governance*").

Oversight Departments

Four oversight departments report to the relevant executive members of the Board of Directors and cover both the Group's Russian and Ukrainian operations:

- an internal audit department, which carries out routine and extraordinary inspections of all the Group's subsidiaries to ensure compliance with Group policies, particularly with regard to risk management and other key procedures (reporting to the chief executive officer);

- an analytical department, which collects and processes statistical and financial information required for the Group's reporting obligations or for due diligence projects related to proposed investments or acquisitions (reporting to the deputy chief executive officer for investor relations);

- an investor relations department, which communicates with investors and the media, supports the Group's website, prepares press releases and obligatory announcements and ensures compliance with all information reporting requirements (reporting to the deputy chief executive officer for investor relations); and

- a department of accounting methodology and consolidated financial statements, which oversees the Group's accounting reporting standards and issues consolidated financial reports (reporting to the chief financial officer).

Russian and Ukrainian Branches

The Group's Russian and Ukrainian operations each have their own chief executive officer, who report directly to the Board of Directors, and separate but parallel divisional structures. These divisions cover all aspects of crop production and corporate administration. The key production divisions in each country are:

- an agro-production division, which manages the full crop production cycle;

- a logistics division, which is responsible for the Group's storage and transportation requirements, including the transportation of crops and the delivery of raw materials. The logistics division is also responsible for repairing and maintaining machinery used for transportation;

- an agricultural machinery division, responsible for the Group's agricultural machinery, including its maintenance and repair;

- a land and property governance division, which manages the Group’s real estate, including all lease arrangements;
- a procurement division, which oversees the Group’s purchasing requirements; and
- a sales division, which is responsible for crop sales.

The key corporate administrative divisions in each country are:

- an accounting division, which is responsible for accounting and tax reporting;
- an accounting methodology division, which ensures that any financial statements prepared in accordance with national reporting standards comply with IFRS;
- a corporate finance division, which manages internal cashflow;
- a legal division, which manages all legal issues;
- a security division, which provides risk management;
- an information technology division, which implements and provides support for all accounting, budgeting and reporting software and related programmes; and
- a maintenance division, which provides maintenance services in respect of the Group's non-production real estate and assets.

Operational Clusters

The Group’s farms are situated in close proximity to one another and are grouped in operational “clusters”. This enables the Group to maximise operating efficiency and achieve cost savings by optimising the use of its mechanical and human resources. The current operating clusters of farms and silos are as follows:

Russia

- The Northern cluster, comprising farms located in the west Rostov region and the Matveev Kurgan grain silo;
- The Central cluster, comprising farms located in the south-west Rostov region and the Mechetinsky grain silo;
- The Southern cluster, comprising farms located in the south Rostov region, the west Stavropol region, the north Krasnodar region and the Razvilensky grain silo; and
- The Eastern cluster, comprising farms located in the central Stavropol region.

Ukraine

- The Western cluster, comprising farms located in the Vinnytsia region;
- The Central cluster, comprising farms located in the Poltava and Sumy regions and the Agrostroi grain silos; and

- The Southern cluster, comprising farms located in the Cherkasy, Mykolaiv and Kherson regions and the Podgorodnya and Kamenny Most grain silos.

Each cluster consists of several farms, which are each managed by farm managers who are responsible for all activities on their respective farms, including following the crop production schedule, maintaining agricultural machinery and controlling the stock of raw materials. These farm managers in turn report to managers responsible for the relevant cluster. Each cluster employees its own production managers and agronomists and has access to all necessary agricultural machinery and infrastructure.

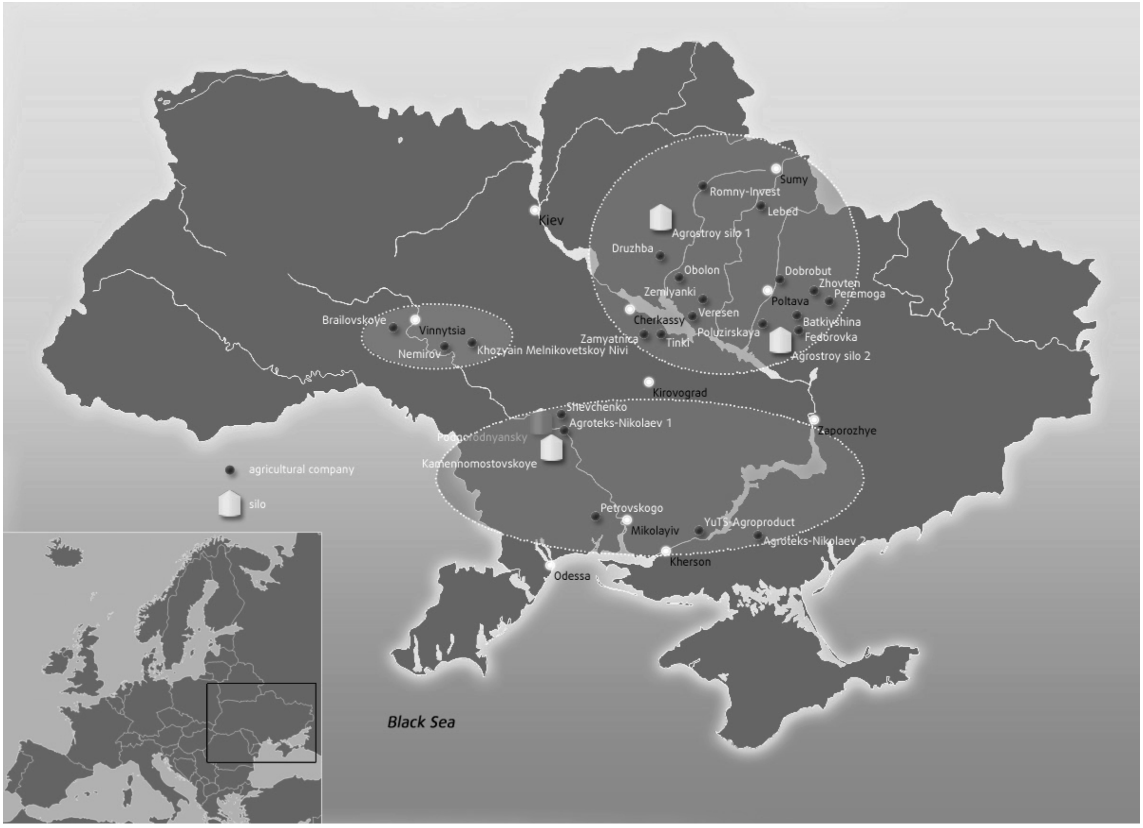
The Group's Land Portfolio

The Group has, under its control, a substantial portfolio of arable land in Rostov, Stavropol and Krasnodar in Russia and Vinnytsia, Sumy, Poltava, Cherkasy, Mykolaiv and Kherson in Ukraine. The land is situated in those areas of Russia and Ukraine which are most favourable for agricultural production and are characterised by a highly fertile type of soil known as "chernozem", or "black earth", a fertile soil containing a very high percentage of humus and high percentages of phosphoric acids, phosphorus and ammonia.

The following maps show the location of the various landholdings, silos and clusters in Russia and Ukraine:

Russia

Ukraine



As a result of the Restructuring, the Group acquired rights to almost all of the agricultural land held by the Former Group. The size of the Former Group's agricultural land portfolio increased each year since the Former Group's formation and it expanded substantially as a result of the integration of approximately 180,000 hectares of land held by the YTS Group into the Former Group in 2008.

The Group's current portfolio of land was formed from three main sources. In addition to the approximately 180,000 hectares which was previously under the control of the YTS Group and which was transferred to members of the Former Group, who are now members of the Group, a further approximately 152,000 hectares was acquired by members of the Former Group, who are now members of the Group, from various sources in 2008 and 2009 and a further approximately 27,000 hectares, which was previously under the control of the Valars Group, was acquired by the Group as a result of the Restructuring (see "*Restructuring*").

In Russia, as at the date of this Prospectus, the Group controls approximately 238,000 hectares of land (including approximately 46,000 hectares of land that is owned and approximately 192,000 hectares of land that is leased). In Ukraine, as at the date of this Prospectus, the Group leases almost 120,000 hectares of land. The following table shows the amount of land controlled by the Group as at 31 December 2008, 2009 and 2010, respectively:

Country	Total land under control, ha	Land owned, ha	Leased lands				
			Total leased land, ha	Lease expires in under 1 year(1), ha	Lease expires in 1-5 years(1), ha	Lease expires in 5-10 years(1), ha	Lease expires in more than 10 years(1), ha
2008							
Russia	199,027	42,092	156,934	40,936	32,912	13,836	69,251
Ukraine	106,568	20	106,568	2,865	41,103	62,227	352
Total	**305,594**	**42,112**	**263,482**	**43,801**	**74,015**	**76,063**	**69,603**
2009							
Russia	234,304	46,781	187,523	50,730	37,668	25,503	73,622
Ukraine	123,447	48	123,399	4,219	77,124	40,275	1,781
Total	**357,751**	**46,829**	**310,922**	**54,949**	**114,792**	**65,778**	**75,403**
2010							
Russia	234,923	46,320	188,602	25,603	59,008	29,000	74,992
Ukraine	122,875	48	122,827	11,100	58,557	51,240	1,930
Total	**357,797**	**46,368**	**311,429**	**36,703**	**117,565**	**80,240**	**76,922**

(1) Lease expiry periods are from 31 December 2008, 2009 or 2010, as relevant.

Weather conditions, including levels of temperature, rainfall and sunlight, in the areas where the Group operates are generally beneficial for the crops cultivated by the Group. The Group's agricultural land is spread across different latitudes, which means that the timing of crop planting and harvesting varies slightly across the land portfolio. This enables the Group to optimise the use of its resources and achieve cost savings, for example, by using the same combine harvesters in different regions with varying latitudes during the same season.

Land Ownership Strategy

The Group leases the majority of its land in Russia, and the vast majority of its land in Ukraine, from individual owners and collective farm cooperative bodies. In addition, approximately 30,000 hectares of state controlled land is leased from relevant local municipal authorities. The Group does, however, own some land, the majority of which is located in Russia. Members of the Group are party to approximately 22,917 lease agreements (approximately 3,651 in Russia and approximately 19,226 in Ukraine). The majority of leases entered into relate to relatively small landholdings, being on average 51.7 hectares per lease in Russia and 6.44 hectares per lease in Ukraine. In Russia, the lease covering the largest area of land relates to 12,587 hectares, or approximately 5.35% of the Group's Russian land portfolio. In Ukraine, the lease covering the largest area of land relates to 442.99 hectares, or approximately 0.36% of the Group's Ukrainian land portfolio. Due to the small average size of each lease, no one lease is deemed to be individually material.

The Group's strategy focuses on the use of leased land and the revenues generated from using that land for production purposes and Management has no strategy to accumulate land through ownership. However, there are a number of situations where the Group will acquire land in Russia strategically in order to maintain the size of its existing portfolio of land, such as where a landlord has died and his or her successors wish to sell the land. As a matter of law, companies are not permitted to own the freehold to arable land in Ukraine (see *“Industry Overview — Land Market Overview”*).

The terms of the Group’s leases typically range from one to ten years and annual lease rates typically range from USD 20 to USD 60 per hectare in Ukraine and up to USD 100 in Russia. In Russia, the lease rate is established according to a direct agreement between the lessee and the lessor. In Ukraine, minimum lease rates are calculated as a fixed percentage of, on average, three per cent of the cadastral valuation of the leased land, as required by Ukrainian legislation. For further information, see *“Risk Factors— The Group’s financial performance and portfolio of land may be adversely affected by a lifting of the moratorium on the sale of agricultural land or an increase in the cadastral valuation in Ukraine”*. This valuation is not determined by the market. Typically, in both Russia and Ukraine, the terms of the lease provide for the rent to be reassessed when the lease is renewed and lease payments may be indexed in accordance with the official inflation rate on the day of payment.

Lease payments can be paid in cash or by payment in kind in crops with the agreement of the parties. For the year ended 31 December 2010, approximately 57% of the Group’s lease payments on its land in Russia and 47% in Ukraine were paid in kind by delivery of crops and the Group’s other products. In Russia, the general lease rate is 2 to 3.5 tonnes of wheat per unit (each unit normally having a size of seven hectares). In Ukraine, lease rates are fixed in U.S. dollars or hryvnia however the landowner can elect to receive a fixed volume of produce per hectare. The Company’s preference is to settle lease obligations through monetary payment, however, there remains a preference among landowners, especially in Russia, for payments in kind.

The Group has the right to extend the majority of its current leases, should the owner elect to renew the lease and provided that there has been no breach of any contractual terms on the part of the relevant Group company. To date the Group has not experienced major difficulties with the extension of the terms of its leases, although some re-negotiation of key terms, including rental price, may take place. The Group employs a team of lawyers to manage its leases, deal with the acquisition of new leasehold interests and renew existing leases. The Group keeps details of all of its leases on a land management database, which enables the Group to track when its leases are due to expire. The team works closely with the Group’s landlords to secure the extension of the terms of its leases, generally beginning this process at an early stage, approximately one year before the end of the lease term, to ensure that the lease extension is agreed before expiry. As part of this process, the Group obtains, generally on an annual basis, valuations of its leased land in order to negotiate rent payments for the extended term. The Group believes that it has been successful in extending the terms of approximately 90% to 95% of its leases for an additional five to ten years. Landlords are generally willing to renew their leases to the Group and where a lease is not renewed it is generally due to the landlord requiring the land back for personal reasons and rarely because the landlord wishes to lease the land to a competitor of the Group.

In Russia, the Group principally competes for land in the regions in which it operates with mid-size agricultural companies and, in Ukraine, the Group faces competition for land from a number of publicly traded agricultural companies.

For further detail on lease of agricultural land in Russia and Ukraine, see “*Industry Overview – Land Market Overview*”. For a description of the risks connected with the leasing and ownership of agricultural land in Russia and Ukraine, see “*Risk Factors – Risks Related to the Group’s Business and Industry – The Group’s business could be materially adversely* *affected if its land lease agreements are not renewed upon expiry or invalidated or if zoning conditions are altered*", "*Risk Factors – Risks Related to Russia and Ukraine – Land lease registration process is complicated and lengthy in Russia and Ukraine*" and "*Risk Factors – Risks Related to Russia – The Group's ownership interest in agricultural land may be challenged under Russian law*".

Land Expansion and Integration

Expansion Procedure

The Group has focused on increasing the efficiency of its existing land rather than significantly expanding its land portfolio in the past three years due to liquidity constraints. However, prior to that, the Group (and its predecessors) acquired land through the entering into of new leases and the acquisition of companies holding leasehold land portfolios. It is now part of the Group's current strategy to resume the expansion of its portfolio of land.

Typically, expansion is carried out in accordance with the following procedure. In identifying land, the Group focuses on acquiring land with high soil quality and proximity to its existing portfolio of land, storage facilities any other infrastructure. This enables the new land to be integrated into the Group's existing operations faster and more efficiently. The preparation of land for the new season starts in August and September and the Group aims to acquire new land before this period so that it can be seeded and harvested during the following season.

The acquisition of new land is a collaborative process that involves research by agronomists and financial advisers and ongoing interaction with land owners and the relevant authorities. Many members of the Group's senior management are either from and/or are well-known in the areas where the Group's operations are located and, as a result, have a very good understanding of the location of high quality land in the Group's targeted regions. After the Group identifies potential land, its agronomists perform initial due diligence on the land and select the most attractive farms on the basis of the land's current usage, location in relation to existing farms, access to infrastructure, crop suitability and potential yields.

In the past, once land had been selected by its agronomists, the Group would approach the members of the relevant cooperative, the individual landowner(s) or the relevant local municipal authority to discuss leasing the land. Typically, in the case of collective farms, the Group would meet with community members at a general assembly of the relevant cooperative to discuss and negotiate the terms (and particularly the price) of the leases, so as to reach a collective decision with members of the community. In the case of individually owned land, discussions would be had with the individual landowner(s) and, in the case of state owned land, discussions would be had with the relevant local municipal authority. Once the terms were agreed, the lease agreement(s) would then be executed and the Group would register the new leases with the relevant state authorities and input the details of the lease into its land management database. It is expected that the same procedure will be followed in respect of all future acquisitions.

The Group also has a community relations department that collaborates with the local communities where it operates to support and develop social infrastructure in those regions. These activities have, in the past, covered areas such as education, healthcare, utilities and road networks. Such obligations generally arise as a result of the acquisition of collective farms, where community and social infrastructure were historic obligations of the farm. The Group seeks to transfer these obligations to local authorities as part of the acquisition terms.

However, some are retained, as Management believes that such activities enhance its reputation as a trusted partner and that good relations with its land owners and the local communities are crucial for the long-term success and growth of the Group's business.

Integration Procedure

The Group's primary focus after leasing the land is to work to put the land into production as early as possible within the framework of its operating model and to achieve improved margins on the land. The Group aims to put newly-acquired land into production within one to three months after its acquisition. The Group applies modern farming techniques and good operational and management practices to the land it acquires and invests in modern technology, machinery and equipment to bring yields up to Group standards. The process of integrating newly-acquired land within the Group's existing operations and increasing its yield is a three step process involving analysis and restoration of the land, allocation of appropriate resources and the integration of the land into the Group's infrastructure and logistics network. This process is accompanied by the immediate introduction to the acquired land of the Group's standards of budgeting, accounting and management control. For further information, see *"Management and Corporate Governance"*.

Initially, newly-acquired land must be allocated to a block, based on factors such as geography and proximity to key infrastructure. Once allocated to a block, the Group's agronomists analyse, plan and implement measures to restore and improve the condition of the newly-acquired land before the cultivation process begins. The agronomists undertake a chemical analysis of the soil to determine the optimal mix of crops, fertilisers and chemicals to be used for it. They also assess the need for other action, such as levelling and ploughing to loosen the soil to help make nutrients available to the crops, and develop a plan for such measures to be undertaken.

The next step in the integration process is to ensure that newly-acquired land has the appropriate operational resources available to effectively and efficiently farm the land in a manner designed to improve yields. During this process, agronomists and block managers assess the resource needs of the land in the light of the existing resources of the Group and determine if additional equipment is needed to cultivate it. Modern farming equipment utilised by the Group will be allocated to acquired land based on this assessment and trained labour is assigned to help enhance its productivity.

Finally, newly-acquired land must be integrated into the Group's infrastructure and logistics network. This involves allocation of storage capacity to the land as well as sufficient cleaning and drying facilities for crops. Transportation equipment, such as trucks and grain haulers, are also allocated for the transport of raw materials and crops to storage. As with the allocation of operational resources, agronomists and block managers assess the anticipated storage and transport needs of the acquired land in light of the existing resources of the Group.

Following the successful integration of newly acquired land into its operating model, the Group estimates that a period of one year is usually required for it to reach the Group's average performance levels. The Group, through the expansion undertaken by the Former Group, has significant experience in undertaking such integration programmes. For example, in 2009, the Former Group acquired, either by the acquisition of land leases directly or by the acquisition of existing farm businesses together with their land lease rights, approximately

52,000 hectares of new land and successfully integrated this land in accordance with the procedure described above.

Categories of Land

The overwhelming majority of the Group's land is arable land, being approximately 92% of its portfolio of land as at 31 December 2010. In very limited circumstances, where it is not commercially viable or convenient for the Group to cultivate land that falls under its control, the Group will lease this land to third parties. As at 31 December 2010, approximately only 0.1% of the Group's land was leased in such circumstances. The Group has a very limited percentage of land which is inappropriate for cultivation, comprising approximately 1% of the Group's portfolio of land as at 31 December 2010.

In order to support the Group's non-crop activities, such as livestock production, the Group holds grazing land, which is primarily used for raising cattle and pigs.

The following table shows the categories of land held by the Group as at 31 December 2008, 2009 and 2010, respectively:

Country	Total land under control, ha	Arable land, ha			Grazing land, ha	Granted to 3rd parties under lease, ha	Land inappropriate for cultivation, ha
		Total arable land, ha	Harvested land, ha	Temporarily fallow land due to crop rotation, ha			
2008							
Russia	199,027	175,816	171, 682	4,134	19,587	1,280	2,344
Ukraine	106,568	104,142	79,946	24,196	750	0	1,676
Total	**305,595**	**279,958**	**251,628**	**28,330**	**20,337**	**1,280**	**4,020**
2009							
Russia	234,304	211,921	192,502	19,419	19,804	760	1,819
Ukraine	123,447	119,666	113,555	6,111	708	0	3,073
Total	**357,751**	**331,587**	**306,057**	**25,530**	**20,512**	**760**	**4,892**
2010							
Russia	234.923	212,714	193,920	18,794	21,883	326	0
Ukraine	122,875	114,525	114,525	0	5,297	0	3,053
Total	**357,798**	**327,239**	**308,445**	**18,794**	**27,180**	**326**	**3,053**

Products and Yields

Products

The Group's core business is the large-scale cultivation of wheat, barley, corn, sunflower seed, rapeseed and sugar beet. For the year ended 31 December 2010, wheat accounted for approximately half of the Group's total production and crop sale revenues. In addition, sunflower seeds and rapeseeds contributed 26% and 10% of total crop sales revenues respectively.

These crops are cultivated on approximately 88% of the Group's arable land, with approximately 5% of the Group's land being kept fallow during any one agricultural year in accordance with crop rotation programmes adopted to improve the land's long-term productivity.

Wheat is a grain used mainly for food and livestock feed. Winter wheat is seeded in September and October and the harvest starts in July. Typically, producers in the CIS enter into the majority of sales for winter wheat between August and December, although it is sold all year round. Spring wheat is seeded in March and the harvest also usually starts in July. The Group currently focuses its wheat production principally on winter wheat, which typically has a higher average yield compared to spring wheat. Spring wheat is generally only planted in circumstances where winter wheat is damaged. Nearly all of the wheat that is produced is sold to major international trading companies for further export, principally to countries in the Middle East and North Africa, including Egypt, Saudi Arabia, Jordan, Iraq, Kuwait and Yemen, and other countries, including Greece, Turkey, Lebanon, Israel, Bangladesh and India. Some wheat is also sold to domestic food producers or to third parties for fodder. Management estimates that approximately 60% of the Group's harvested Ukrainian wheat is of milling quality and can therefore be used for human consumption. The balance is of fodder quality. In Russia, the proportion of milling to fodder quality grain is higher, with fodder quality wheat comprising only 10% of the total crop. The quality of wheat is affected by a number of factors, including weather conditions, the quality and variety of grain seeds and the type and use of farming technology, fertilisers and crop protection. The Group has a programme of improving quality based on its own research, technological improvements and using new sorts of seeds.

Barley is a grain used mainly for the production of animal feed and for human consumption, however the Group does not cultivate barley for human consumption. Winter barley is seeded in September and harvested from the end of June to the middle of July. Spring barley is seeded in March and the harvest typically starts in July. The Group currently focuses its barley production principally on winter barley, which typically has a higher average yield compared to spring barley. Spring barley is generally only planted in circumstances where winter barley is damaged. Typically, producers in the CIS enter into the majority of sales for barley between July and December. All barley cultivated by the Group is typically sold to major international trading companies for further export, principally to Saudi Arabia and Jordan.

Corn is a grain used mainly for food and the production of biofuel and animal feed. Corn is seeded in April and the harvest typically starts in late September or early October. Typically, producers in the CIS enter into the majority of sales for corn between October and December. The corn cultivated by the Group is sold in the Russian and Ukrainian domestic market, principally to food processing companies and spirit producers, and also to international trading companies for further export, principally to Egypt, Turkey, Israel and countries of the European Union.

Oilseeds (rapeseed and sunflower seed) are used in the production of edible oils, biofuel and for animal feed. Sunflower seeds are planted in May and the harvest takes place in September through to October. Typically, producers in the CIS enter into the majority of sales for sunflower seed between October and February. Winter rapeseed is planted during the period starting at the end of August and ending in September and the harvest typically takes place in the beginning of July. Producers in the CIS typically enter into the majority of sales for winter rapeseed between July and September. Spring rapeseed, which is only grown in circumstances where the winter rapeseed crop has been damaged, is planted in March and April and is typically harvested at the beginning of July. The Group sells oilseeds in Russia to the biggest Russian and international oil-processing companies and in Ukraine to international trading companies for further export, primarily to Israel, Turkey and countries of the European Union, and to Ukrainian oil-processing companies. The Group was a pioneer of large scale rapeseed cultivation in Russia and it remains an important crop for the Group due to its high demand. Some rapeseed and sunflower seed is sold under a take-back arrangement whereby the Group receives edible oils from the relevant processing plant and sells it.

Sugar beet is used in the production of sugar, biofuel and animal feed. Sugar beet is seeded in April and the harvest typically starts in September or October. Producers in the CIS typically enter into the majority of sales for sugar beet in September and October. All sugar beet cultivated by the Group is sold to domestic sugar producers in Russia and Ukraine. Some sugar beet is sold under a take-back arrangement whereby the Group receives sugar back from the relevant processing plant and sells it.

The Group also produces limited volumes of the following crops:

Other cereals (comprising buckwheat, triticale, millet and oats) are used mainly for food and animal feed. The cereals mentioned are seeded in April and May and the harvest typically starts at the end of August. All the cereals mentioned are cultivated by the Group for reasons of crop rotation and are sold in the domestic market to processors.

Other oilseeds (comprising soya bean, flax and chickpeas) are used for food and the production of edible oil, soya-meat substitute and other soya-related products. These oilseeds are usually seeded by the Group during April and May and harvested during September and October. These crops are generally sold to domestic oilseed processors or used by the Group to make animal feed for its own livestock.

Vegetables are grown for food. The Group produces more than 20 varieties of vegetables, including potatoes, onions, carrots, pumpkins, peas, beetroot and cabbages. Vegetables are seeded in April and May, mostly on irrigated land, and the harvest typically runs from the end of July through to October. All vegetables cultivated by the Group are sold in the domestic market to food wholesalers and food producers.

Other agro-production includes various fodder crops used to create silage for livestock feed.

Yields

Yields obtained in those regions of Russia and Ukraine where the Group operates are typically higher than those of other regions of Russia or Ukraine, with some of the highest yields recorded in each country. For example, in the 2009/2010 agricultural year, wheat yields in the Krasnodar region averaged 5.5 tonnes per hectare, wheat yields in the Stavropol region averaged 3.9 tonnes per hectare and wheat yields in the Rostov region averaged 3.4 tonnes per hectare. This compares with a national average for Russia of 2.45 tonnes per hectare for the same period. Average wheat yields for the same period in those areas of Ukraine where the Group operates were 3.5 tonnes per hectare in Cherkasy, 3.3 tonnes per hectare in Vinnytsia, 2.8 tonnes per hectare in Mykolaiv, 2.6 tonnes per hectare in Poltava, 2.4 tonnes per hectare in Kherson and 2.2 tonnes per hectare in Sumy. The average wheat yield for Ukraine as a whole was 2.7 tonnes per hectare.

Yields obtained at the Group's Ukrainian farms have typically been lower than those obtained at the Group's Russian farms due to the fact that the Ukrainian farms have been acquired more recently and are therefore still undergoing farm modernisation, rehabilitation from prior mismanagement and a process of integration into the Group's existing operations. See *" - Land Expansion and Integration"*. However, with respect to the current agricultural year, Management expects that yields at the Group's Ukrainian farms will generally equal those achieved at the Group's Russian farms. Based on current conditions, Management expects that yields obtained at the Group's farms in Russia and Ukraine in the current agricultural year will be, on average for both countries, not less than 4.5 tonnes per hectare for winter wheat, not less than 4.0 tonnes per hectare for winter barley and not less than 2.6 tonnes per hectare for winter rapeseed. These yield projections reflect current conditions only and any future weather anomalies, natural disasters or other events beyond the Group's control between the date of this Prospectus and the 2011 harvest could significantly damage the Group's current harvest and these anticipated yields. See *"Risk Factors – Risks Relating to the Group's Business and Industry – Poor or unexpected weather conditions may disrupt the Group's production of crops."*

The following tables set out information about the Group's crop production for the years ended 31 December 2008, 2009 and 2010, respectively:

Harvested area, hectares

		2008			2009			2010	
Type of production	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**
Cereals	**159,487**	**115,023**	**44,464**	**189,693**	**127,738**	**61,955**	**193,380**	**121,318**	**72,062**
wheat	119,578	89,294	30,284	146,209	105,384	40,825	153,980	105,430	48,550
barley	10,283	5,091	5,192	23,921	12,328	11,593	24,226	9,796	14,430
corn	29,626	20,638	8,988	19,563	10,026	9,537	15,174	6,092	9,082
Oilseeds	**72, 871**	**45,586**	**27,285**	**81,802**	**51,400**	**30,402**	**88,034**	**56,562**	**31,472**
sunflower seeds	62,802	39,857	22,945	64,598	40,994	23,604	58,848	34,262	24,586
rapeseeds	10,069	5,729	4,340	17,204	10,406	6,798	29,186	22,300	6,886
Sugar beet	2,742	2,742	0	3,361	385	2,976	5,801	2,849	2,952
Other cereals	7,774	2,630	5,144	7,634	4,275	3,359	8,063	4,983	3,080
Other oilseeds	1,059	0	1,059	4,992	0	4,992	2,057	0	2,057
Vegetables	247	125	122	337	316	21	239	239	0
Other agro-production	7,448	5,576	1,872	18,238	8,388	9,850	10,871	7,969	2,902
TOTAL:	**251,628**	**171,682**	**79,946**	**306,057**	**192,502**	**113,555**	**308.445**	**193,920**	**114,525**

Yield, tonnes per hectare

		2008			2009			2010	
Type of production	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**

Cereals	**3.8**	**3.8**	**3.7**	**3.5**	**3.7**	**3.0**	**3.6**	**4.0**	**3.0**
wheat	3.9	4.1	3.3	3.6	3.9	2.8	3.7	4.1	2.9
barley	3.7	4.1	3.3	3.2	3.8	2.6	2.7	3.7	2.0
corn	3.5	2.8	5.2	3.5	2.4	4.7	4.3	2.9	5.3
Oilseeds	**1.7**	**1.7**	**1.6**	**1.8**	**2.0**	**1.4**	**2.1**	**2.3**	**1.8**
sunflower seeds	1.6	1.6	1.6	1.7	1.9	1.4	1.9	2.0	1.8
rapeseeds	2.0	2.3	1.6	2.0	2.4	1.3	2.5	2.7	1.8
Sugar beet	29.8	29.8	0.0	27.9	38.3	26.6	33.2	35.9	30.7
Other cereals	2.0	2.6	1.7	2.2	2.3	2.2	1.8	2.3	1.0
Other oilseeds	1.2	0.0	1.2	1.5	0.0	1.5	2.9	0.0	2.9
Vegetables	15.4	16.0	14.8	11.7	11.5	14.4	10.4	10.4	0.0
Other agro-production	8.4	7.1	12.0	4.5	5.7	3.5	6.6	4.9	11.4
TOTAL:	**3.6**	**3.8**	**3.1**	**3.3**	**3.4**	**3.2**	**3.8**	**4.0**	**3.6**

Gross crop, tonnes

		2008			**2009**			**2010**	
Type of production	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**	**TOTAL**	**Total Russia**	**Total Ukraine**
Cereals	**605,617**	**440,354**	**165,263**	**665.96**	**477,57**	**188,390**	**704,531**	**486,536**	**217,995**
wheat	462,864	361,832	101,032	520,610	406,846	113,764	573,241	432,427	140,814
barley	38,272	20,952	17,320	76,909	46,890	30,019	65,409	36,187	29,222
corn	104,481	57,570	46,911	68,441	23,834	44,607	65,881	17,922	47,959
Oilseeds	**123,137**	**78,477**	**44,660**	**143,677**	**101,526**	**42,151**	**185,941**	**128,872**	**57,069**
sunflower seeds	103,015	65,507	37,508	109,51	76,053	33,457	113,156	68,818	44,338
rapeseeds	20,122	12,970	7,152	34,167	25,473	8,694	72,785	60,054	12,731
Sugar beet	81,847	81,847	0	93,844	14,742	79,102	192,840	102,243	90,597
Other cereals	15,530	6,834	8,696	16,878	9,636	7,242	14,580	11,528	3,052
Other oilseeds	1,321	0	1,321	7,726	0	7,726	5,909	0	5,909
Vegetables	3,804	1,997	1,807	3,936	3,633	303	2,482	2,482	0
Other agro-production	62,280	39,797	22,483	82,067	47,445	34,622	72,065	38,911	33,154
TOTAL:	**893,536**	**649,306**	**244,230**	**1,014,088**	**654,552**	**359,536**	**1178,348**	**770,572**	**407,776**

The Production Cycle

The implementation of modern farming techniques and the application of optimised crop rotation have enabled the Group to repeatedly achieve yields for the principal crops that it grows that Management believes are higher than average yields in the regions where the Group's farms are located. The Group's yields are largely driven by its use of fertilisers, chemicals and crop protection products (as well as seed quality and weather conditions). Consequently, the Group determines the optimal yield for a particular hectare of land based on the relationship between the price of the crop grown on that land and the price of the fertilisers and/or crop protection products required for such crop and land.

Crop Planning

Crop planning and cultivation is a complex process that involves, among other things, determining the appropriate crop mix for each season and, on a long-term basis, securing quality seeds, preparing the land for cultivation, cultivating and treating the planted area, applying fertilisers and crop protection products, and ensuring that the appropriate equipment is available to harvest the crops and transport the harvested crops to storage facilities. The implementation of modern cultivation practices includes sophisticated utilisation of fertilisers, chemicals and minimal tillage techniques. These practices significantly increase yields and simultaneously decrease soil exhaustion. All field work, the application of chemicals and fertilisers, seeding and harvesting is undertaken in accordance with a strict timetable to optimise its effects.

Seed quality is one of the most important factors for a successful crop. The quality of seeds used depends on land conditions and the expected quality and quantity of yields. The Group's agronomists use their expertise to select the appropriate type of seed for each type of land with the aim of achieving the highest yield at the lowest cost possible per hectare. The Group experiments with new seed varieties of wheat, barley, sunflower seeds and rapeseeds in order to determine those varieties best suited to the relevant soil conditions.

Crop Mix

The Group determines the optimal crop mix each season based on a variety of factors. These include the need for crop diversification, land and weather considerations, expected costs of raw materials, and supply and demand conditions, taking into account the overall crop rotation schedule. The Group selects its crop mix to optimise expected profitability based on its market expectations, rather than focusing solely on crop yields. The crop mix for 2011, shown as a percentage of seeded area, is as follows:

Type of crop	**Russia**	**Ukraine**
Cereals		
wheat	51.9%	51.5%
barley	3.4%	2.7%
corn	0.2%	6.5%
Oilseeds		
sunflower seeds	27.6%	18.8%
rapeseeds	9.0%	4.2%
Sugar beet	0.8%	2.8%
Other cereals	7.1%	13.4%
Other oilseeds	-	-
Vegetables	-	-
Other agro-production	-	-

Through crop rotation, land is cropped without exhausting the soil, and the use of fertilisers and pesticides is minimised. The Group's agronomists use crop rotation to grow the appropriate combination of crops for different types of soil and ensure that each crop adds different nutrients to encourage sustainable use. Traditional agricultural practice is to leave land fallow every six to ten years but due to the quality of the soil where the Group's farms are located and the application of modern production procedures, Management's aim is to minimise the amount of land left temporarily fallow due to crop rotation. Management estimates that going forward, the amount of land left temporarily fallow in any particular agricultural year should not exceed between one or two percent of the Group's total land bank. Management considers this to be a sustainable practice given its use of modern technology and industry-leading farming practices. With its agronomists’ expertise and understanding of its soils, the Group varies its crop rotation pattern to optimise the cultivation of crops according to expected market demand.

The Group’s agronomists assess the condition of the Group’s fields and, taking into consideration the factors mentioned above, will devise a proposed mix for winter crops in August. Once the proposed crop mix is prepared, the Group’s agronomists work with the sales department to refine the plan in the light of expected market conditions, particularly with respect to higher margin crops such as oilseeds and sugar beet.

Crop Production Process

The initial step in the crop production process is land preparation, which involves actions such as removing existing surface plants and preparing the land for seeding. The Group’s agronomists also perform soil analysis and take measures to regulate the acidity of the soil, as necessary. Following land preparation, seeding takes place.

After seeding, the planted area is treated and cultivated, and organic and industrial fertilisers appropriate for the conditions of the soil and the type of crops being cultivated are used. Fertilisers and crop protection products play an important role in the crop production process and help improve yields. As part of the block and farm management system, each farm within a block has a farm manager who is responsible for, among other matters, maintaining the overall quality of the crops in their fields and ensuring that fertiliser and crop protection products, including herbicides, fungicides and insecticides, are applied as the agronomists have directed. Within a farm, individuals are given oversight of a field and are responsible for monitoring the growth of crops to help ensure the crops are not affected by diseases or pests.

As part of its cultivation practice, where possible the Group uses minimum-till and no-till cultivation technology, which leaves the soil undisturbed, and crop residues on the field, for longer periods. This protects the soil from erosion, water evaporation and structural breakdown and also minimises or eliminates tillage, which helps to reduce costs in the long term. The Group uses this technology as it believes that minimum-till and no-till cultivation gives it greater visibility over moisture levels of the soil. No-till is not an option for some crops such as wheat, barley, rapeseed or corn, which require minimum-till, or crops such as sugar beet, which require full-till. Minimum-till and no-till cultivation can take several years to fully implement on a field and typically requires higher initial capital expenditure, but Management believes that using such technology results in lower operating expenditure in the long term.

At harvest time, crops are collected from the fields and, because the Group owns or leases a significant number of harvesters, it is able to harvest its crops at optimal times to maximise overall crop quality. Moreover, as the Group’s land is spread across slightly different latitudes, there is a time lag in planting and harvesting periods that allows the Group to use its equipment more efficiently across several areas of land. The Group’s cultivation processes, including seeding, fertilising and harvesting, are each carried out solely by machinery, which helps ensure consistent product quality in a more cost-effective manner.

Management estimates that in the 2009/2010 agricultural year, approximately 1% of the Group's total harvest in Russia, and approximately 5% in Ukraine, was lost during harvesting, cleaning, transportation or storage. Management expects that the level of loss encountered in Ukraine will decrease in future years as a result of the continued introduction of new agricultural machinery and updated farming techniques to the Ukrainian farms.

After the crops have been harvested, the Group either sells them immediately to customers or stores them in granaries and silo facilities for future sales. The land is then treated with herbicide and fertilisers in anticipation of the next growing cycle.

Machinery Use

The Group invests in modern machinery and equipment to improve yields and reduce the cost of production and it owns substantially all of the farming equipment that it uses. As at 31 December 2010, the Group operated a fleet comprising of, amongst other equipment, 425 tractors, 210 combine harvesters and 72 seeding machines. In addition, it has approximately 3,873 items of other machinery used in all aspects of the production, processing and storage process, such as front-end loaders, grain haulers, conveyor belts and grain cleaners. Approximately 80% of newly acquired machinery is leased.

The Group's farming machinery is manufactured by international suppliers, such as John Deere, Claas and CNH. The Group buys or leases machinery and equipment from both official dealers and the manufacturers themselves, depending on the policy of the manufacturers. However, even if delivery is organised by official dealers, the price and the terms are usually negotiated directly with the manufacturers. Where the Group deals directly with the manufacturer, the local dealer typically provides after-sales services and supplies spare parts. Given the relative size of its machinery purchases, the Group places bulk orders where possible to leverage its purchasing power to achieve better pricing and terms and is focused on enhancing its purchasing efficiencies as its operations, and thus its machinery needs, expand.

The Group continually assesses its machinery needs based on its anticipated level of growth, and these plans are then refined based on the expected crop rotation plan and its expected requirements at the time the new equipment is ordered.

Due to the large size of the Group's fields, the Group is able to use wide-cut farm equipment that can seed, spray and harvest more land with each field rotation, which enables the Group to improve its efficiency and reduce production costs. In addition, in good weather during the harvest season, the Group's machinery can operate for almost 24 hours a day, seven days a week, with downtime only for re-fuelling and any necessary repairs.

The Group equips substantially all of its agricultural machinery and transport vehicles with GPS technology and fuel flow sensors. This technology enables the Group to seed and harvest its crops with greater precision, which in turn has helped reduce fuel consumption and seed usage. It also helps reduce human error during cultivation.

Valinor plans to invest further in new model machinery and equipment in order to: (i) replace existing machinery and equipment; (ii) reduce the use of third party services which supply machinery and equipment together with labour to operate the machinery and equipment; and (iii) expand machinery and equipment capabilities generally. Accordingly, it is in the process of implementing a project which targets the acquisition of 85 imported harvesters, 31 seeding machines, 28 imported tractors, 118 locally produced trucks and approximately 200 other items of machinery. The total amount of investment needed for this project is approximately USD 44 million. However, the Group has not entered into any firm commitments with respect to this project. The machinery will principally be acquired through long-term leasing contracts entered into with machinery distributors. The lease terms generally require a 20% down payment and additional periodical payments for five years, after which the machinery becomes the property of the lessor. As a result of utilising lease arrangements as opposed to making outright purchases, the initial amount of investment needed for the project is approximately USD 8.8 million.

Crop Handling and Logistics

Storage

Following the harvest, easy, fast and cost-efficient access to storage is important as crops can only be left in the fields for a relatively short period of time. Crop prices fluctuate with weather conditions and tend to be at their lowest during harvest season as farmers without access to storage facilities are forced to sell their crops immediately after harvest and thereby substantially increase the supply of crops. As a result, the Group ensures that adequate short-term storage facilities are available on its farms. Management believes that the Group's storage capacity provides it with the ability to benefit from price fluctuations caused by seasonality of supply and regulatory issues.

The Group's local granaries and warehouses have a total capacity of approximately 423,000 tonnes. The harvested crop can be stored in these granaries and warehouses immediately following harvesting, maintaining the quality of the crop and giving more flexibility in terms of the most beneficial timing for crop sales. In addition to these short term storage facilities, the Group owns and operates three silos in Russia and four silos in Ukraine with an aggregate storage capacity of approximately 548,600 tonnes. At present, the Company's silos are full to capacity due to the recent export ban in Russia and the various other export restrictions which were effective in Ukraine. Management is focused on upgrading existing storage facilities and constructing new ones where appropriate. It currently plans to construct an additional 26 granaries and to modernise 16 existing ones. This project will involve an investment of approximately USD 7 million. However, the Group has not entered into any firm commitments with respect to this project.

Storage capacity of the Group as at the date of this Prospectus, including granaries and silos, is set out in the following table:

Grain silo and granary capacities

Type of storage	Annual capacity, 000' tonnes
Grain silos in Russia	
Mechetinsky	227.5
Razvilensky	58.2
Matveev Kurgan	165.7
Total Russia	**451.4**
Grain silos in Ukraine	

Grain silo and granary capacities

Type of storage	Annual capacity, 000' tonnes
Grain silos in Russia	
Kamenny Most	51.2
Podgorodnya	30.0
Agrostroi (Lazorki)	8.0
Agrostroi (Karlovka)	8.0
Total Ukraine	**97.2**
Total Group silo capacity	**548.6**
Granaries in Russia and Ukraine (on-farm)	
Total for all Russian and Ukrainian farms	423.0
Total Group silo and granary capacity	**971.6**

In respect of products that can be readily stored, the Group owns sufficient aggregate storage capacity for a whole season of its production. If necessary, all of its crops can be stored in warehouses and granaries for a period of up to one year and in silo facilities for a period of up to five years. The exception to this is sugar beet, which cannot be easily stored once harvested and prior to processing. From time to time, in response to particular circumstances, the Group uses silos owned or operated by third parties, such as when it is not appropriate to mix different grains within one silo or if all of the Group's other silos are in use.

The Group's silos are equipped with crop cleaning and drying equipment and have high-capacity crop loading and unloading systems. The silos also have corn calibration facilities which separate corn for human consumption from that for animal consumption.

The granaries are located across the Group's land holdings, while its silos are concentrated near the middle of each of the blocks. The Group's storage facilities are well positioned relative to main road transport connections and products from all of the Group's farms can be transferred to silos by truck given that generally all of its farms are not more than 150 kilometres away from a silo. Transportation by truck remains efficient for such distances.

Logistics

Management has long-term experience in both domestic and international trading activities, and the Group's logistics division is staffed by highly skilled personnel. Before the Group withdrew from speculative trading, the team traded and handled the trading logistics of three to four million tonnes of grain per year.

The Group's storage and transportation systems are integrated to facilitate the transfer of products to its customers. Most crops are moved by truck both to customers' facilities and to the Group's silos. The Group has a fleet of 750 trucks, grain haulers and other road vehicles that it uses to transport crops from the field to storage facilities, to transport materials between the various farming blocks and occasionally to deliver products directly to customers.

The Group also uses Russian and Ukrainian railways for delivery of its products both to ports and direct to customers' facilities, although to a lesser extent than road transport. The railway networks in both countries are owned and operated by state owned companies with a monopoly on the provision of service. Government bodies set domestic rail freight prices and the terms of transportation on an annual basis. All of the Group's silos are connected to the national rail network in both Russia and Ukraine.

Those crops which are mostly traded in the international market, such as wheat, can be delivered easily to ports located within 30 to 300 kilometres from where it is produced. There are numerous ports in Russia and Ukraine available for use by the Group, including those suitable for shipments of up to 100,000 tonnes (being Rostov-on-Don, Tuapse and Yeysk in Russia and Odessa, Nikolaev, Sevastopol and Kerch in Ukraine), those suitable for deliveries of between 100,000 and 500,000 tonnes (being Novorossiysk in Russia and Yuzhniy in Ukraine), and those suitable for deliveries of more than 500,000 tonnes (being Azov in Russia).

Sales and Marketing

Sales are made through centralised sales departments in both Russia and Ukraine, which analyse current and historical prices and determine the best time of year in which each product category should be sold in order to maximise profits. All sales are made on a tendering basis where the offers of interested buyers are considered by the Group's tendering committee. This centralised process enables major customers to buy crops in bulk from the Group and avoids the complication of contracting with each individual Group company.

Product Pricing

The Group's pricing policy is determined by the relevant national sales department for all the Group's crops from that country and is adjusted on a daily basis, taking into account market conditions, seasonality and levels of supply and demand. As a result of its large storage capacity, the Group is able to store its crops and sell them when prices are at an optimum level. Due to the Group's market position, the sales department is often able to sell its crops on predetermined terms to achieve the best pricing.

In the past, the Group has typically sold its products through a mixture of both forward and spot contractual arrangements. However, Management does not currently believe that selling its grain crops in advance of the harvest would allow it to achieve the best possible prices. As a result, the Group has not made any forward grain sales since 2008. Instead, the Group largely sells its grain on a spot basis, following a daily monitoring of the grain market by relevant members of Management and taking into account any liquidity needs, which allows it to take advantage of price fluctuations because it can sell at times of more favourable prices.

Due to the fact that oilseed demand presently outstrips supply in Russia and Ukraine, major oilseed consumers try to offer favourable conditions for forward sales. In the period of 2008 to 2010, the Group concluded forward sales contracts for rapeseed and sunflower seed with full prepayment three to four months prior to harvesting. However, fully prepaid forward transactions do not allow the Group to take advantage of market price fluctuations during other times of the year and Management intends to sell the Group's entire oilseed harvest on a spot basis in 2011.

In December 2010 and March 2011, certain members of the Group entered into supply agreements pursuant to which the Group has received full prepayment, in aggregate totaling USD 15 million, in return for its commitment to deliver rapeseed and sunflower seed in the volumes indicated in the respective agreements. Prices per tonne pursuant to these agreements are, however, determined on a spot basis at the time of delivery, such delivery being no later than 15 August 2011 in respect of rapeseed and 30 November 2011 in respect of sunflower seed. According to these agreements, if the total value of goods delivered is less than the prepayment received, the supplier (being a member of the Group) is obliged to return the difference to the purchaser.

Sunflower seeds, rapeseeds and sugar beet are grown for local distribution and these crops are sold at local ruble and hryvnia prices. These sales are made to leading Russian and Ukrainian companies engaged in oil and sugar production, with a significant proportion of revenue generated by a small number of customers. Sometimes the Group sells a proportion of its crops directly to foreign traders, and such sales are paid for in U.S. dollars. The Group expects the proportion of such sales to decrease due to increases in local demand, which has considerable potential for further growth.

Markets and Customers

The Group sells the majority of its grain crop output to leading international trading companies who then export a significant proportion of the tonnage purchased. The Group also sells a proportion of its crops directly to foreign traders. The Group sells its products to a diverse customer base (with a significant portion of revenue generated by a small number of customers), which includes the local subsidiaries of some of the leading international trading companies.

The Group has, in the past, sold a large proportion of its products to related parties, specifically members of the Valars Group engaged in grain trading activities. In 2010, transactions with related parties accounted for approximately 44% of the Group's revenue. For further information see note 6 to the audited consolidated financial statements of the Group contained in this Prospectus. In 2011, Management intends that all of its grain production will be sold on a tendering basis in which international grain traders, as well as the Valars Group, will participate on equal arm's length terms.

The following tables provide information on the Group's main customers in the international trading and agribusiness industry:

Russia

Major buyers of agro-production (as a percentage of total sales by value):

Year	**Customers**			
2008	Yugtranzitservis-Agro - 35%	Valary – 11%	Customer 1 - 10%	Customer 2 - 7%
2009	Valary - 67%	Customer 3 - 6%	Customer 4 - 4%	Customer 5 - 4%
2010	Valary - 53%	Customer 3 - 24%	Customer 1 - 4%	Customer 6 - 2%

Products sold (as a percentage of total sales by value):

Year	Winter wheat	Sunflower	Rapeseed	Corn
2008	57%	9%	4%	5%
2009	45%	28%	5%	5%
2010	50%	21%	10%	3%

Ukraine

Major buyers of agro-production (as a percentage of total sales by value):

Year	Customers			
2009	Volary-Export - 26%	Customer 7 - 10%	Customer 8 - 6%	Customer 9 - 4%
2010	Volary-Export - 15%	Volary-Agro - 10%	Customer 10 - 6%	Customer 11 - 5%

Products sold (as a percentage of total sales by value):

Year	Winter wheat	Sunflower	Rape	Corn
2009	21%	19%	5%	12%
2010	32%	26%	6%	8%

Note:
The Group does not have the same information for Ukraine in 2008 as it does for Russia as the Group was in the process of acquiring many of its Ukrainian farms during this year.

Given the demand for its crops, the Group has flexibility to choose and vary its customers although it has decided to develop relationships with certain clients to whom it often sells a significant portion of a crop's production in a given year. The Group can also, subject to prevailing export restrictions, switch between customers in domestic and international markets for the majority of its products. Prior to 2011, the Group sold its grain crop in the domestic market to customers and traders. Its most significant counterparties were members of the Valars Group, which at that time were members of the Group. These sales were carried out on an arm's length basis. In 2009, the Group sold 84% of its wheat production, 47% of its corn production and 72% of its barley production to the Valars Group on an arm's length basis. In 2010, due to the export ban in Russia and export restrictions in Ukraine, the share of products sold to the Valars Group decreased. In 2011, Management intends that all of its grain production will be sold on a tendering basis in which international grain traders, as well as the Valars Group, will participate on equal arm's length terms. For more information in relation to the Group's relationship with Valars Group, see "*Related Party Transactions – Transactions with the Valars Group – Trading Arrangements*".

Oilseeds are in high demand from oil-producers both in Ukraine and Russia. In Russia, the Group's farms are situated in a region where the biggest production facilities owned by Aston, Yug Rusi and Efco are located. In Ukraine, the Group sells oilseeds crops to major producers such as Kernel, Cargill, Bunge and Serna.

The Group sells all of its sugar beet harvest to sugar processing plants situated in the same regions where the Group's farms are located. Sugar beet is a heavy, bulky crop and must be kept in protected storage to maintain the highest possible quality and sugar content for processing. Transporting sugar beet long distances for processing is not economical for growers. Moreover, the economics of sugar beet processing can mean that processing plants do not have sufficient cash to pay for sugar beet at delivery, but only later once the processing plant has sold the resulting sugar. The timing of payment for the crop can therefore be uncertain. The Group sells its sugar beet crop to a wide range of customers. Sugar plants owned by Prodimex, Razgulay and Rusagro, which are the leading Russian sugar refiners, are located within the range of efficient sugar beet transportation from the Group's farms. Therefore, the Group is able to negotiate competitive terms for the sale of its Russian sugar beet crop. In Ukraine, the Group has its own sugar processing plant, which it supplies using its Ukrainian sugar beet crop.

Future Trading Strategy

Currently, no trading activities are carried out by members of the Group and all production is either sold to customers in the domestic market (particularly in respect of sugar beet, corn and certain oilseeds) or to third party trading entities (particularly in respect of wheat, barley, rapeseed and sunflower seed). However, Management intends, utilising its experience in grain trading, to develop an in-house trading function to manage sales of crops direct to third party customers in both the domestic and international markets. This would allow the Group to sell more crops on a FOB basis, potentially keeping the trader's margin. It has designated a Russian member of the Group, LLC "Valinor-Management", to conduct trading operations in Russia, and has acquired a Ukrainian incorporated company, also named "Valinor-Management" LLC, to conduct trading operations in Ukraine. However, neither of these companies presently conduct any trading activities. Management considers that any future trading operation will, initially at least, only market and sell the Group's own products and not the products of third parties.

Any in-house trading function would require the use of ports and other logistical infrastructure as market practice generally dictates that products sold to international markets be delivered on a FOB basis. Presently, the Group does not have to contract directly with port facilities as such arrangements are handled by the relevant trading companies. However, the Group has entered into an arrangement with the operator of facilities at Taganrog Port, which gives it certain guaranteed access rights should it decide to commence trading activities. For further information, see "*Related Party Transactions – Transactions with the Valars Group – Taganrog Port Facilities*".

Sales Agreements

The Group uses several different sales agreements with its customers, which usually contain, among other terms, standardised payment and delivery terms. The Group sells a substantial portion of its products on an ex-works basis, where title to goods passes to the buyer once the goods are loaded onto the buyer's transporter of choice ("**EXW**"). This has particularly been the case during recent periods where export restrictions have been in effect as the majority of sales have either been to domestic processors or domestic traders. However, during periods where export restrictions have not been in effect, sales have predominately been carried out on a basis where the Group, as seller, pays for carriage to the named point of destination, generally a port or processing plant, but risk passes when the goods are handed over to the first carrier ("**CPT**"). FOB sales are not currently performed by the Group, however, if the

Group introduces an in-house trading function, international sales are likely to be carried out on an FOB basis.

The Group typically concludes sales agreements for the sale of a minimum of 1,000 tonnes of its products. For contracts with new customers, the Group generally requires prepayment.

Marketing and Advertising

The Group typically sells its products business-to-business and generally does not engage in extensive marketing or advertising campaigns.

Supplementary Activities

The Group has supplementary activities relating to food processing and livestock breeding in both Russia and Ukraine. Revenue from these supplementary activities was approximately USD 18.2 million, or 8.4% of total revenue, for the year ended 31 December 2010.

Food Processing

The Group sometimes purchases assets used for the production of various types of goods for consumption as an incidental part of the acquisition of new farms. These facilities include nine bakeries, nine milling plants, six crushing mills, five gristmills, five oil manufacturing facilities and one sugar refinery. Management seeks to discontinue those activities which generate operating losses that are acquired in this manner.

Most of the production from these supplementary production facilities is used as food for the Group's own employees when carrying out fieldwork or transferred to lessors of the Group's land as an in-kind rental payments (many of the Group's lease agreements have this provision). All remaining production is sold to food wholesalers at market prices.

Livestock

The Group has limited livestock operations, accounting for approximately 3.3% of its revenue as at 31 December 2010, as a result of acquiring land with existing livestock facilities. The Group currently has eleven dairy, sheep or pig farms. The Group's livestock development strategy is focused primarily on breeding dairy cattle and, to a lesser extent, on pig breeding. As at 31 December 2010, the Group owned 9,906 head of cattle, 3,202 pigs and 1,839 sheep. The cattle development strategy is to increase the productivity of its dairy herd and average productivity, measured by litres of milk per year per cow, has increased by approximately 10% each year for the last three years. The Group also owns a facility for processing finished dairy products such as milk and butter. This facility has significantly increased livestock profitability.

Raw Materials and Suppliers

The Group's procurement divisions in Russia and Ukraine coordinate the purchase of raw materials (other than machinery and spare parts, which is coordinated by the agricultural machinery division) for the Group as a whole to take advantage of the Group's economies of scale in an effort to try to obtain better prices and more favourable buying terms. The division employs a tendering procedure for significant procurement activities.

The Group uses a number of suppliers to meet its raw materials needs. It buys seeds, fertilisers and crop protection products, fuel and machinery and spare parts from various suppliers based on quality, cost and performance considerations. The Group can generally obtain supplies of the same raw materials from a number of different suppliers, although in a given year the Group may obtain supplies in each category from only two or three suppliers to streamline its procurement process.

Cost of sale of goods expenses for 2010 were as follows:

Category	**Amount (USD ’000)**
Chemicals	14,867
Fertilisers	32,061
Seeds	11,959
Fuel	14,532
Labour	14,691
Harvest Insurance	1,289
Other costs	70,339
Total:	**159,738**

Selling, general and administrative expenses for 2010 were as follows:

Category	**Amount (USD ’000)**
Forwarding expenses	3,403
Property insurance	446
Outsourced services	3,490
Management services	5,065
Repair and maintenance	256
Other non-production expenses	10,686
Total:	**23,346**

Seeds

Production of sunflower seeds, rapeseeds, barley and sugar beet by the Group is wholly based on imported seeds. Winter wheat production combines the use of both imported seeds and seeds produced by the Group, with approximately 200 kilograms of the Group's own wheat produced per hectare being used for seeding purposes. Management believes that imported seeds are often better suited to the areas in which it operates and help to optimise yield and costs. Historically, the Group has purchased seeds from leading seed producers, such as Pioneer, Syngenta, Cassad and KWS.

Fertiliser and Crop Protection Products

The two major types of fertilisers used by the Group are NPK (a mix of three primary nutrients, nitrogen, phosphorus and potassium) and nitrogen-based fertilisers. The principal suppliers of these fertilisers to the Group are “Rosagroservice” and “Agrotechnologiya”, the official distributors for Syngenta, BASF, Bayer and Dupont, and Trading House “Uralkhim”, the official distributor of one of the largest international fertiliser producers, “Uralkhim”.

The major types of crop protection products used by the Group are fungicides, herbicides and insecticides. The Group uses numerous types of fungicides to protect grain crops, oil crops and sugar beet. The Group uses more than 40 different types of herbicides, which are mainly used for grain crops and sugar beet, and more than 15 different types of insecticides to protect grain crops and sugar beet. The Group principally uses fungicides produced by BASF, Bayer and Syngenta, herbicides produced by Dow Agro Science, DuPont, Bayer, and Arista and insecticides produced by Dow Agro Science, Bayer, Syngenta and FMCi.

Employees

As at 31 December 2010, 2009 and 2008, the Group had 5,811, 5,626 and 5,595 full time employees, respectively. As at 20 June 2011, this figure was 5,829.

The Group contributes to state run pension schemes in Russia and Ukraine in accordance with applicable law. This means that the Group’s pension provisions are calculated based on the individual salary of its employees, in accordance with the laws of Russia and Ukraine in place at the relevant time. The Group does not operate a private pension plan for its employees and is not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

The Group has a programme aimed at attracting and retaining qualified young professionals as employees. Key features of the programme include sponsoring specialised agricultural education for the children of its employees, offering summer employment to students from leading Russian and Ukrainian agricultural educational institutions and providing accommodation free of charge to its newly employed young professionals.

The Group hires temporary employees to meet seasonal spikes in employment requirements, such as during the harvesting period, in addition to the use of third party contractors who supply their own labour force.

Set out below is a table showing a breakdown of the Group's full time employees by function as at 31 December 2008, 2009 and 2010, respectively:

	Number of employees as at			
Profession	**31 Dec 2008**	**31 Dec 2009**	**31 Dec 2010**	**20 June 2011**
Administrative	581	593	602	602
Crop production	4,333	4,432	4,656	4,677
Livestock	471	415	360	355
Industrial production	210	186	193	195
Total Russia	**3,717**	**3,614**	**3,700**	**3,710**
Total Ukraine	**1,878**	**2,012**	**2,111**	**2,119**
Total Number	**5,595**	**5,626**	**5,811**	**5,829**

Material Contracts

The following contracts are the only contracts (not being contracts entered into in the ordinary course of business) that (i) have been entered into by the Group within the two years immediately preceding the date of this Prospectus which are or may be material to the Group's business or (ii) have been entered into by the Group at any other time but which contain provisions under which the Group has an obligation or entitlement that is material to the Group as at the date of this Prospectus.

Subscription Agreement between the Company and the Selling Shareholder

As a part of the Restructuring, companies of the Former Group that were involved in production activities were, pursuant to a subscription agreement between the Selling Shareholder and the Company dated 9 December 2010, transferred to the Company for cash consideration or as an in kind contribution. Under the terms of this subscription agreement, the Selling Shareholder transferred to the Company the ownership of the Former Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 228,498,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 Existing Shares. In order to give effect to the arrangements contemplated by the subscription agreement, a series of sale and purchase agreements, governed by either Cypriot, Russian or Ukrainian law, between various members of the Group, as purchaser, and various holding and sub-holding companies of the trading companies and other third parties, as sellers, were entered into.

Arrangements with Deutsche Bank

Deutsche Bank has extended two credit facilities to the Company in the aggregate total amount of up to USD 265 million. Further details concerning these credit facilities are as follows:

- On 10 May 2011, Deutsche Bank and the Company entered into a USD 65 million senior secured guaranteed term loan facility agreement, as amended on 3 June 2011 (the "**Deutsche Bank First Facility Agreement**"). The funds were drawn down in one tranche on 16 May 2011 and were used for the repayment of certain indebtedness owed to Alfa Bank Ukraine, totalling the equivalent of approximately USD 21 million, and Russian Agricultural Bank, totalling approximately USD 4 million. The balance was applied to working capital needs relating to crop production in Russia and Ukraine, the payment of certain trade payables and applicable fees and commissions.

The term of the Deutsche Bank First Facility Agreement was until 20 December 2012, and may be extended, subject to the approval of all applicable lenders, until 20 December 2013 following the fulfilment of certain conditions including the Offering occurring.

The loan facility ranks *pari passu* with all senior obligations of the Company. The interest rate is LIBOR plus a margin of 9.5% and certain regulatory costs that lenders may incur. Prepayment in whole, but not in part, is permissible after six months from the date of the Company's admission to trading and official listing on the main market of the WSE, provided certain requirements with respect to the trading price of the Shares have been met.

The Company's obligations under the Deutsche Bank First Facility Agreement are secured by:

(i) the Deutsche Bank Share Pledge;

(ii) a further 9.99% of the Existing Shares being held by Deutsche Bank under the terms of the Deutsche Bank Call Option; and

(ii) irrevocable and unconditional English law governed guarantees issued by certain members of the Group, being LLC “Elcom”, LLC “Petrovskoe”, LLC “Razvilenskoe”, LLC “Sarmat”, LLC “Valars Agro”, LLC “Valinor-Management” (Russia), and OJSC “Zarya”.

As required by the terms of the the Deutsche Bank First Facility Agreement, certain loans entered into with related parties, together with certain trade payables owed to related parties, have been subordinated on an interest free basis for up to five years. Early repayment is not permitted in respect of subordinated arrangements. The total value of the subordinated loans and trade payables is approximately USD 43,733,000. For further information, see “*Capitalisation and Indebtedness of the Group*”.

The Company has further agreed to various covenants, obligations and other restrictions, including with respect to: (i) the ongoing provision of certain financial information; (ii) the fulfilment of certain financial covenants; (iii) restrictions with respect to the Company or members of the Group entering into certain security arrangements; (iv) restrictions on the Company or members of the Group disposing of assets or acquiring shares or interests in other businesses; and (v) the payment of dividends.

- Pursuant to the Deutsche Bank First Facility Agreement, the Selling Shareholder has entered into the Deutsche Bank Call Option, pursuant to which Deutsche Bank may acquire from the Selling Shareholder up to 9.99% of the Existing Shares, the exact number to be determined by the outstanding amount payable under the facility. The call option may be exercised:

(i) prior to an event of default or an acceleration event at the Offer Price; or

(ii) following an event of default or acceleration event at the price determined by market valuation made pursuant to a specified procedure.

The Deutsche Bank Call Option expires on the earlier of 31 December 2013 or the date on which all loans under the Deutsche Bank First Facility Agreement are repaid in full other than as a result of a prepayment under the Deutsche Bank First Facility Agreement.

Pursuant to the Deutsche Bank Call Option, Deutsche Bank is the registered holder of 9.99% of the Existing Shares. However, Deutsche Bank is required to return these Shares to the Selling Shareholder in circumstances where there is no exercise of the call option and it is further required to return any balance in circumstances where Deutsche Bank is entitled to less than 9.99% of the Existing Shares upon exercise of the call option. Pending exercise of the call option, Deutsche Bank holds economic and voting rights to the Shares however it is Deutsche Bank's policy not to exercise the same.

- On 30 June 2011, Deutsche Bank and the Company entered into a senior secured guaranteed amortising term loan facility of up to USD 200 million (the "**Deutsche Bank Second Facility Agreement**").

  The funds, which are to be drawn down in one tranche on or about the date of this Prospectus, are intended to be used for:

  (i) refinancing of a loan provided by Alfa Bank Ukraine to Valars Agro, in the total amount of up to USD 115 million and the release of associated security, including the acquisition by Dilpar of one class B share held by Fiduciaria Limited, a related party of Alfa Bank Ukraine, in Valars Agro, for USD 27.0 million, together with all and any relevant payments necessary for the acquisition of this share;

  (ii) refinancing of loans provided by Petrocommerce Bank to Valary, a member of the Valars Group, and the release of associated security, being a pledge over 20% of the Existing Shares, in the total amount of up to USD 22 million, together with all and any interest accrued and/or deferred in relation to these loan;

  (iii) refinancing of loans provided by OJSC "Russian Agricultural Bank" to various Russian members of the Group, in the total amount of up to RUB 5,807,304.47 (approximately USD 190,528) and USD 18,595,881.77, together with any interest accrued and/or deferred in relation to these loans;

  (iv) refinancing of loans provided by OJSC "Raiffeisen Bank Aval", PJSC "Bank Forum" and JSCIB "Ukrsibbank" to various Ukrainian members of the Group, in the total amount of up to UAH 34,212,319, (approximately USD 4,298,030 million) together with all and any interest accrued and/or deferred in relation to these loans;

  (v) refinancing of a loan provided by JSC Commercial Bank LLC "Centre-Invest" to LLC "Petrovskoe", in the total amount of up to RUB 75,000,000 (approximately USD 2,460,630 million) together with all and any interest accrued and/or deferred in relation to this loan;

(vi) refinancing of various other loans provided to members of the Group, in the total amount of up to RUB 5,806,135.40 (approximately USD 190,490), together with all and any interest accrued and/or deferred in relation to these loans; and

(vii) general corporate purposes.

The applicable interest rate is the aggregate of a margin of 6% plus LIBOR for each relevant interest period, being three months, together with certain regulatory costs that lenders may incur. The loan is repayable is four equal instalments payable at the end of the sixth, tenth, fourteenth and eighteenth interest periods. Voluntary prepayment is not permitted during the first ten interest periods, however thereafter it is permitted in whole but not in part.

The term of the Deutsche Bank Second Facility Agreement is until 20 December 2015, and it is secured by:

(i) a Cyprus law governed pledge over 100% of the total issued ordinary share capital of Valars Agro granted by Dilpar;

(ii) English law governed guarantees issued by Valars Agro and a majority of the Russian and Ukrainian subsidiaries of the Group; and

(iii) Russian or Ukrainian law governed pledges over the shares and participatory interests in a majority of the Russian and Ukrainian subsidiaries of the Group.

The Company, pursuant to the terms of the Deutsche Bank Second Facility Agreement, has agreed to various covenants, obligations and other restrictions, including with respect to: (i) the ongoing provision of certain financial information; (ii) the fulfilment of certain financial covenants; (iii) restrictions with respect to the Company or members of the Group entering into certain security arrangements; (iv) restrictions with respect to the Company or members of the Group disposing of assets or acquiring shares or interests in other businesses; and (v) the payment of dividends.

Credit Agreements with Sberbank

From 2006 to 2010, members of the Group entered into 24 credit agreements with regional branches of Sberbank pursuant to which such Group companies were provided with credit facilities in the total amount of RUB 1,150,471,922 (approximately USD 39,753,008). As at 28 February 2011, the total amount outstanding under these facilities was RUB 1,150,471,922 (approximately USD 39,753,008). There was no material change to this amount as at 31 May 2011. Most of the Sberbank credit facilities were provided for a term of four or five years and mature in the period from 2011 to 2014.

Most of the credit agreements with Sberbank have a fixed interest rate of 11.5% per annum, although the agreements allow Sberbank to unilaterally change the interest rate, and contain restrictions concerning any change of control in respect of the borrower, disposals of assets, distribution of dividends and the entering into of any additional indebtedness. They also contain covenants with respect to maintaining certain levels of ownership in some of the subsidiaries of the Group. The credit agreements contain cross-default provisions referring either to a particular borrower under a Sberbank loan or a wider number of Group members.

As security for these credit facilities, members of the Group granted to Sberbank security over some of their real estate and other fixed assets together with security over certain shares held by them in other companies. They also provided sureties and granted direct debit rights in respect of some of their bank accounts. Pledges over immovable property, real estate and sureties were also provided by members of the Valars Group.

Credit Agreements with Petrocommerce Bank

In 2005 and 2006, members of the Group, being LLC "Rassvet", LLC "AF Razdolie" and LLC "Sarmat", entered into 16 credit agreements with Petrocommerce Bank pursuant to which such Group companies were provided with credit facilities in the total amount of RUB 372,141,389 (approximately USD 12,209,363). As at 28 February 2011, the total amount outstanding under the remaining 12 facilities was RUB 372,141,389 (approximately USD 12,858,844). There was no material change to this amount as at 31 May 2011. Most of the Petrocommerce Bank credit facilities were provided for a term of approximately seven to eight years and all mature on 9 December 2013.

All of the credit agreements with Petrocommerce Bank have an effective interest rate, taking into consideration applicable interest rate subsidies from the Russian government, of 13.67% per annum, although the agreements allow Petrocommerce Bank to unilaterally change the interest rate. For further information concerning subsidies see "*Risk Factors – Risks relating to the Group's Business and Industry – The Group benefits from state subsidies, which may be discontinued in the future*". The agreements contain restrictions concerning the entering into of any additional indebtedness and they also provide that certain amounts of revenue must be transferred to bank accounts held with Petrocommerce Bank. The credit agreements contain cross-default provisions in respect of other obligations of the relevant lender to Petrocommerce bank or other third party lenders.

As security for these credit facilities, the relevant borrowers and certain members of the Valars Group granted to Petrocommerce Bank security over some of their fixed assets and immovable property. In addition, suretyships were provided by certain members of the Valars Group and Mr. Kirill Podolskiy. The relevant borrowers also granted direct debit rights in respect of some of their bank accounts.

Credit Agreement with Vozrozhdenie Bank

OJSC "Kagalnitskaya", a Russian-incorporated member of the Group, entered into a facility agreement, as borrower, with Vozrozhdenie Bank, as lender, on 31 August 2009. The amount of the loan is RUB 128,836,328.40 (approximately USD 4,227,000 million) and since 16 August 2010 it has an interest rate of 10%. As of 31 May 2011, the entire loan amount remained outstanding. The loan matures on 29 August 2012 and it is secured by (i) suretyships granted by Valary, Valary-Trade, LLC "Valinor-Management" (Russia) and Mr. Kirill Podolskiy; (ii) a pledge over accounts and receivables granted by OJSC "Kagalnitskaya"; (iii) direct debit rights over certain bank accounts held by OJSC "Kagalnitskaya"; and (iv) a pledge over agriculture transport and shares in CJSC "Azovskoe" and OJSC "Primorskiy".

Placement Agreement

The Company has entered into a placement agreement (the "**Placement Agreement**") with Mr. Kirill Podolskiy, the Selling Shareholder, the Managers and The Cyprus Investment and Securities Corporation Limited. For further details regarding this agreement, see *"Placement, Stabilisation, Over-Allotment and Lock-up Arrangements"*.

Relationship Agreement

On 1 July 2011, Mr. Kirill Podolskiy, the Selling Shareholder and the Company entered into a relationship agreement. For further details regarding this agreement, see "*Related Party Transactions – Relationship Agreement*".

Taganrog Port Facilities Agreement

On 30 March 2011, the Company entered into an agreement governed by Russian law with OJSC "Taganrog Shipyard", a company controlled by the Selling Shareholder, pursuant to which the Company commits, until 31 December 2015, to make available grain and oilseeds for re-load and transportation from facilities at the Taganrog Port operated by OJSC "Taganrog Shipyard". For further information, see "*Related Party Transactions – Transactions with the Valars Group – Taganrog Port Facilities*".

Environmental, Health and Safety Matters

The Group is subject to various environmental protection and occupational health and safety laws and regulations relating to pollution, protection of the environment and protection of human health and safety in Russia and Ukraine. In the course of its production activities, the Group uses certain substances, which may be regulated or limited by applicable laws and regulations. Russian and Ukrainian laws and regulations dealing with environmental protection are subject to frequent amendments and are becoming more stringent, and the cost of complying with these regulations may increase over time. No-till technology used by agricultural producers and also straw sowing technology allow the Group to preserve and accumulate soil water, reduce the impact of water and wind erosion on soil and also make significant energy savings.

Management believes that it is currently in material compliance with all applicable environmental laws and regulations governing air emissions, waste disposal, and the use, storage, treatment and disposal of hazardous materials, and with applicable occupational health and safety laws and regulations. The Group does not carry third-party liability insurance in respect of environmental damage. The Group does not carry out regular third-party environmental audits and such audits are not required by law. The Group did not record any material liabilities associated with environmental costs as at 31 December 2010.

The Group has instituted programmes to improve worksite safety and working conditions, including employee training. The Group regularly inspects its equipment and maintains a labour protection department that is responsible for ensuring compliance with health and safety requirements.

For further information on the applicable licences and permits, see "*– Licences and Permits*".

Information Technology

In 2010, the Group began implementing a new enterprise resource planning system. This new platform is based on the ICEnterprise 8 platform developed by ICEnterprise, a Russian-based software developer. The platform being implemented by the Group has been customised for its local financial and operational environment, and has specific modules and procedures developed for an agricultural producer. The system is designed to provide real-time data across the Group's business, compiling both operational and financial data, and to enable the different departments within the Group to work within a single integrated system. The system is designed to enable the Group to produce a variety of reports, including quantitative and qualitative production indices and financial-related reports.

Intellectual Property

The Group has received an international trademark certificate for the trademark "Valinor", as shown on the cover of this Prospectus. The Group has also filed an application for registration of the trademark "Valinor" in both Russia and Ukraine and has received confirmation as to its priority right to such trademark in each country.

The Group also maintains corporate websites: www.valinor-in.com, www.valinor-in.ru, www.valinor-in.ua and www.valinor-in.pl, and the rights to those website domain names are owned by the Group. Once its registration of the trademark "Valinor" has been completed in Russia and Ukraine, the Group intends to exercise its legal rights to use the name "Valinor" for domain name usage in priority to current users.

"Kristal" LLC has registered a graphic trademark, such trademark being registered until 26 November 2020.

The Group believes it has taken all appropriate steps to be the rightful owner of, or be entitled to use, all of the intellectual property rights necessary to conduct its business.

Insurance

The Group believes that it maintains insurance coverage at a level that is customary for companies operating in the same sector in Russia and Ukraine in which the Group operates. It insures its principal assets, including its agricultural equipment, vehicles, buildings and some of its crops (including future harvest) against risk of loss or damage caused by fire, explosions, natural disasters, illegal acts of third parties (such as burglary or robbery) and mechanical damage. In many instances (where an asset has been purchased from the proceeds of a loan), the relevant lending institution is named as a beneficiary under the policy insuring the asset.

As required by law, the Group maintains statutory insurance against losses caused by injury to its employees during their professional activities and losses caused by injury to third parties as a result of operation of the Group's vehicles. As is customary in Russia and Ukraine, the Group does not carry obligatory product liability or business interruption insurance or insurance for environmental liability.

The Group currently insures less than 10% of its crops. Crop insurance is a relatively new product in Russia and Ukraine and the very high premiums involved have in the past made the taking out of such insurance uneconomical. However, due to increased competition in the Russian and Ukrainian insurance industry, premiums have recently reduced in price and, accordingly, the Group plans to increase the coverage of its crop insurance, provided that applicable premiums and other costs are acceptable.

Legal Proceedings

From time to time in the ordinary course of business, members of the Group are involved in legal proceedings relating to their operational and trading activities. However, no member of the Group is currently, nor have any of them been involved in, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which they are aware) which may have or have had in the twelve months before the date of this Prospectus, a significant effect on the financial position or profitability of the Group. As at the date of this Prospectus, the Company is not aware of any such proceedings which are pending or threatened, except as described below.

Litigation Concerning “Poluzirska”PAF

Valinor acquired “Poluzirska” PAF in the course of 2007 and 2008. The farm operated by “Poluzirska” PAF has a total land area of 1,869 hectares, i.e. approximately 0.5% of the Group’s total land area. Valinor currently operates the land held by “Poluzirska” PAF, however the former holder of corporate rights in “Poluzirska” PAF has challenged the transfer of title to those corporate rights. Even though Valinor received a decision in its favour with respect to this dispute, this decision has been appealed by the former owner. As at the date of this Prospectus, no date has been set for the hearing of this appeal.

As a result of the ongoing dispute with the former holder of corporate rights, the state registrar has refused state registration of title to “Poluzirska” PAF in favour of Valinor. On 13 September 2010, the Kharkiv Appellate Administrative Court confirmed Valinor’s right to have the acquisition registered. The judgment of the Kharkiv Appellate Administrative Court was then challenged by the state registrar in the High Administrative Court of Ukraine. On 30 March 2011, the High Administrative Court of Ukraine dismissed the challenge of the state registrar and upheld the judgment of the Kharkiv Appellate Administrative Court. Valinor is currently in the process of enforcing the decision of the High Administrative Court of Ukraine. However, as at the date of this Prospectus, Valinor has not registered its title to “Poluzirska” PAF.

At the end of April 2011, the former holder of corporate rights in "Poluzirska" PAF filed a new lawsuit against Valinor with the local court of the city of Poltava asking for invalidation of the version of the charter which reflects the increase of Valinor’s stake in “Poluzirska” PAF in 2008. On 24 May 2011, the local court of the city of Poltava dismissed the lawsuit in full.

Ukrainian AMC Investigations

On 5 January 2011, the AMC initiated investigations related to transactions carried out by Valars Agro in 2009 and 2010 concerning the acquisition of shares or participatory interests in the following companies: “Nauka - IQE” LLC, “Zamyatnitsa” LLC, “Agrocomplex “Nemyriv Ltd” LLC, “Agroteks-Mykolaiv” LLC, “Romny-Invest” LLC, “Agrostroi” LLC, “Tinki” LLC, “Kristal” LLC, “Brailivs’ke” PJSC, “Im. T.G.Shevchenko” PAE, “Lebid” PJSC, “Im. CL. Petrovskogo” LLC, “YuTS- Agroprodukt” LLC, “Zemlyanky” LLC and “Volary”. The investigations were initiated by the AMC against Valars Agro due to the fact that when requesting competition clearance for such acquisitions, Valars Agro erroneously stated that it was wholly owned by VHL. Valars Agro is in fact wholly owned by Dilpar. The Group has submitted additional information in order to cure this defect and on 18 April 2011 the AMC issued a decision imposing a penalty of approximately USD 8,500 for this non-compliance.

Licenses and Permits

The business of the Group depends on the continuing validity of several licenses, the issuance to it of new licenses and its compliance with the terms of such licenses. The most important of such licenses are described below.

Production Facilities and Technological Processes

Russian and Ukrainian law requires each company to obtain permits from the fire safety and labour safety authorities before starting its operations. Not all of the Russian and Ukrainian subsidiaries in the Group possess all the required permits. Conducting business without obtaining such permits may result in substantial fines imposed on the company and its officials, and even more adverse sanctions, such as a temporary prohibition on conducting business or the cancellation of the registration of the relevant company.

Furthermore, the legislation in both countries requires permits to be obtained and maintained for the use of dangerous equipment and not all the Ukrainian members of the Group possess all the permits required. According to the Law of Ukraine "On Labour Protection", failure to obtain such permits within one month after receiving a relevant notification from the State Inspectorate of Industrial Safety constitutes grounds for cancelling the registration of such company. The Ukrainian laws currently in force provide for no procedure for cancelling state registration on these grounds.

Under the Law of Ukraine "On Safety and Quality of Food Products", dated 23 December 1997, as amended, Ukrainian companies operating food processing facilities or trading in food products are required to obtain an operational permit from the State Sanitary and Epidemiological Services of Ukraine for each such facility. None of the Ukrainian members of the Group operating food processing facilities have obtained such permits, however they have obtained other permits as required by certain over lapping regulations. Furthermore, according to the applicable law, the relevant authorities may not shut down any operation for failure to obtain such permits or non-compliance with permitting requirements if there is no actual harm to human health and the existing non-compliance can be rectified. See "*Risk Factors – Risks relating to the Group's Business and Industry – The Group depends on governmental permits and other administrative approvals*".

Under the Law of Ukraine "On Sanitary and Epidemiological Public Safety", dated 24 February 1994, raw materials, food products and materials and equipment used for their production, storage, transportation and sale should comply with applicable sanitary standards and are subject to mandatory certification. Not all the Ukrainian members of the Group have obtained all the required permits, however they have obtained other permits as required by certain over lapping regulations. Furthermore, according to the applicable law, the relevant authorities may not shut down any operation for failure to obtain such permits or non-compliance with permitting requirements if there is no actual harm to human health and the existing non-compliance can be rectified. See "*Risk Factors – Risks relating to the Group's Business and Industry – The Group depends on governmental permits and other administrative approvals*".

Plant Growing, Grain Storing and Grain Processing

According to the Law of Ukraine "On Plants Quarantine" dated 30 June 1993, all companies involved in regulated activities, which in particular include seed production, grain storing and grain processing, must be registered with the local State Inspections on Plants Quarantine. Russia does not have any equivalent registration requirements.

Pursuant to the Law of Ukraine "On Grain and Grain Market in Ukraine", grain may be stored only in a certified silo. All Ukrainian silos of the Group have the required certificates. According to applicable Ukrainian legislation, such certificates are to be renewed on an annual basis and therefore some of the required certificates may currently be in the process of renewal by the Group. If a grain elevator does not comply with certain technical requirements, the validity of the certificate of compliance may be temporarily suspended and the certificate may be annulled.

Health and Safety

The use of silos and the production and processing of food products involves the performance of certain hazardous activities, including the use of storage and transportation facilities, working with dangerous substances and working with objects under high pressure, which give rise to a general risk of accidents. Under Ukrainian law, the performance of certain types of work requires the issuance of a dangerous works permit. Failure to comply with this requirement may result in cancellation of the state registration of a company. The Group may not hold all the dangerous works permits that are required.

Other Regulatory Compliance

General

Other than as stated above, Management believes that it operates its facilities in compliance with the requirements of all applicable sanitary, epidemiological and other applicable laws and regulations and also observes all applicable fire safety rules. The Group has not been subject to any material claims relating to the safety of its products, compliance with veterinary, sanitary, health and safety laws or the use of genetically modified organisms and agrochemicals in the last three years.

Use of Genetically Modified Organisms

Russian and Ukrainian law prohibits the use of genetically modified organisms ("**GMO**") in the production of baby food products. Import to, or production in, Russia or Ukraine of other food products produced with the use of GMO is permitted, provided that a particular GMO has been registered with the state register of GMO.

By law, all food products in Russia or Ukraine have to be labelled "with GMO" or "without GMO" depending on whether the products contain GMO.

The Group does not use GMO in its operations.

Research and Development

The Group does not have a significant research and development function and therefore it does not have any significant capital expenditure related thereto.

Significant Change

Other than as described in this Prospectus, in particular under "*Restructuring*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments*", no significant change in the financial or trading position of the Group has occurred since the end of the last financial period, being 31 December 2010, and up to the date of this Prospectus.

SHAREHOLDERS

Shareholders

The below table sets out the registered shareholders of the Company and number of shares held by them.

	Before the Offering		After the Offering[(1)]	
Shareholder	**Number of shares held**	**% of issued share capital**	**Number of shares held**	**% of issued share capital**
Selling Shareholder [(2)]	31,500,000	90%	[●]	[●]
Deutsche Bank[(3)]	3,499,993	9.99998%	3,499,993	[●]
Kirill Podolskiy	1	0.0000029%	1	[●]
Alexey Edush	1	0.0000029%	1	[●]
Mikhail Cherkasov	1	0.0000029%	1	[●]
Marina Barbarash	1	0.0000029%	1	[●]
Galina Ignatova	1	0.0000029%	1	[●]
Yuri Gordeychuk	1	0.0000029%	1	[●]
Victor Ventimilla Alonso	1	0.0000029%	1	[●]
Total	**35,000,000**	**100%**	**[●]**	**[●]%**

Notes:
(1) On a fully diluted basis.
(2) The Selling Shareholder is owned solely by the following shareholders in the following percentages: Mr. Kirill Podolskiy (51%), Mr. Edward Kurochkin (11%), Mr. Alexandr Lavrinenko (9%), Mr. Vitaly Bobnev (5.79%), Mr. Alexey Edush (5.79%), Ms. Marina Barbarash (5.79%), Mr. Mikhail Cherkasov (5.79%), Mr. Yuri Gordeychuk (3%) and Ms. Galina Ignatova (2.84%). All individuals listed as shareholders of the Selling Shareholder, except for Mr. Vitaly Bobnev, Mr. Alexey Edush and Mr. Yuri Gordeychuk, are members of Management. Mr. Vitaly Bobnev, Mr. Alexey Edush and Mr. Yuri Gordeychuk are senior managers within the Valars Group.
(3) Further information concerning the shares held by Deutsche Bank, see below and "*Business – Material Contracts – Arrangements with Deutsche Bank*".

The registered office of the Selling Shareholder is Stasandrou 8, 3rd Floor, Office 301, P.C 1060, Nicosia, Cyprus. 100% of the shares in the Selling Shareholder are pledged in favour of Sberbank, see "*Restructuring – Debt Restructuring – Arrangements with Sberbank*".

Deutsche Bank, in its capacity as a lender to the Company, currently holds 9.99% of the Existing Shares pursuant to the terms of the Deutsche Bank Call Option, see "*Business – Material Contracts – Arrangements with Deutsche Bank*". However, Deutsche Bank is required to return these Shares to the Selling Shareholder in circumstances where there is no exercise of the call option and it is further required to return any balance in circumstances where it is entitled to less than 9.99% of the Existing Shares upon exercise of the call option. Pending exercise of the call option, Deutsche Bank holds economic and voting rights to the Shares however it is Deutsche Bank's policy not to exercise the same.

Prior to the Restructuring, certain members of the Former Group, who are now members of the Group, provided security in respect of loans granted by Sberbank, Petrocommerce Bank and Alfa Bank Ukraine to certain members of the Former Group, who are now members of the Valars Group, involved in trading activities. As part of the Restructuring, in order to release certain members of the Group from such security, the Selling Shareholder has pledged 40% of the Existing Shares to Sberbank pursuant to the Sberbank Share Pledge and 15% of the Existing Shares to Alfa Bank Ukraine pursuant to the Alfa Bank Ukraine Share Pledge (see "*Restructuring – Debt Restructuring*").

The Selling Shareholder has, in the Sberbank Use of Proceeds Agreement and the Alfa Bank Ukraine Use of Proceeds Agreement, agreed to use the proceeds of the sale of the Sale Shares to repay certain indebtedness under loan agreements secured by the Sberbank Share Pledge or the Alfa Bank Ukraine Share Pledge. Following such repayment, Sberbank has agreed to hold as collateral only those Shares the post-Offering value of which constitutes 190% of the outstanding indebtedness owed to Sberbank. Any Shares held in excess of this number will be released from the terms of the Sberbank Share Pledge provided, however, that at least 25% of the Shares plus one Share shall remain subject to the Sberbank Share Pledge. With respect to Alfa Bank Ukraine, following such repayment, the Alfa Bank Ukraine Share Pledge shall be terminated.

The Company's shareholders, mentioned above, do not have any special rights or privileges attached to their shares, or voting rights other than those presented in this Prospectus.

Dilution of Share Capital

Upon completion of the Offering and assuming that all the New Shares are issued, the amount and percentage of the immediate dilution of the Company's shares will be as follows:

	Before the Offering		**After the Offering** [(1)]	
	Number of shares	**% of issued share capital**	**Number of shares**	**% of issued share capital**
Existing Shares (issued and outstanding)	[●]	[●]	[●]	[●]
Offer Shares	[●]	[●]	[●]	[●]
Total	[●]	[●]	[●]	[●]

Notes:
[(1)] On a fully diluted basis.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The following table sets out the current Directors of the Company. All of the executive Directors were party to contractual arrangements with other members of the Group or the Former Group prior to the incorporation of the Company on 21 September 2010.

Name	Position/Function	Date of appointment	Expiration of term
Kirill Podolskiy	Chairman of the Board of Directors, chief executive officer	9 May 2011	N/A(1)
Edward Kurochkin	Chief operating officer and general manager for Russia	9 May 2011	N/A(1)
Alexandr Lavrinenko	General manager for Ukraine	9 May 2011	N/A(1)
Marina Barbarash	Chief financial officer	9 May 2011	N/A(1)
Mikhail Cherkasov	Deputy chief executive officer for investor relations	9 May 2011	N/A(1)
Galina Ignatova	Deputy chief executive officer for legal and property	9 May 2011	N/A(1)
Andriy Volkov	Non-executive independent Director	7 March 2010	N/A(2)
Andrey Sizov	Non-executive independent Director	7 March 2010	N/A(2)
Elena Clerides	Non-executive Director	9 December 2010	N/A(2)
Alexey Ponomarenko	Non-executive Director	21 September 2010	N/A(2)

Notes:

(1) With respect to any Director appointed in office by, or whose appointment is ratified by, the general meeting of the Company, there is no expiration in his or her term of office unless so specified by the general meeting. No term of office has been set for the above named Directors appointed in this matter.

(2) Non-executive Directors are subject to retirement by rotation at the Company's annual general meeting, at which one third of all non-executive Directors must retire. No date has been set for the annual general meeting and therefore it is not possible to state the potential expiration date applicable to terms held by these Directors.

Prior to the end of 2011, the Company intends to appoint a further independent non-executive director of suitable qualifications to represent the interests of minority shareholders.

The following is a summary of the relevant expertise and experience of the current members of the Company's Board of Directors:

Kirill Podolskiy, 40, is the Group's main founder, chairman of the Board of Directors and chief executive officer. He holds 51% of the shares of the Selling Shareholder and one Share. Mr. Podolskiy was the chief executive officer and a co-founder of the YTS Group, which was an agricultural trading and production business. He has over ten years of experience in agricultural production management and grain trading. In 2006, Mr. Podolskiy launched and managed his own agricultural production and trading business, being the Former Group which included members of the Group. Mr. Podolskiy graduated from the Radio Engineering University of Taganrog with a degree in Automated Control Systems in 1991.

Edward Kurochkin, 42, is the Group's chief operating officer and general manager for Russia. He holds 11% of the shares of the Selling Shareholder. From 1999 to 2001, he was a deputy director of Ugzernoprodykt Company Ltd. From 2001 to 2004, Mr. Kurochkin was the chief executive officer of LLC "Sarmat", an agricultural company. In 2004, he joined the YTS Group as the chief operating officer of the Production Division. In 2008, following the Former Group assuming control of the YTS Group, Mr. Kurochkin became the chief executive officer of the Former Group's Russian production operations. He graduated from the Taganrog Teaching Education Institute in 2004 with a major in management organisation.

Alexandr Lavrinenko, 44, is the Group's general manager for Ukraine. He holds 9% of the shares of the Selling Shareholder. He was a director of Yugzernoproduct Company Ltd. from 1997 until 2001. From 2002 until 2008, he worked as the deputy director of the agricultural division of the YTS Group. In 2008, following the Former Group's acquisition of control over the YTS Group, Mr. Lavrinenko became the chief executive officer of the Former Group's Ukrainian production operations. He graduated from the Taganrog Teaching Education Institute in 2004.

Marina Barbarash, 39, is the Group's chief financial officer. She holds 5.79% of the shares of the Selling Shareholder and one Share. She joined the YTS Group in 1997 as an accountant. From 1999 to 2001, she was the deputy chief accountant and then chief accountant of Yugtranzitservis-Agro Ltd. In 2001, she was appointed as chief financial officer of Yugtranzitservis JSC and, in 2003, she was appointed as chief financial officer of the YTS Group and a director of TSRZ JSC, which positions she held until 2006. She further served as chief financial officer of the Valars Group during 2010 before assuming her present role. Ms. Barbarash graduated from The Radio Engineering University of Taganrog with a degree in Engineering in 1995 and from the Academy of National Economy with a degree in Economics and Finance in 2003.

Mikhail Cherkasov, 43, is the deputy chief executive officer for investor relations of the Group. He holds 5.79% of the shares of the Selling Shareholder and one Share. He is also a director of Valars SA. Mr Cherkasov was chairman of the management board of Kaznachey Bank from 1999 to 2003, when he left to join the YTS Group as the head of its corporate finance department. From 2008, he worked as the head of corporate finance of the Former Group and, in 2011, he commenced his current role. He graduated from Moscow State University, Department of Law, in 1990 and the Russian Academy for International Trade in 2000.

Galina Ignatova, 38, is the deputy chief executive officer for legal and property. She holds 2.84% of the shares of the Selling Shareholder and one Share. From 2003, Ms. Ignatova worked at TSRZ JSC and Yugtranzitservis JSC and she joined the Former Group in 2007. She graduated from the Institute of Management and Economics in 1996.

Andriy Volkov, 35, is an independent non-executive director. Following his holding positions at PricewaterhouseCoopers and the ING Group, Mr. Volkov joined Alfa Bank Ukraine in 2001 as its chief risk officer and became the chairman of the board of Alfa Bank Ukraine in 2006. Mr. Volkov left Alfa Bank Ukraine to set up InvestoHills Capital in 2009. He graduated from Odessa State Economic University in 1998.

Andrey Sizov, 35, is an independent non-executive director. Since 1998, he has held the position of managing director of SovEcon Institute, a research institute focused on the agricultural sector. He graduated from Moscow State Finance Academy in 1998 with a degree in finance and credit and from the Cochran Fellowship Program in Agriculture in 2001.

Elena Clerides, 39, is a non-executive director and was appointed in December 2010. She has been the managing director of Elena Constantinou & Co LLC, Law Office since 2008 and was the managing director of Constantinou & Saveriades Law Office between 2006 and 2008. She graduated from the Omsk State Agricultural University in 2003 with a degree in Agriculture.

Alexey Ponomarenko, 48, is a non-executive director as was appointed in September 2010. He previously worked as an administrative director for the YTS Group and joined the Former Group in 2008. He graduated from the Radio Engineering University of Taganrog in 1986 with a degree in Engineering.

Members of the Board of Directors additionally sit on either the Executive Committee or the Management Committee, the Company's two principal supervisory and management committees.

Executive Committee

The Executive Committee functions as the Group’s highest management body. Its focus is on formulating appropriate management, expansion and development strategies for the Group. Its current members are Mr. Kirill Podolskiy, as chairman, and two Cyprus-resident non-executive directors, Ms. Elena Clerides and Mr. Alexey Ponomarenko.

Management Committee

The Management Committee, which reports to and receives directions from the Executive Committee, has responsibility for the day-to-day operations of the Group. It consists of both executive members of the Board of Directors, being the chief executive officer, the deputy chief executive officer for investor relations, the chief financial officer, the chief operating officer and general manager for Russia, and the general manager for Ukraine and both Cypriot and non-Cypriot residents Directors. Its current members are Mr. Kirill Podolskiy, as chairman, Mr. Mikhail Cherkasov, Ms. Marina Barbarash, Mr. Edward Kurochkin, Mr. Alexander Lavrinenko and Ms. Galina Ignatova.

Other Members of Management

The Board of Directors is supported by the following key members of Management who are employed pursuant to employment contracts with relevant members of the Group. Each of the following personnel was party to contractual arrangements with other members of the Group or the Former Group prior to entering into their current contractual arrangements.

Name	**Position/Function**	**Date of appointment**	**Expiration of term**
Sergey Semenchko	Financial director, Russia	14 December 2010	N/A[(1)]
Natalya Chernetskaya	Financial director, Ukraine	17 May 2011	17 May 2012

Name	Position/Function	Date of appointment	Expiration of term
Nickolay Sharganov	Chief operating officer, Russia	1 December 2010	N/A(1)
Gennady Doroshenko	Head of legal department, Russia	11 January 2011	N/A(1)
Anatoliy Kosovan	Head of legal department, Ukraine	27 July 2010	27 July 2011(2)

Note:

(1) These members of Management are employed pursuant to employment contracts which do not provide for any fixed term of employment.

(2) The Group is currently in the process of entering into a further employment contract with Mr. Anatoliy Kosovan.

The biographical details of the members of Management listed above are set out below:

Sergey Semenchenko, 25, is the financial director for Russia. He previously worked as the head of the economic department of Grainwell Ltd. and joined the Former Group in 2008. He graduated from Taganrog Institution on Management and Economics in 2007 with a degree in economics.

Natalya Chernetskaya, 34, is the financial director for Ukraine. She previously worked as the deputy chief executive officer of Grainwell Ltd. and joined the Former Group in 2008. She graduated from Taganrog Radio Engineering University in 1998 with a degree in engineering and in 2002 with a degree in economics and accounting.

Nikolay Sharganov, 34, is the chief operations officer for Russia. He previously worked as the chief agronomist of LLC “Sarmat” and joined the Former Group in 2008. He graduated from Donskoy Agricultural University in 1998 with a degree in agronomy.

Gennady Doroshenko, 41, is the head of the legal department for Russia. He previously worked as the deputy head of the legal department of the YTS Group and joined the Former Group in 2008. He graduated from the legal faculty of the State University of Rostov in 1995.

Anatoliy Kosovan, 30, is the head of the legal department for Ukraine. He previously worked as the head of the litigation department of Astapov Lawyers and joined the Former Group in 2008. He graduated from the Law University of Cernivtsy with a degree in civil law in 2003.

Directors’ and Other Members of Management’s Terms of Service and Remuneration

The aggregate amount of remuneration paid by the Group to the Board of Directors and other members of Management during the year ended 31 December 2010 was approximately USD 2.0 million.

No member of the Board and no other members of Management are entitled to any particular benefit in the event of dismissal from office or termination of any service or employment contracts or any contract of a similar nature.

Further Information on the Board of Directors and Other Members of Management

Except as described below, at the date of this Prospectus, no member of the Board of Directors nor any other member of Management has, in the previous five years: (i) been convicted of any offences relating to fraud; (ii) held an executive position in 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); or (iv) been the subject of any official public incrimination or been disqualified by a 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. No member of the Board of Directors has a conflict of interest (actual or potential) between his private interests and his duties to the Company. In addition, no member of the Board of Directors nor any other member of Management holds a supervisory or a non-executive position in another company or carries on principal activities outside the Company which are significant with respect to the Company.

Mr. Andriy Volkov is a former chairman of the board of Alfa Bank Ukraine, a lender to the Group, and the founder of InvestoHills Capital, which provides investment advice to both the Company and the Selling Shareholder. For further information, see "*Related Party Transactions*".

Mr. Mikhail Cherkasov served as the director of Silverstone S.A., a company incorporated in Switzerland, which was a trading company within the YTS Group (which was merged into the Group in 2008). This company was experiencing financial difficulties and Mr. Cherkasov took over the role of sole director in December 2008 in order to ensure an orderly winding up of the company's affairs. Silverstone S.A. declared its bankruptcy in September 2009 and the bankruptcy proceedings were closed in October 2010. The Court of the City of Lausanne and the Commission of Insolvency of the Canton de Vaud (Office de poursuite), which were the relevant authorities, approved Mr. Cherkasov's conduct of Silverstone S.A.'s bankruptcy proceedings. No prosecution or applications to disqualify Mr. Cherkasov from holding office were taken by any relevant authority as a result of this matter.

Corporate Governance

Cyprus and WSE Corporate Governance Requirements

The Company is committed to high standards of corporate governance. As a Cyprus incorporated entity, the Company must comply with Cypriot law as well as the provisions relating to corporate governance set out in the Articles of Association. However, the Company is not subject to the requirements of any Cypriot corporate governance rules, including the Cypriot Code on Corporate Governance, as it is not listed in Cyprus.

The Company intends to apply for the listing of all the Shares on the WSE. As a company listed on the WSE, the Company will be subject to WSE corporate governance requirements, although it is not technically subject to other corporate governance laws and regulations under Polish law. The WSE corporate governance rules apply to companies listed on the WSE, regardless of whether such companies are incorporated in Poland or outside of Poland. In accordance with the Code of Best Practice, the WSE Council adopts corporate governance rules for issuers of shares and other securities admitted to trading. As at the date of this Prospectus, the corporate governance rules in force are set out in the Code of Best Practice. Although the rules of corporate governance determined in the resolution are not regulations governing the exchange within the meaning of the WSE Rules, the Company intends to follow the Code of Best Practice to the extent practicable and appropriate, provided that such rules will not conflict with the provisions of Cypriot law.

As at the date of this Prospectus, the Company does not comply with all the recommendations in the Code of Best Practice. The main reason for such non-compliance is that the Executive Committee and the Management Committee are sub-committees of the Board of Directors and are not entirely separate bodies, as is obligatory for Polish joint stock companies. However, relevant Cyprus law does not permit multiple-tier board structures, and therefore the applicable bodies must be established as sub-committees of the Board of Directors. Therefore, certain recommendations of the Code of Best Practice which apply to relations between a supervisory board and management board will not be followed by the Company. For example, the Executive Committee will not be comprised of any independent members as they are defined in the Code of Best Practice. However, the Company will seek to apply the spirit of those principles of the Code of Best Practice which it cannot comply with due to Cypriot law.

As at the date of this Prospectus, the Executive Committee includes two non-executive Directors who must meet the criteria laid down in the company's Articles of Association to be deemed a "qualified person". These criteria take into account all relevant recommendations set out in the Code of Best Practice.

In addition, the Company's compliance with certain rules will be limited by the provisions of Cypriot law, the many differences between the Polish and Cypriot legal systems, the Company's bylaws and procedures and accepted practice. For example, pursuant to the Company's Articles of Association and Cypriot law, a director is allowed to vote on a resolution concerning any matter in which he or she has, directly or indirectly, an interest or duty, provided that the director has disclosed his or her interest. If he or she votes, his or her vote will be counted. Although the Company does not intend to follow the Code of Best Practice recommendation that a member of a management or supervisory board should refrain from voting on the adoption of a resolution when any conflict of interest between that member and the Company has arisen, the Articles of Association require that where a Director has a conflict of interest, he or she must first disclose his or her interest and then be granted permission to vote by the chairperson, or by all the Directors who have no interest in the matter or business to be transacted, as the case may be, before he or she will be entitled to vote on such resolution.

When making its application for the admission of its shares to the WSE, the Company will make a statement as to its compliance with the Code of Best Practice. Furthermore, pursuant to the Code of Best Practice, should a specific corporate governance rule not be observed on a permanent basis or should a non-recurring breach of a rule occur, the Company will be required to publish a report containing information about which rule is not being or has not been complied with, under what circumstances and for what reasons, and how the Company intends to remove the effects, if any, of not having complied with the rule and what measures will be taken to mitigate future non-compliance. The report should be published on the Company's official website if the Company is reasonably convinced that a rule will not be complied with or that a non-recurring breach of the rule will occur and, in any case, promptly upon the occurrence of such non-compliance. In addition, any company listed on the WSE is required to include a report on the extent of compliance with the Code of Best Practice in its annual report.

Board Committees

In addition to the Executive Committee and the Management Committee (see "*Business – Organisational Structure*"), the Board of Directors also maintains two other standing committees. Assignments to, and chairs of, the committees are approved by the Board of Directors. All standing committees report on their activities to the Board of Directors and each operate under a charter approved by the Board of Directors. The committees are:

- An audit committee, which assists the Board of Directors in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, the appointment of external auditors and risk management systems. The audit committee consists of three members, being the two independent members of the Board of Directors, Mr. Andriy Sizov and Mr. Andriy Volkov, with Mr. Andriy Volkov acting as chairman, and Mr. Mikhail Cherkasov.

- A nomination and remuneration committee, which identifies and recommends, for the approval of the Board of Directors, candidates to fill senior management vacancies as and when they arise, periodically assesses the structure, size, composition and performance of the Board of Directors, periodically assesses the skills, knowledge and experience of individual Directors and considers issues related to succession planning. In terms of remuneration policy, the committee makes proposals, for the approval of the Board of Directors, on the remuneration policy for both Directors and senior management and also assists the Board of Directors in overseeing the Company's compliance with remuneration disclosure obligations. The committee consists of Mr. Kirill Podolskiy, as chairman, and the two independent members of the Board of Directors, Mr. Andriy Sizov and Mr. Andriy Volkov.

In addition, there are two ad-hoc committees formed by executive directors and which report to the Board of Directors. These committees are:

- an investment committee, chaired by the chief executive officer, which considers proposed acquisitions of land and investment projects such machinery purchase programmes and construction projects; and

- a tendering committee, chaired by the chief operating officer, which is responsible for overseeing competitive tender processes relating to the sale of products and other procurement activities.

Interests of Directors and Other Members of Management

Except as described in this Prospectus, the Directors and other members of Management have no beneficial interests in the share capital of the Company.

The following table sets out current and past directorships held by Directors and other members of Management, in addition to those held in Group companies, over the past five years.

Name	Positions Held
Marina Barbarash	*Current:* Does not hold any director's positions in non-Group companies.

Name	Positions Held
	Former: Director of M-Finance Ltd from 11 April 2008 to 21 October 2009; director of Polivyanskoe JSC from 2006 and 2007; director of TSRZ JSC from 2003 to 2006.
Mikhail Cherkasov	*Current:* Director of RUS e-Tickets SA from June 2010. *Former:* Director of Valars SA from January 2007 to 15 May 2011; director of Silverstone SA from December 2008 to October 2010.
Natalya Chernetskaya	*Current:* Does not hold any director’s positions in non-Group companies. *Former:* Did not hold any director's positions in non-Group companies.
Elena Clerides	*Current:* Director of Alkeste Trading Ltd since August 2002; director of Willow Management Services Ltd from March 2003; director of I.C. Intercomplect Ltd. since April 2004; director of Sibstroyinvest Ltd since October 2006; director of Beitla Management Ltd since March 2006; Managing Director of Elena Constantinou & Co LLC from June 2008; and director of Anywayanyday Limited since August 2010. *Former:* Managing director of Constantinou & Saveriades Law Office from January 2006 to May 2008.
Gennady Doroshenko	*Current:* Director of ZAO “UNITA” from 21 August 2008. *Former:* Did not hold any director's positions in non-Group companies.
Galina Ignatova	*Current:* Director of TSRZ JSC since 2006. *Former:* Director of Polivyanskoe JSC from 2006 to 2007.
Anatoliy Kosovan	*Current:* Director of Private Agricultural Firm “Grand Agro” from 10 August 2010. *Former:* Did not hold any director's positions in non-Group companies.

Name	Positions Held
Eduard Kurochkin	*Current:* Does not hold any director's positions in non-Group companies. *Former:* Director of Pravda Ltd from 1 January 2006 to 17 March 2009.
Alexandr Lavrinenko	*Current:* Does not hold any director's positions in non-Group companies. *Former:* Did not hold any director's positions in non-Group companies.
Kirill Podolskiy	*Current:* Chairman of the Selling Shareholder since 2007; and chairman of the board of Anywayanyday Limited since 2008. *Former:* Director of TSRZ JSC from 1996 to 2006.
Alexey Ponomarenko	*Current:* Director of VHL since December 2006; director of the Selling Shareholder since September 2007; director of Valars Management Limited (BVI) since January 2008; director of Zellen Business Inc. since January 2008; director of Yenikoy Overseas Limited since January 2008; and director of Anywayanyday Limited since May 2010. *Former:* Director of Yugtranzitservis Limited from August 2005 to December 2006.
Sergey Semenchenko	*Current:* Does not hold any director's positions in non-Group companies. *Former:* Did not hold any director's positions in non-Group companies.
Nikolay Sharganov	*Current:* Does not hold any director's positions in non-Group companies. *Former:* Did not hold any director's positions in non-Group companies.
Andrey Sizov	*Current:* Director of SovEcon since 2008. *Former:* Did not hold any director's positions in non-Group

Name	Positions Held
	companies.
Andriy Volkov	*Current:* Chairman of board of directors of Retail Strahuvannya since 2010; managing partner of InvestoHills since 2009; chairman of board of directors of E-call since 2010; chairman of board of directors of Verdict since 2010; and chairman of board of directors of Universal Assistance since 2008. *Former:* Chairman of executive board of Alfa Bank Ukraine from 2006 to 2009; chairman of board of directors of Alfa Insurance Ukraine from 2006 to 2010.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. Other than as described below, the Group did not engage in any transactions with members of the Board of Directors during the period under review. For further information concerning transactions with related parties, see note six of the consolidated financial statements of the Group contained in this Prospectus.

In addition, the Group seeks to conduct all transactions with entities under common control or otherwise related to it in accordance with applicable Russian or Ukrainian legislation. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction.

All significant and certain other transactions with related parties during the years ended 31 December 2010, 2009 and 2008 and the period from 31 December 2010 to the date of this Prospectus are set out below. The Company defines "significant" transactions in this section as those with an aggregate consideration of more than USD five million or, in the case of loan arrangements, as those with outstanding indebtedness, as at 31 May 2011, of more than five per cent of the Group's total net debt.

Relationship Agreement

On 1 July 2011, Mr. Kirill Podolskiy, the Selling Shareholder and the Company entered into a relationship agreement. Pursuant to this agreement, it has been agreed that:

- all arrangements between the Selling Shareholder and its non-Group subsidiaries, on the one hand, and any Group company, on the other hand, will be conducted on an arm's length basis, including:
    - (i) the provision of services and payments made in respect of certain port facilities in Taganrog controlled by the Selling Shareholder, see "*Related Party Transactions – Transactions with the Valars Group – Taganrog Port Facilities*"; and
    - (ii) the purchase of any product from any Group company by the Selling Shareholder or its non-Group subsidiaries, where such contract for sale is awarded on an open tender basis supervised by the Company's tendering committee, see "*Management and Corporate Governance – Corporate Governance – Board Committees*";
- no services shall be shared between any Group company and the Selling Shareholder and its non-Group subsidiaries;
- Management will devote substantially the whole of their working time and attention to the Group and not the Selling Shareholder and its non-Group subsidiaries;

- the Company’s board of directors shall at all times include two or more independent non-executive directors, such directors to be represented on the Company’s audit committee and nomination and remuneration committee; and

- Mr. Kirill Podolskiy and the Selling Shareholder shall not carry on any business comprising the production of those crops principally grown by the Group at the date of this Prospectus in those regions where the Group is currently operating.

The agreement comes into effect once the Shares are admitted to trading and official listing on the WSE. The agreement terminates on 31 December 2015 or, if earlier, once the Selling Shareholder holds less than 25% of the Shares. In addition, the agreement terminates prior to 31 December 2015 in respect of Mr. Kirill Podolskiy if he holds, directly or indirectly, less than 25% of the Shares.

Agreements with the Selling Shareholder and others in connection with the formation of the Group

In order to separate the production and trading activities of the Former Group, the Restructuring took place. As part of the Restructuring, companies of the Former Group that were involved in production activities were, pursuant to a subscription agreement between the Company and the Selling Shareholder dated 9 December 2010, transferred to the Company for cash consideration or as an in kind contribution. Under the terms of this subscription agreement, the Selling Shareholder transferred to the Company the ownership of the Former Group’s subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 228,498,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 Existing Shares. In order to give effect to the arrangements contemplated by the subscription agreement, a series of sale and purchase agreements, governed by either Cypriot, Russian or Ukrainian law, between various members of the Group, as purchaser, and various related and non-related parties, as sellers, were entered into.

Transactions with the Valars Group

Shared Management

As the Group and the Valars Group were both previously within the Former Group, certain management functions were shared between them. As a result of these arrangements, USD 2.0 million in 2010 and USD 1.8 million in 2009 was paid to certain members of management of the Valars Group. Following the Restructuring, some aspects of shared management continued for a short period. However, no separation or other written agreements were ever in place, either before or after the Restructuring, to govern the terms of such shared management arrangements. The Group now has a separate management function to that of the Valars Group and the two groups will not share any future management functions. In addition, the Group, the Selling Shareholder and Mr. Kirill Podolskiy have each agreed in the Relationship Agreement not to share management functions or services for the duration of the agreement. For further information, see *“– Relationship Agreement”*.

Trading Arrangements

Valinor and VHL are both controlled by the Selling Shareholder. Members of the Valars Group, such as VHL, Valars SA, Valary-Trade, Volary, Valary, Volary-Agro and Volary Export, have historically been engaged in cereal and oilseed trade and export activities through the purchase of agricultural products from both Company-controlled production companies and independent third parties. These trading companies have many years of experience in high volume commodity export activities and have extensive knowledge of both existing and potential customers and markets together with all relevant export regulations.

The Valinor Group has historically sold a majority of its production through the Valars Group. In 2009, the Valars Group accounted for 67% of the Group's total agro-production sales by value in Russia and 26% of the Group's total agro-production sales by value in Ukraine. In 2010, due to the export ban in Russia and export restrictions in Ukraine, the share of the Group's total agro-production sales by value carried out by the Valars Group fell to 53% for Russia and 25% for Ukraine. The Valars Group is not dependent upon supply from members of the Group, and in 2009 the Group accounted for approximately 19% of the total volume of cereal crops exported by the Valars Group. In 2008, this figure was approximately 26%. All sales between the Group and the Valars Group are, and will, pursuant to the Relationship Agreement, be, conducted on an arm's length basis. Management believes that public tenders will enable the Group to access international grain markets and, in the case of large scale government buyers, intends to cooperate with Valars Group which will afford the Group greater access to these counterparties.

No formal contractual arrangements relating to trading are currently in place between any member of the Group and any member of the Valars Group and all sales between the Group and the Valars Group take place on a spot basis.

In 2011, the Group established a tendering procedure applicable to the sale of all of its agro-production (except sugar beet) in which international grain traders will participate. This follows the model applied by the Ukrainian members of the group in the past. Pursuant to this procedure, a tendering committee, which is chaired by the chief operating officer, oversees a competitive tendering process for all significant sales and adopts a selection criteria which seeks to maximise the value of each sale. The Valars Group will be given no preferential status within the scope of such tendering activities and, in the first quarter of 2011, less than one per cent of the Group's revenue was derived from transactions with related parties.

Taganrog Port Facilities

Certain port facilities in Taganrog are controlled by the Selling Shareholder. As the Group currently has no trading function, all arrangements concerning the use of port facilities are handled by the relevant trading counterparty and not by members of the Group itself. However, as the Group implements its new trading strategy it will need to contract directly with companies controlled by the Selling Shareholder for use of the port facilities in Taganrog, should it decide to ship any production from this port. For further information on this strategy, see *"Business – Sales and Marketing – Future Trading Strategy"*.

In order to govern the terms of any such future use, the Company entered into a contract on 30 March 2011 with Taganrog Shipyard, a company controlled by the Selling Shareholder and the operator of the port facilities. Pursuant to this contract, the Company commits, until 31 December 2015, to make available for re-load and transportation from facilities at the Taganrog Port operated by Taganrog Shipyard not less than three million tonnes of grain and oilseeds over the term of the contract, while Taganrog Shipyard commits to providing relevant port handling services at the price of RUB 300 per tonne (subject to possible adjustments according to official ruble to U.S. dollar exchange rate fluctuations). The price per tonne may also be unilaterally increased by Taganrog Shipyard in instances of significant increases in loading activities at the facilities operated by Taganrog Shipyard. Management believes that the agreement more than covers the Group's anticipated exports from Russia in the foreseeable future. Exports from Ukraine, to the extent permitted, would generally be shipped via port facilities in Ukraine.

The total contract value is approximately USD 32 million over the term of the contract. No penalties apply if the Company fails to meet its supply commitments. However, if the Company informs Taganrog Shipyard of its intention to deliver a specified number of tonnes for re-load and transportation on a certain date, and it fails to meet such commitment, the Company must bear all additional costs incurred by Taganrog Shipyard and Taganrog Shipyard may refuse future performance under the contract. The contract may be unilaterally terminated by either party without any reason upon the giving of 90 days' prior notice.

Supply Agreement with Valary

On 7 May 2010, LLC "Sarmat", a Russian member of the Group, entered into a supply agreement with Valary, a member of the Valars Group, for the supply of milling wheat and sunflower seeds for the period until 30 June 2011. The total contract value was RUB 552,530,000 (approximately USD 20,342,000). The goods were to be supplied on an EXW basis and had to comply with set quality specifications. The agreement terminated on 31 December 2010. LLC "Sarmat" has fulfilled its supply obligations and there are no outstanding payments due from Valary to LLC "Sarmat".

Financial Arrangements

The Group is party to three principal categories of financial arrangements with related parties, namely:

- loans between by members of the Former Group, who are now members of the Valars Group, acting as lenders, and members of the Group, acting as borrowers;

- loans between members of the Group, acting as lenders, and members of the Former Group, who are now members of the Valars Group, acting as borrowers; and

- novation agreements between members of the Group and members of the Valars Group pursuant to which certain outstanding amounts payable by members of the Group under various sale and purchase agreements, supply agreements and suretyship agreements have been novated into interest-free indebtedness.

Information concerning these financial arrangements is set out below. Pursuant to the terms of the Deutsche Bank First Facility Agreement, certain related party loans entered into by Ukrainian and Cypriot members of the Group have been subordinated, on an interest free basis, for a term of up to five years with there being no ability for early repayment, see "*Business – Material Contracts – Arrangements with Deutsche Bank*". The Company and the Selling Shareholder have each undertaken that none of the related party payables of the Group that fall outside the subordination arrangements entered into with Deutsche Bank under the Deutsche Bank First Facility Agreement, shall be repaid from the proceeds of the Offering, cash from operating activities or from any additional debt or equity financing. All such related party payables will be extinguished by way of non-cash set-off against related party receivables as soon as practicable, but ,in any event, no later than 31 December 2012.

Loans to the Group

Prior to the Restructuring, certain loans were granted by members of the Valars Group, acting as lenders, to members of the Group. Within the context of the Former Group, companies involved in trading activities typically sourced third party external financing, which was secured by assets of other members of the Former Group, including assets of certain members of the Former Group involved in production activities, and on-lent to other members of the Former Group, including members of the Former Group involved in production activities and now members of the Group. For further information, see *"Restructuring – Debt Restructuring"*. These loans financed capital expenditure and provided working capital for certain members of the Former Group who are now members of the Group. Following the Restructuring, members of the Group remain subject to the repayment obligations pursuant to these loans.

The loans, as at 28 February 2011, constituted total aggregate outstanding indebtedness, excluding interest accrued, of approximately USD 17,771,724. As at 31 May 2011, there was no material change in the amount of indebtedness pursuant to these loans. None of the loans individually had outstanding indebtedness, as at 31 May 2011, of more than five per cent of the Group's total net debt.

Loans from the Group

There are, in addition, interest-bearing loans and interest-free financing between members of the Group, acting as lenders, and members of the Former Group, who are now members of the Valars Group, acting as borrowers. The interest-bearing loans, as at 28 February 2011, constituted total aggregate outstanding indebtedness, excluding interest accrued, of approximately USD 10,919,112. As at 31 May 2011, this figure had increased to approximately USD 14,451,600. None of the loans individually had outstanding indebtedness, as at 31 May 2011, of more than five per cent of the Group's total net debt.

The interest-free financing provided to related parties, represented by advances and loans given to entities under the common control of the Selling Shareholder, constituted total aggregate outstanding indebtedness, as at 28 February 2011, of USD 53,799,442. As at 31 May 2011, this amount had increased to approximately USD 40,811,412.38. All outstanding interest-free financing indebtedness is expected to be settled prior to 31 December 2011.

Individual financing agreements with outstanding indebtedness, as at 31 May 2011, of more than five per cent of the Group's total net debt, are as follows:

- an agreement entered into between Valars Agro and the Selling Shareholder, assigned on 28 December 2010 so that Company became the lender, with outstanding indebtedness, as at 31 May 2011, of RUB 420,951,620 (approximately USD 14,997,296). The agreement matures on 31 December 2014, however it is expected to be settled prior to 31 December 2011; and

- an agreement entered into between the Company and the Selling Shareholder with outstanding indebtedness, as at 31 May 2011, of RUB 403,250,537 (approximately USD 14,366,657). The agreement matures on 31 December 2011.

Novation of prior indebtedness

On 7 April 2011, pursuant to the terms of Deutsche Bank First Facility, certain Ukrainian members of the Group and Valars Agro entered into novation agreements with Volary and Volary Export, both members of the Valars Group. These novation agreements novate outstanding amounts payable by members of the Group pursuant to various sale and purchase agreements, supply agreements and suretyship agreements to interest-free loan agreements. The loan agreements each have a term of five years and early repayment is prohibited. As at 31 May 2011, total aggregate outstanding indebtedness under these agreements was approximately USD 43,733,000. None of the loans individually had outstanding indebtedness, as at 31 May 2011, of more than five per cent of the Group's total net debt.

In addition, certain loans granted by third party lenders to members of the Former Group, but who are now members of the Valars Group, and which are secured by members of the Group, remain in existence. For details of these loans, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements*".

Arrangements with InvestoHills Capital

An independent non-executive Director, Mr. Andriy Volkov, is also the managing partner of InvestoHills Capital, a consultant to the Company. InvestoHills Capital also provides other financial consultancy services to both the Company and the Selling Shareholder.

As a result of such financial consultancy services, Mr. Andriy Volkov may be conflicted in respect of certain decisions, including with respect to this Offering. The Articles of Association require that, where a director has a conflict of interest, he or she must first disclose his or her interest and then be granted permission to vote by the chairperson, or by all the directors who have no interest in the matter or business to be transacted, as the case may be, before he or she will be entitled to vote on such resolution. For further information, see "*Management and Corporate Governance – Corporate Governance – Cyprus and WSE Corporate Governance Requirements*".

CERTAIN CYPRIOT AND POLISH SECURITIES MARKETS REGULATIONS

Set out below is a description of certain requirements of applicable Cypriot and Polish legislation.

Holders of Offer Shares will be able to exercise their rights with respect to the Offer Shares only in accordance with the relevant requirements of Cypriot and Polish law. In the Company's judgment, there are significant differences between the provisions of applicable Cypriot and Polish laws, and given their scale and the disparities between the legal systems of Cyprus and Poland, it is inadvisable to discuss those differences in detail in this Prospectus. The information set forth below describes certain aspects of Cypriot and Polish securities market regulation relevant in connection with the acquisition, holding and disposal of shares and is included for general information purposes only.

The information provided below is the information which the Company considers to be material and descriptions provided in this Prospectus should not be treated as a precise and complete legal/comparative analysis of the provisions of Cypriot and Polish laws. In particular conclusions derived based on the description below may not fully reflect a proper interpretation of Cypriot and Polish laws. Each prospective investor should consult a professional legal adviser regarding the legal consequences of acquiring, holding and disposing of shares under the laws of their country of citizenship, domicile and residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as at the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

Cypriot Law

General

The principal legislation under which the shares (including the Offer Shares) have been created and under which the Company was formed and now operates is the Cyprus Companies Law. The general rule applicable to the Company under the Cyprus Companies Law is that the liability of shareholders is limited to the amount, if any, unpaid on their shares. A shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

Pursuant to the Company's Articles of Association and section 60B of the Cyprus Companies Law, the shareholders have pre-emption rights on proposed issues of shares. Accordingly, the shares proposed to be issued must be offered by notice in writing to the shareholders in proportion to the number of shares held by them specifying the period (which must remain open for at least 14 days) within which the shareholders are entitled to exercise the pre-emption rights and accept by notice to the Company the shares offered to them. The pre-emption rights may be waived by the respective shareholders by notice to the Company and may also be relaxed or disapplied to any extent by the Company in a general meeting. The Board of Directors must give written explanations for a proposal to sanction the relevant resolution and for justifying the applicable subscription price per share.

No clear guidance can be given as to conflicts that may arise between the Cypriot and the Polish legal regime relating to tender offers for the Company's shares (other than mandatory offers), squeeze-out and sell out provisions. Prior to taking any decision on exercising any of the rights and obligations described herein, investors are urged to seek their own legal advice.

Dividends and Dividend Policy

The Company in the annual general meeting may declare dividends and in an extraordinary general meeting declare interim dividends, to be paid out of profits but no dividend or interim dividend shall exceed the amount recommended by the Board of Directors. The Board of Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves. In addition to the right of the Company to declare dividends and interim dividends in general meetings, the Board of Directors may at any time, subject to the dividend policy in force, declare and pay interim dividends if the payment of such dividends is justified by the profits of the Company.

No distribution of dividends may be made if the net assets of the Company (on the closing date of the previous financial year) are, or following such a distribution would become, lower than the amount of the subscribed share capital plus those reserves which may not be distributed under Cyprus law or the Company's Articles of Association.

In addition to the right of the Company in a general meeting to declare dividends and interim dividends, the Board of Directors may declare and pay interim dividends if it determines such interim dividends to be justified by the profits and dividend policy of the Company. The amount to be distributed as interim dividend may not, therefore, exceed the total profits accrued since the end of the last financial year plus any profits brought forward and sums drawn from reserves available for this purpose (less any losses brought forward and reserves created pursuant to the requirements of Cyprus law and the Articles of Association).

Takeover Bids

Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids (the "**Takeover Directive**") has been incorporated into the laws of Cyprus in the Law for making Provisions for Public Takeover Bids for the Acquisition of Securities of Companies and Related Matters (the "**Takeover Law**"). Pursuant to the Takeover Law, any person who, together with those acting in concert with him, acquires "control" of a company having its registered office in Cyprus, is required to make a mandatory offer to all holders of securities of the company. Pursuant to the Takeover Directive, the percentage of voting rights conferring "control" is to be determined by the rules of the member state in which the company has its registered office. Under the Takeover Law a mandatory offer must be made by any person who, as a result of his or her own acquisition or an acquisition by persons acting in concert with him, holds shares in a company which, when aggregated, directly or indirectly give him 30% or more of the voting rights in that company. In order to calculate the percentage of voting rights, the following voting rights are, amongst other, aggregated with the voting rights held by the offeror: (i) voting rights held by other persons on behalf of the offeror; (ii) voting rights held by a controlled undertaking of the offeror; (iii) voting rights held by any person acting in concert with the offeror; and (iv) voting rights attached to shares held by the offeror that have been pledged.

Pursuant to Article 4(2)(e) of the Takeover Directive, jurisdiction on takeover matters relating to the Company will be shared between the Polish FSA and the Cypriot Takeover Authority. Matters relating to the consideration and to procedural matters will be governed by Polish law. Matters relating to employee information and company law matters (in particular the percentage of voting rights which confers control and any derogation from the obligation to launch an offer, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the offer) will be governed by Cypriot law.

As a company with its registered office in Cyprus and whose securities are proposed to be listed on a regulated market in Poland, any mandatory offer for all remaining securities in the Company will be subject to the provisions of the Polish Act on Public Offering, only with respect to consideration and the tender offer procedure, in particular as to the contents of the offer document and the manner of publication thereof, while the Takeover Law will apply to such an offer in relation to substantive company law matters, including whether an offer would trigger a mandatory offer to all holders of shares. The Takeover Law will also govern matters including:

(i) notification of the offer to the personnel of the Company;

(ii) exemptions from the obligation to make a public offer;

(iii) the circumstances in which the Board of Directors is prohibited or permitted (as the case may be) to act in a manner which could frustrate the offer; and

(iv) certain other matters of company law, for example in respect of thresholds governing whether or not "control" of the Company has been acquired.

Mandatory Offers

The procedure for a mandatory offer for all remaining securities is set out in section 13 of the Takeover Law, which shall apply to the Company by virtue of it having its registered office in Cyprus. This provides that, where a person, as a result of his/her own acquisition or the acquisition by persons acting in concert with him/her, holds securities of a company which, added to any existing holdings of those securities of his/hers and the holdings of those securities of persons acting in concert with him/her, directly or indirectly give him/her a percentage of 30% or more of existing voting rights in that company at the date of the acquisition, such a person is required to make a bid at the earliest opportunity to all the holders of those securities for all their holdings at an equitable price.

Squeeze-Out Rules

Section 36 of the Takeover Law provides that, where an offeror makes a bid to all the holders of securities of an offeree company for the total of their shareholdings, he is able to require all the holders of the remaining securities to sell him/her those securities in the following situations:

(i) where the offeror holds securities in the offeree company representing not less than 90% of the capital carrying voting rights and not less than 90% of the voting rights in the offeree company; and

(ii) where the offeror holds or has irrevocably agreed to acquire, following the acceptance of a takeover bid, securities in the offeree company representing not less than 90% of the capital carrying voting rights and not less than 90% of the voting rights included in the takeover bid.

The offeror may exercise the right provided by subsection (i) above within three months of the end of the time allowed for acceptance of the bid. The consideration for the acquisition of securities shall take the same form as the consideration offered in the bid or a cash alternative, if accepted by the recipient.

The right to make such an offer shall be exercised only following an application to the Cyprus SEC, in which the relevant consideration shall be specified.

Sell Out Rules

Similarly, section 37(1) of the Takeover Law allows for the holder of the remaining securities (i.e. the remaining 1-10%) of the offeree company to require the offeror (holding not less than 90% of the capital carrying voting rights and not less than 90% of the voting rights) to buy his/her securities from him/her at a fair price, provided that this right is exercised within three months of the end of the time allowed for acceptance of the bid.

There have been no public takeover bids by third parties for all or any part of the Company's equity share capital since its date of incorporation.

Rights of Members of Cypriot Companies Listed on Regulated Markets

The Cyprus Companies Law (Amendment) (No. 2) of 2010, number 60(I) of 2010, was passed to address certain issues concerning members of Cypriot companies listed on regulated markets, particularly in relation to voting in general meetings. Key amendments introduced by the law include:

- irrespective of any provisions contained in the articles of association of a Cypriot company listed on a regulated market, members who hold not less than 5% of the paid-up share capital and who have voting rights in general meetings can call an extraordinary general meeting;

- subject to the provisions of laws implemented by member states so as to comply with Articles 9(4) and 11(4) of the EU Takeovers Directive 2004/25/EC, Cypriot companies listed on regulated markets may offer voting through electronic means in general meetings to all members eligible to vote;

- notice of general meetings must be served by Cypriot companies listed on regulated markets without charge to every member and must include, among other things, the place, time and the agenda of the general meeting and the procedures for adding a new subject to the agenda, appointing proxies and voting. Furthermore, Cypriot companies listed on regulated markets shall also provide their members through their websites with a notice of the meeting, the agenda and the documents that must be used for appointing proxies and for voting (if applicable) by mail or by electronic means;

- members holding not less than 5% of the issued share capital (representing at least 5% of the total voting rights of those who have the right to vote in the meeting) of a Cypriot company listed on a regulated market can propose a subject to be added to the agenda through electronic means or by post. Proposed agenda items must be received by the company at least 42 days prior to the date of the general meeting and the company must provide the amended agenda prior to the general meeting using a method similar to that used to provide the original agenda;

- a person must be registered as a member in the relevant register of members (including the register kept abroad) on the record date in order to be able to attend and vote in a general meeting of a Cypriot company listed on a regulated market. Any amendment to the relevant register after the record date will not be taken into account when determining the rights of any person to attend and vote in the meeting. The right of a member to attend a general meeting and vote in respect of his or her shares is not subject to a condition that the shares be deposited with, or transferred to another person or registered in the name of another person, prior to the general meeting. Furthermore, a member is free to sell or otherwise transfer his or her shares in a Cypriot company listed on a regulated market at any time between the record date and the general meeting, provided that such right to sell would not otherwise be subject to any restrictions;

- Cypriot companies listed on regulated markets may make voting by electronic means available to their members and without the need for the member or their proxies to be present and may also provide real time communication;

- members of Cypriot companies listed on regulated markets may appoint more than one proxy if their shares are held in different security accounts;

- members entitled to more than one vote (either in person or through a proxy) in a meeting of members of a Cypriot company listed on a regulated market are not obliged to use all of votes or to cast all of votes in the same manner; and

- when members of Cypriot companies listed on regulated markets apply for a full report of the voting results of a general meeting, the company shall announce, for every resolution proposed:

  (a) the number of shares on which votes were validly placed;

  (b) the proportion of issued share capital at the end of the day before the meeting which is represented by such votes;

  (c) the total number of valid votes; and

  (d) the number of votes which were cast in favour and against every proposed resolution and, if counted, the number of abstentions.

If no members apply for such a full report, it will be sufficient for Cypriot companies listed on regulated markets to announce the results on their websites within 14 days of the meeting and only to the extent necessary in order to ensure that the required majority was reached for every resolution.

Dominant Position

Dominant position in accordance with the Protection of Competition Law, as may be amended from time to time, in relation to an enterprise means the position of economic power that the enterprise enjoys, that makes it capable of preventing the maintenance of effective competition in the market of a specific product and it enables it to act, to a significant degree, independently of its competitors and its clients and ultimately independently of the consumers. The abuse of a dominant position (either solely by the company or collectively with another company) is prohibited and may be sanctioned with fines imposed by the Cyprus Commission for the Protection of Competition.

Control of Concentrations and Notification Requirements

The acquisition of direct or indirect control (whether by shares or assets, or by contractual or other arrangements) of the whole or part of one or more undertakings may give rise to a concentration caught by The Control of Concentrations Between Undertakings Law. A concentration is considered to be of major importance when: (a) the aggregate turnover achieved by at least two of the participating enterprises exceeds, in relation to each one of them, approximately EUR 3,417,000 and at least one of the participating enterprises engages in commercial activities within Cyprus; and (b) at least approximately EUR 3,417,000 out of the aggregate turnover of all the participating enterprises concerns the disposal of goods or the supply of services in Cyprus. If these thresholds are met, the duty to make a notification to the Cyprus Commission for the Protection of Competition is triggered. Notification must be made within one week from the date of conclusion of the relevant agreement, the publication of the relevant offer or exchange document or the acquisition of the controlling interest, whichever occurs first. An investigation into the possible concentration may then be initiated by the Cyprus Commission for the Protection of Competition.

Cypriot Transparency Requirements

Following admission to trading and official listing on the main market of the WSE, the Company will be subject to the disclosure obligations of the Law Providing for Transparency Requirements in relation to Information about Issuers whose Securities are admitted to Trading on a Regulated Market Law, as amended, which sets out the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Periodic Financial Reporting by the Company

Following admission to trading and official listing on the main market of the WSE, the Company will be obliged to file with the Cyprus SEC and make available on its website the following periodic reports:

(e) an annual financial report comprising of, among other things, the audited annual financial statements, the management report and responsibility statements. The annual financial report must be disclosed as soon as possible and in any event, within four months from the end of each financial year;

(f) a half yearly financial report covering the first six months of the financial year comprising of, among other things, the interim financial statements and the interim management report. The half yearly financial report must be disclosed as soon as possible and in any event, within two months from the end of the first six month period of the financial year;

(g) an interim management statement during the first and second six month periods of the financial year explaining, among other things, material events and transactions and their impact on the financial position of the Company and its subsidiaries, and a general description of the financial position and performance of the Company and its subsidiaries. The interim management statement must be prepared and disclosed in a period between 10 weeks after the beginning, and six weeks before the end, of the relevant six month period; and

(h) an indicative result (net gain or loss after tax) for the full financial year which must be disclosed as soon as possible and at the latest, within two months from the end of the period relevant to the annual financial reports.

Disclosure Thresholds

A person who holds shares in a Cypriot company must notify the company and the Cyprus SEC if he acquires or disposes of shares with voting rights attached and as a result the percentage of voting rights he holds as a shareholder reaches, exceeds, or falls below 5%, 10%, 15%, 20%, 25%, 30%, 50% or, 75%. A person who holds shares in a Cypriot company who has crossed a disclosure threshold must notify the company by the end of the next trading day, from the date that:

(i) the transaction was made, or that the person subject to the notification obligation learns of the acquisition or disposal of or of the possibility of exercising voting rights, or, having regard to the circumstances, should have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect; or

(j) the person subject to the notification obligation learns of or, having regard to the circumstances, should have learned of the event that resulted in changing the breakdown of voting rights of the issuer.

Notification by Shareholders

A person who holds shares in a Cypriot company and who must make notifications of a relevant acquisition or disposal, must simultaneously notify the issuing company and the Cyprus SEC. The obligation to make the notification is on each direct or indirect shareholder. The notification must include: (a) the resulting situation, in terms of voting rights; (b) where applicable, the chain of controlled undertakings through which the financial instruments are held; (c) the date, on which the threshold was changed; (d) with regard to instruments, for which there is an exercise period an indication of the date or time period, where shares will be acquired or can be acquired, depending on the circumstance; (e) the date of expiration of the instrument; (f) the identity of the holder of the financial instrument; and (g) the name of the issuer.

Notification by Cypriot Companies

Cypriot companies are also subject to certain obligations to notify the public, the regulated market and the Cyprus SEC, including following the acquisition or disposal of a proportion of its own shares where that reaches or exceeds the thresholds of 5% or 10% of the total voting rights, in the case of a relevant acquisition; or reaches or falls below the thresholds of 5% or 10% of the total voting rights, in the case of a relevant disposal.

Cypriot companies are generally required to disseminate major shareholding notifications to the market. Notifications to the Cyprus SEC are made through a prescribed form. Cypriot companies must also announce the total number of voting rights and capital for each class of its shares at the end of every month where there has been a significant change (section 18 of Law 190 (I)/2007).

Cypriot companies are required to communicate to the Cyprus SEC as soon as possible, and before the date of calling the general meeting which is to examine the draft amendment, every draft proposal for the amendment of its articles of association and to the relevant market to which its securities have been admitted to trading. In addition, Cypriot issuers of shares are under an obligation to disclose immediately and without delay any change in the rights attaching to the various classes of shares.

Provisions on Insider Dealing and Market Manipulation

The Insider Dealing and Market Manipulation (Market Abuse) Law (the "**Insider Dealing Law**") implements the provisions of Directive 2003/6/EC. The Cypriot provisions on insider dealing apply to the Company by virtue of section 3(b) of the Insider Dealing Law which prohibits the misuse of "inside information". Inside information is defined as any information of a precise nature, which has not been made public, relating, whether directly or indirectly, to one or more issuers of financial instruments, one or more financial instruments, or acquisition or disposal of such instruments, which has not been made public and which, if made public, would be likely to have a significant effect on the prices of financial instruments or related derivative financial instruments.

Pursuant to the Insider Dealing Law, a possessor of inside information is any person who gains inside information by virtue of membership in the governing bodies of a company; by virtue of a participation in the capital of the company, or as a result of having access to insider information in connection with employment, practices profession, or a mandate contract or any other contract of a similar nature; by virtue of the fact the inside information accrues directly or indirectly from a person who comes under the definition above or if they have close association with such persons, or gains inside information through criminal activities, or gains insider information in any other manner if such person has known or ought to have known such information to be inside information.

As a general rule, the Insider Dealing Law prohibits insiders from buying or selling financial instruments for the insider's own account or for the account of a third party (or through persons closely associated with them, either directly or indirectly) on the basis of inside information, or any other legal transaction undertaken for the insider's own account or for the account of a third party which leads or might lead to the disposal of such financial instruments; recommending or inducing the purchase or sale of the financial information concerned to third parties; and disclosing insider information to third parties unless required by law.

In addition to the abuse of inside information, the Insider Dealing Law also prohibits market manipulation. Market manipulation includes, among other things, the manipulation of stock prices through real or fictitious transactions or any other transactions, orders or fraudulent representations or the dissemination of false or misleading information.

Violation of the prohibition on the misuse of inside information and on market manipulation, constitute civil and criminal offences under the Insider Dealing Law. The Cyprus SEC has the power to impose administrative fines for such violations and where it is proven that the offender has made a gain which exceeds the amount of the fine, the Cyprus SEC may impose fines of up to double the amount of such gain.

Polish Law

The Company is incorporated under the laws of Cyprus and is therefore subject to the provisions of Cypriot laws. As a consequence, all legal matters regarding the Company as a corporate entity, and in particular its valid existence as a legal entity, its legal capacity and authority to take action, authority to issue and validity of shares, internal organisation and operational rules, are governed by the laws of Cyprus. Matters relating to the Company's status as a company and its relationship with shareholders also are generally governed by the Cypriot securities laws.

As the shares will be listed on the WSE, certain Polish laws and regulations will also be applicable to some of these matters. Investors should be aware that, in connection with certain Polish regulations, in particular those on the trading of securities admitted to trading on the organised market in Poland and international private law regulations, controversies may arise regarding the possible application of Polish legal regulations to the Company and its shareholders in respect of exercising rights and performing obligations under Polish law.

Rights and Obligations Attached to the Shares as Provided in the Polish Act on Public Offering and Polish Act on Trading

Trading in shares in Poland is subject to the provisions contained in particular in the Polish Act on Public Offering, the Polish Act on Trading and secondary regulations. Investors are urged to seek their own legal advice prior to acquiring any significant block of shares or entering into any agreement with other shareholders with respect to exercising voting rights vested by significant blocks of shares.

The Entities Subject to Obligations Relating to the Acquisition of Significant Blocks of Shares

The obligations set out in the Polish Act on Public Offering relating to the acquisition of significant blocks of shares are imposed on any entity that acquires or intends to acquire or dispose of shares in a public company and certain other entities listed in Article 87 of the Polish Act on Public Offering (as mentioned below). The obligations specified in the provisions of the Polish Act on Public Offering also arise if the voting rights are attached to securities deposited or registered with an entity which can dispose of them at its own discretion.

Subject to the exceptions provided for in the provisions of the Polish Act on Public Offering, the duties set forth in the Polish Act on Public Offering relating to the acquisition of significant blocks of shares are borne:

(k) by any entity which reached or exceeded the threshold of the total number of votes specified in the Polish Act on Public Offering when acquiring or transferring depository receipts issued in connection with shares of a public company;

(l) by a regulated collective investment undertaking – also when the relevant threshold of the total number of votes specified in these provisions is reached or exceeded in connection with shares being held by other collective investment undertakings managed by the same fund manager;

(m) by an entity, where the relevant threshold of the total number of votes specified in these provisions is reached or exceeded in connection with shares being held:

  (i) by a third party in its own name but on the instruction or for the benefit of this entity, with the exception of the acquisition of shares by an investment firm while rendering transmission of orders service;

  (ii) in managing portfolios composed of one or more financial instruments, in accordance with the Polish Act on Trading, and Investment Funds Act, in relation to shares included in managed securities portfolios, under which the shareholder, as the manager, may exercise voting rights at the general shareholders' meeting on behalf of the principals; and

  (iii) by a third party with whom that entity entered into a contract the object of which is the transfer of the right to exercise the voting right attaching to such shares,

(n) by a proxy who, in representing the shareholder at a general meeting, has been authorised to exercise the voting rights attached to the shares of a public company on a discretionary basis, rather that voting according to written instructions;

(o) jointly by all parties to an agreement, whether oral or in writing, regarding the purchase of shares, voting in concert at the general shareholders' meeting or conducting a long-term policy vis-a-vis the company, even if only one of the entities has taken or has intended to take actions giving rise to such obligations; and

(p) by entities which enter into the agreement referred to in paragraph (e) while holding shares in a public company in such number that would, in total, ensure the reaching or exceeding of a relevant threshold of the total number of votes specified in provisions of the Polish Act on Public Offering.

Calculation of Ownership Percentages

For the purpose of calculating the size of a shareholding, the Polish Act on Public Offering 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 represented by such shares in the listed company's total 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.

Mandatory Disclosure of Changes in the Ownership of Shares in a Public Company

Pursuant to the Polish Act on Public Offering, an entity that:

(q) achieves or exceeds 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total votes in a public company, or

(r) holds at least 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total vote in a public company, and as a result of a reduction of its equity interest, holds 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% or less of the total votes, respectively,

must notify the Polish FSA and the relevant public company of such fact immediately and, in no event, not later than within four business days from the date of a change in such shareholder's share in the total votes, or from the date on which the shareholder becomes, or by exercising due, care could have become, aware of such change; if such change resulted from the acquisition of shares in a public company in a transaction concluded on a regulated market, the notification must be made not later than within six session days of the transaction date. Session days means session days as specified by the Code of Best Practice pursuant to the Polish Act on Trading and announced by the Polish FSA on its website. Notifications may be drawn up in English.

The notification requirement also arises in the event that:

- an entity holding over 10% of the total vote changes its share by at least (i) 2% of the total votes (in the case of a public company whose shares have been admitted to trading on the official stock market); or (ii) 5% of the total votes (in the case of a public company whose shares have been admitted to trading on a regulated market other than the official stock market); or

- an entity holding over 33% of the total votes changes its share by at least 1% of the total votes.

The notification requirements referred to above also apply to an entity which reached or exceeded a given threshold of the total number of votes in connection with:

- the occurrence of a legal event other than an act in law (for example expiry of preference rights attached to shares, unjust enrichment or inheritance);

- the acquisition or transfer of financial instruments which results in an unconditional right or duty to acquire shares of a public company which are already issued as, but not limited to, convertible bonds, options, swaps or futures contracts; or

- the indirect acquisition of shares of a public company (for example through acquiring a holding company owning such shares).

The notification requirements referred to above do not apply if, upon the settlement in the depository for securities of a number of transactions executed on the regulated market on a single day, the change in the shareholder's share in the total votes at the end of the settlement day does not result in reaching or exceeding any threshold which triggers the notification requirement.

In order to comply with these obligations, a public company must promptly forward the information obtained from its shareholder, simultaneously, to the public, the Polish FSA, and the company operating the regulated market on which the company's shares are listed. The Polish Act on Public Offering sets out details on the required scope of information to be included in any notification addressed to the Polish FSA and the public company affected.

Obligation to Acquire Shares by way of a Public Tender Offer for sale or Exchange of Shares in a Public Company under the Polish Act on Public Offering

Tender Pursuant to Article 72 of the Polish Act on Public Offering

According to the Polish Act on Public Offering, an acquisition of shares in a public company which results in an increase in the aggregate number of votes held by more than:

(iii) 10% of the total number of votes within less than 60 days by an entity whose share in the total number of votes was lower than 33%; and

(iv) 5% of the total number of votes within less than 12 months by an entity whose share in the total number of votes was equal to or higher than 33%,

may only be effected by announcing a tender for the sale or exchange of such shares constituting not less than 10% or 5% of the total votes, respectively.

The obligations discussed above do not arise if the shares in a public company are acquired on the primary market, as a result of being contributed to a company by an in-kind contribution, or as a result of merging or demerging a company.

Tender Pursuant on Article 73 of the Polish Act on Public Offering

Pursuant to Article 73 of the Polish Act on Public Offering, as a general rule, a shareholder may exceed 33% of the total vote in a public company only as a result of a tender offer to sell or exchange shares in such company, concerning such number of shares which confers the right to 66% of the total votes, unless the 33% threshold is to be exceeded as a result of a tender offer for the sale or exchange of all the remaining shares in a public company in connection with the exceeding 66% of the total number of votes.

If a shareholder exceeds the 33% threshold as a result of an indirect acquisition of shares (e.g. becoming a parent entity in another company or other legal entity which holds shares in a public company, or in another company or legal entity which is a parent entity of such public company, a subscription for shares pursuant to a new issue, an acquisition of shares as part of a public offering or as a non-cash contribution to the company, a merger or demerger of the company, amendments to the company's articles of association, expiry of preference rights attached to shares, or otherwise as a result of a legal occurrence other than an act in law (for example due to unjust enrichment or inheritance), the shareholder or entity acquiring shares indirectly shall, within three months from exceeding the 33% threshold:

- announce a tender offer to sell or exchange the shares in the relevant public company, for that number of shares which confers the right to 66% of the total votes; or

- dispose of sufficient number of shares so as to hold shares conferring the right to no more than 33% of the total votes,

unless within that period the share of such shareholder or entity acquiring shares indirectly in the total votes exercisable decreases to no more than 33% of the total votes, as a result of a share capital increase, amendments to the company's articles of association, or the expiry of any preference rights attached to any shares, as the case may be.

If a shareholder exceeds the 33% threshold as a result of inheritance, then the obligation referred to above applies only if following such an acquisition the shareholder's share in the total votes increases further. The obligation to perform those requirements arises on the day of the event leading to an increase in the shareholder's share in the total votes exercisable.

An entity obliged to announce a tender offer under regulations referred to in the preceding paragraphs may not until its completion, directly or indirectly, acquire or take up shares of a public company if it has exceeded a relevant threshold of the number of shares.

Tender Pursuant to Article 74 of the Polish Act on Public Offering

Pursuant to the Polish Act on Public Offering, as a general rule, a shareholder may exceed 66% of the total vote in a public company only as a result of a tender offer to sell or exchange all the remaining shares in that company.

The threshold of 66% is recognised by Polish law as the percentage of voting rights conferring "control" over the company in the meaning of the Takeover Directive.

Therefore, following provisions of Article 4(2)(e) of the Takeover Directive in respect of a company with its registered seat in Cyprus, whose shares are admitted to trading on a regulated market in Poland only, the provisions of Article 74 of the Polish Act on Public Offering will not apply. In such case the entity acquiring shares is obliged to announce a tender offer for sale or exchange of all the remaining shares in the company in accordance with Cypriot legislation. However, if the obligation to announce such offer arises, certain Polish regulations will also apply, including in relation to the subject matter of the tender offer, the price of shares proposed in the tender offer and the procedure for conducting the tender offer, particularly relating to the content of the tender offer and the procedure for its announcement. For additional information, see the section on "*Cypriot Law – Mandatory Offers*".

Additional Regulations Regarding Tender Offers under Articles 72-74 of the Polish Act on Public Offering

In the case of tender offers referred to in Articles 72 and 73 of the Polish Act on Public Offering, only the following financial instruments may form the consideration offered pursuant to the tender offer: (a) shares in another company, depository receipts, and mortgage bonds, provided these instruments exist in the book entry form (i.e. are dematerialised) or (b) Polish Treasury bonds. In case of a tender offer referred to in Article 74 of the Polish Act on Public Offering, only shares in another company or other transferable securities with voting rights attached thereto that exist in book-entry form may form the consideration offered pursuant to a tender offer. If the tender offer is made for the remaining shares in a company, the terms of the tender offer must include an option for the shareholders accepting the offer to sell their shares at a price established pursuant to detailed provisions of the Polish Act on Public Offering.

A tender offer may only be announced after collateral is created for not less than 100% of the value of the shares covered by the tender offer. The collateral should be documented with a certificate issued by a bank or another financial institution which granted, or intermediated in the granting of, the collateral.

A tender offer should be announced and carried out through an entity conducting brokerage activities in Poland, which is obligated, within 14 business days before the opening of a subscription period, to simultaneously notify the Polish FSA and the company operating on the regulated market on which the given shares are listed, of the intention to announce the tender offer. A copy of the tender offer document should be attached to the notification.

Upon receipt of the notification of the intention to announce a tender offer, the Polish FSA may, not later than three business days before the subscription period opens, request within a specified period of not less than two days, that the tender offer is amended or supplemented as necessary or that clarifications of its wording be provided. The opening of the subscription period for a tender offer is suspended until the entity obligated to announce the tender offer completes the actions specified in any such request from the Polish FSA.

A tender offer may not be abandoned, unless another entity announces a tender offer for the same shares after the first tender offer has been announced at a price not lower than the price of the first tender offer.

In the period between the notification of the intention to announce a tender offer and the closing of the tender offer:

(s) the entity obligated to announce the tender offer;

(t) its subsidiaries;

(u) its parent entities; and

(v) parties to an agreement concluded with the entity obliged to announce the tender offer regarding the acquisition of a public company's shares by these entities, or voting in concert at the general shareholders' meeting of that company on matters significant for that company:

    (i) may acquire shares in the company whose shares are covered by the tender offer only as part of the tender offer and in the manner defined therein;

    (ii) may not dispose of shares in the company whose shares are subject to the tender offer, or enter into any agreement under which they would be obliged to dispose of the shares, during the tender offer; or

    (iii) may not acquire indirectly any shares in the company whose shares are covered by the tender offer.

After the tender offer is announced, the entity obligated to announce the tender offer and the management board of the company whose shares are subject to the tender offer, shall provide information on the tender offer, including the wording of the tender offer document, to representatives of any trade unions active at the company, and, if there are no such trade unions at the company, directly to its employees.

Upon completion of the tender offer, the entity announcing the tender offer must give notice, in the manner prescribed in Article 69 of the Polish Act on Public Offering, of the number of shares acquired in the tender offer and the percentage share in the total number of votes it holds resulting from the tender offer.

Additionally, Article 75 of the Polish Act on Public Offering sets out certain exemptions from the obligation arising under Articles 72-74.

Regulations Governing the Price of Shares in a Tender Offer

The share price proposed in a tender offer announced pursuant to Articles 72-74 of the Polish Act on Public Offering may not be lower than:

- if any shares in a public company are traded on a regulated market:

  (w) the average market price for the six months preceding the announcement of the tender offer in which the shares were traded on the main market; or

  (x) the average market price for a shorter period, if the shares were traded on the main market for less than the period specified in paragraph (a), or

- the fair value of the shares, if the price cannot be determined in accordance with the principles discussed above or in the case of a company against which arrangement or bankruptcy proceedings have been commenced.

Furthermore, the share price proposed in the tender offer referred to in Articles 72-74 of the Polish Act on Public Offering may not be lower than:

- the highest price paid for the shares tendered in the tender offer by the entity obliged to announce the tender offer, its subsidiary or parent entity, or a party to an agreement concluded with the entity obliged to announce the tender offer regarding the acquisition of such public company's shares by these entities, or voting in concert at its shareholders' meetings or carrying out a consistent policy towards the company, for the tendered shares within 12 months preceding the announcement of the tender offer; or

- the highest value of assets or rights, delivered in exchange for shares offered under the tender offer, within the 12 months before the tender announcement, by the entity obliged to announce the tender offer or its subsidiary or its controlling entity or by a party to an agreement concluded with such entity, regarding the acquisition of such public company's shares by these entities, or voting in concert at its shareholders' meetings or carrying out a consistent policy towards the company.

In addition to requirements set forth above, the share price proposed in the tender offer referred to in Article 74 of the Polish Act on Public Offering may not be lower than the average market price for the three months of trading in the shares on the regulated market preceding the announcement of the tender offer.

The price proposed in the tender offer referred to in Articles 72-74 of the Polish Act on Public Offering may be lower than the price determined pursuant to the principles discussed above for shares constituting at least 5% of all company shares to be acquired in the tender offer from a specific person accepting such tender offer, if the entity required to announce the tender offer and such person so decide.

If the average market price of shares determined in accordance with principles specified in the Polish Act on Public Offering is significantly different to their fair value as a result of:

- granting shareholders any pre-emptive right, right to dividend, right to acquire shares in a surviving company following the spin-off of a public company and/or other property rights connected with holding shares in a public company;

- material deterioration in the financial standing or assets of the company in consequence of events and/or circumstances that could not have been anticipated and/or prevented by the company; or

- the threatened permanent insolvency of the company;

the entity announcing a tender offer may apply to the Polish FSA for consent to offer a price in the tender that does not satisfy the criteria referred to in Article 79, section 1, item 1, and sections 2 and 3 of the Polish Act on Public Offering.

The Polish FSA may give such consent provided, however, that the proposed price is not lower than the fair value of the relevant shares and the announcement of such tender offer will not be contrary to the reasonable interests of shareholders. The Polish FSA may determine, by way of a decision, a time limit within which the tender offer with the price specified in the decision should be announced.

The Polish FSA publishes its decision on whether or not a price not satisfying the criteria referred to in Article 79 in a tender (section 1, item 1, and sections 2 and 3 of the Polish Act on Public Offering) can be offered, including its reasons for such decision. If the Polish FSA gives its consent, the price offered in the tender offer may be lower that the price specified in the consent in relation to shares constituting at least 5% of all of the company's shares to be acquired in the tender offer from a specific person accepting such tender offer, if the entity required to announce the tender offer and such person so decide.

The average market price referred to in the foregoing rules concerning tender offers means the arithmetical mean of the average daily prices weighted by trading volumes.

Regulations Dealing with Squeeze-Out Contained in the Polish Act on Public Offering

Pursuant to Article 82 of the Polish Act on Public Offering, a shareholder in a public company that, on its own or together with its subsidiaries or parent companies or with companies which are parties to an agreement regarding the purchase of shares or voting in concert at the general shareholders' meeting on material issues, reaches or exceeds the threshold of 90% of the overall number of votes in such public company, may demand, within three months of achieving the relevant threshold, that the remaining shareholders sell all the shares held by them to such shareholder. The squeeze-out price is determined using certain provisions of the Polish Act on Public Offering concerning the determination of the minimum share price applying to tender offers. The purchase of shares in the squeeze-out process takes place without the consent of the shareholder to which the demand to sell is addressed.

Regulations Dealing with Sell-Out Contained in the Polish Act on Public Offering

Pursuant to Article 83 of the Polish Act on Public Offering, a shareholder in a public company may demand that another shareholder, which has reached or exceeded 90% of the total number of votes, purchase from it the shares it holds in such company. The demand is made in writing within three months from the date on which such shareholder reaches or exceeds the relevant threshold.

The demand to sell-out shares of the public company must be complied with jointly by the shareholder that reached or exceeded the threshold of 90% and by its subsidiaries and parent entities. The requirement to purchase the shares also applies jointly to any party to a verbal or written agreement on the purchase of shares in a public company or on concerted voting at a general shareholders' meeting or conducting a long-term policy towards the company, provided the parties to such agreement command in aggregate, together with their respective parent entities or subsidiaries, not less than 90% of the overall number of votes. The period to fulfil a sell-out demand is 30 days. The sell-out price is determined using certain provisions of the Polish Act on Public Offering, concerning the determination of the minimum share price applying to a tender offer.

Insider Trading and Manipulation

The Polish Act on Trading prohibits the misuse of inside information. The Polish Act on Trading defines inside information as any information of a precise nature, relating, whether directly or indirectly, to one or more issuers of financial instruments, or the acquisition or disposal of such instruments, which has not been made public and which, if made public, would be likely to have a significant effect on the prices of financial instruments or related derivative financial instruments. Pursuant to the Polish Act on Trading an insider is any person who:

(v) gains insider information by virtue of membership in the governing bodies of the company, by virtue of an interest in the capital of the company, or as a result of having access to inside information in connection with employment, the practice of a profession, or a mandate contract or any other contract of a similar nature (primary insider);

(vi) gains inside information through criminal activities, or

(vii) gains inside information in any other manner if such person knows or, acting with due diligence, could have known such information to be insider information.

As a general rule, insiders are prohibited from:

(viii) buying or selling of financial instruments for their own account or for the account of a third party on the basis of inside information held by a given person, or any other legal transaction undertaken for their own account or for the account of a third party which leads or might lead to the disposal of such financial instruments;

(ix) recommending or inducing another person on the basis of inside information to acquire or dispose of financial instruments to which such information relates; and

(x) disclosing insider information to third parties unless required by law.

Violation of the prohibition on the misuse of inside information is a criminal offence. Pursuant to the Polish Act on Trading anyone who illegally discloses inside information, issues a recommendation or induces another person to acquire or dispose of financial instruments to which inside information relates may be liable to a fine of up to PLN 2,000,000 or a penalty of imprisonment for up to three years, or both. Moreover, anyone who buys or sells financial instruments on the basis of insider information held, or undertakes any other legal transaction which leads or might lead to disposal of such financial instruments may be subject to a fine of up to PLN 5,000,000 or a penalty of imprisonment for a period from three months to five years, or both (for certain persons indicated in the Polish Act on Trading, the term of imprisonment may be increased).

In addition to the abuse of inside information, the Polish Act on Trading also prohibits market manipulation. Among other things, market manipulation includes the manipulation of stock prices through real or fictitious transactions and any other transactions, orders or fraudulent representations or through the dissemination of false or misleading information. Depending on the circumstances of a given case, market manipulation may constitute either an administrative offence penalised with a fine of up to PLN 200,000 or a penalty of up to ten times the financial benefit gained, or both, imposed on anyone who engages in market manipulation or a criminal offence penalised with a fine of up to PLN 5,000,000 or a penalty of imprisonment for a period from three months to five years, or both.

Certain Competencies of the Polish FSA

According to the Polish Act on Public Offering, Cyprus is recognised as the home state for the Company, while Poland will be regarded as its host state, within the meaning of the Prospectus Directive.

Pursuant to the Polish Act on Public Offering, if an issuer for whom Poland is a host state, or an entity participating in the public offering, admission or introduction of securities to trading on a regulated market or conducting promotional activities on behalf of or upon the instruction of such an issuer, breaches legislation in force in connection with the public offering or admission or introduction of securities to trading on a regulated market or conducting promotional activities on the territory of Poland, the Polish FSA shall notify the competent authority in such issuer's home state about such infringement.

If, despite notification by the Polish FSA, the competent authority of the issuer's home state does not take measures to prevent further violation of the legislation in force, or if such measures prove ineffective, the Polish FSA may, with a view to protecting the interests of investors and having first notified such authority, apply measures provided for, inter alia, in Articles 16 and 17 of the Polish Act on Public Offering. The Polish FSA shall promptly notify the European Commission that it has taken such measures.

Pursuant to Article 16 of the Polish Act on Public Offering, in the event that the issuer, the Selling Shareholder or other entities participating in such offering, subscription or sale carried out pursuant to such offering, on behalf of or upon the instruction of the issuer or the Selling Shareholder are in breach, or there is a reasonable suspicion of their being in breach, of the law in connection with the public offering, subscription or sale on the territory of Poland, or a reasonable suspicion that such breach may occur, the Polish FSA may:

(y) order that the commencement of the public offering be withheld or that the public offering, subscription or sale be interrupted for a period up to 10 business days;

(z) prohibit the commencement of the public offering, subscription or sale or further continuation; or (aa) publish, at the issuer's or selling shareholder's expense, information on the breach of law connected to such public offering, subscription or sale.

With respect to the public offering, subscription or sale, the Polish FSA may repeatedly apply the measure provided in items (b) and (c) above.

Similarly, pursuant to Article 17 of the Polish Act on Public Offering, in the event that the issuer, or other entities acting on behalf of or upon instructions from the issuer, are in breach or there is a reasonable suspicion of their being in breach, of the law in connection with an application for admission of securities to trading or admission to trading of securities on the regulated market on the territory of Poland, or there is a reasonable suspicion that such breach may occur, the Polish FSA may:

(bb) order that the application for the admission or introduction of the securities to trading on the regulated market is delayed for a period up to 10 business days;

(cc) prohibit the application for admission or introduction of the securities to trading on the regulated market; or

(dd) publish, at the issuer's expense, information on the breach of law when seeking to have the securities admitted or introduced to trading on the regulated market.

In relation to each attempt to obtain the admission or introduction of securities to trading on the regulated market, the Polish FSA may apply the measures set out in items (b) and (c) above more than once.

Pursuant to Article 20 section 1 of the Polish Act on Trading, the company operating the regulated market shall, upon the Polish FSA's request, withhold approval for or the commencement of listing of the securities specified by the Polish FSA for a period up to 10 days, whenever required for the security of trading on the regulated market, or in the event of any threat to investors' interests.

Other Regulations Governing Stock Exchange Trading in Shares and Transaction Settlement

Warsaw Stock Exchange

The WSE conducts its business in accordance with a range of applicable legislation, including, primarily, the Polish Act on Trading and also in accordance with various secondary and internal regulations, including the WSE Regulations.

The exchange market operated by the WSE constitutes a regulated market for the purposes of relevant European Union laws and the Polish Act on Trading. Moreover, the WSE organises and operates an alternative trading system which is a non-regulated market. The exchange market operated by the WSE includes the main market (i.e. the official stock exchange market) and the parallel market.

Conversion of Securities to Book-Entry Form

In principle, securities which are admitted to trading on a regulated market in Poland, such as the main market of the WSE, must exist in book-entry form as at the date of their registration under the relevant depository agreement (dematerialisation). In particular, before the commencement of trading on a regulated market, an issuer of securities is obliged to conclude an agreement with the NDS for the dematerialisation of those securities. Rights attached to such dematerialised securities arise and are vested for the first time at the moment of their recording in the securities account of the holder of such account.

The entity keeping the securities account, such as an investment firm or a custodian bank will issue, at the request of the account holder, a registered deposit certificate with respect to such account holder's securities which are registered in that account. The deposit certificate confirms the power to exercise those rights attached to the securities specified in that certificate that are not, or may not be, exercised exclusively on the basis of entries in the securities account, and in particular, to participate in the general shareholders' meeting.

From the moment of issuance of a registered depositary certificate, the securities, in the number indicated in the registered depositary certificate, are blocked and may not be traded until the end of the validity period for that registered depositary certificate or until it is returned to the entity keeping the securities account, whichever occurs first. The same securities may be specified in the contents of several registered depositary certificates, provided that the purpose of the issuance of each of these registered depositary certificates is different. In such case, information is also placed in individual registered depositary certificates as to the blocking of the securities due to an earlier issuance of other registered depositary certificates.

Settlement

Under current regulations, all transactions on the regulated WSE market occur on a delivery versus payment basis, with the transfer of rights to securities occurring on a T+3 cycle. In principle, each investor must hold a securities account and a cash account with an investment firm or a custodian bank in Poland, and each such investment firm and custodian bank must hold relevant accounts with the NDS and a main cash account with a clearing bank.

In accordance with the rules and regulations of the WSE and the NDS, the NDS is required to arrange, based on a list of transactions provided by the WSE (compiled post-session), for the settlement of transactions effected by WSE members. In turn, WSE members co-ordinate settlement with those investors on whose account the transactions were executed.

Stock Exchange Trading Mechanisms

As at the date of this Prospectus, WSE sessions are held regularly from Monday to Friday from 8:30 a.m. to 5:35 p.m., Warsaw time, unless the management board of the WSE decides otherwise.

Depending on the market on which the relevant securities are listed, quotations are made in a continuous trading system (the main market) or in a single-price system with one or two auctions (the parallel market). In addition, for large blocks of securities, so-called block transactions outside of the public order book in the continuous trading system or a single-price system are also possible.

Information as to price, trading volume and any specific rights (i.e. pre-emption or dividend rights) attaching to the relevant securities, is available on the WSE's official website at www.gpw.pl.

Brokerage commissions in Poland are not fixed by the WSE or any other regulatory body and are set by the brokerage house executing the transaction.

DESCRIPTION OF THE SHARES

Introduction

Set out below is a description of the Company's share capital. The description does not purport to be complete and is qualified in its entirety by references to the Articles of Association and relevant Cypriot law. Holders of Shares will be able to exercise their rights with respect to the Shares only in accordance with the provisions and the relevant requirements of Cypriot law and the Articles of Association.

The holders of the Shares are entitled to vote on all matters submitted at a general meeting or to a vote of the shareholders on the following basis: on a vote at a general meeting held on a show of hands, to one vote, and, on a poll, to one vote for each Share held. Holders of the Shares are entitled to receive rateably only those dividends as may be declared by the Board of Directors out of funds which according to the Cyprus Companies Law and the Articles of Association are available.

In the event of the Company's liquidation, dissolution or winding up, the holders of the Shares are entitled to share rateably in all of the Company's assets remaining after the Company pays it liabilities.

The rights attaching to the Shares provided for in the Articles of Association are set out under the heading "*Rights attaching to shares*" in this section. The rights attaching to the Shares are also subject in all respects to the Cyprus Companies Law.

Share Capital

The Company was incorporated on 21 September 2010 with a share capital of EUR 1,000 divided into 1,000 ordinary shares of nominal value of EUR 1.00 each. On 9 December 2010, the authorised and issued share capital of the Company was converted into USD and increased to USD 350,000 divided into 35,000,000 ordinary shares of USD 0.01 each. Following the increase, on 9 December 2010, the Selling Shareholder and the Company entered into a subscription agreement whereby the Selling Shareholder transferred to the Company the ownership of the Group's subsidiaries which were engaged in agricultural production at an agreed subscription price of USD 222,493,678 and, in exchange, the Company issued to the Selling Shareholder 34,867,860 ordinary shares of USD 0.01 each at a premium of USD 6.54 per ordinary share thereby increasing the Company's issued share capital to USD 350,000 consisting of 35,000,000 ordinary shares of USD 0.01 each and creating a share premium of USD 222,150,000. On 9 May 2011, in preparation for the Offering, the authorised share capital of the Company was increased to USD 500,000 divided into 50,000,000 ordinary shares of USD 0.01 each. This remains the Company's authorised share capital as at the date of this Prospectus and it shall remain the Company's authorised share capital immediately following the Offering.

No preferred shares are authorised or outstanding. The Company does not have any treasury shares. As at the date of this Prospectus, all of the Company's issued share capital is fully paid.

The ownership of the ordinary issued share capital of the Company before the Offering and after the Offering is set out in "*Shareholders*".

The New Shares to be issued and made available pursuant to the Offering will rank pari passu in all respects with the other issued shares of the Company and will carry the rights to receive all dividends and distributions declared, made or paid on, by the Company.

The following is a brief summary of certain material provisions of the Company's Memorandum of Association ("**Memorandum**") and Articles of Association in effect on the date of this Prospectus, a brief description of the Company's share capital and certain requirements of Cypriot legislation.

Objects

The objects of the Company are as set out in full in Clause 3 of the Memorandum. The primary objects of the Company are to carry on the business of a holding and an investment company, business consultants and general trade. However, the objects contained in Clause 3 of the Memorandum have been drafted very widely so as to empower the Company to carry on a variety of commercial and business activities.

General

The ordinary shares of the Company are in registered form. The Company has not issued any listed or unlisted securities not representing the Company's share capital. Neither the Company nor any of its subsidiaries (nor any party on behalf of the Company) holds any of the Company's ordinary shares. The Company has no outstanding convertible securities, exchangeable securities or securities with warrants. There are no relevant acquisition rights or obligations over the Company's authorised but unissued capital or undertakings to increase the issued share capital.

Other than as described in this Prospectus, at the time of the Offering, none of the Company's share or loan capital will be under option or will be agreed conditionally or unconditionally to be put under option. In 2011, the Company at its general meeting resolved to waive the pre-emption rights in respect of the issuance of the New Shares in connection with the Offering. The Board of Directors resolved to issue the New Shares following this decision of the general meeting of the Company.

Articles of Association

The Articles of Association were adopted by a special resolution dated 7 March 2011. The following is a brief summary of certain material provisions of the Articles of Association.

Rights Attaching to Shares

The Offer Shares are ordinary shares ranking equal in all respects with all existing (issued) shares in the capital of the Company. The shareholders have, *inter alia*, the following rights:

- A right to attend the general meetings and vote (see section entitled "Voting Rights" below).
- A right to participate and share in the Company's distributable profits, i.e. those profits declared to be paid as dividends or interim dividends.
- A right to transfer their shares to any person.

- A right to pledge, charge, grant option over or otherwise dispose of, any share they own in the Company.

- A right to receive the annual financial statements of the Company together with the Directors and auditors report.

- A right to participate and share in the distribution of any surplus assets (after the discharge of the Company's liabilities) in the event of liquidation or winding up of the Company in proportion to their shareholding.

- For existing shareholders, pre-emption rights when new shares are issued in the same class for consideration. The new shares have to be offered first to the existing shareholders in proportion to their shareholding.

- A shareholder or shareholders owning or representing at least 5% of the issued share capital and voting rights of the Company may request that matters are added in the agenda of the annual general meeting, add resolutions in the agenda of general meetings or request that an extraordinary general meeting is convened.

Issue of Shares

The Board of Directors may, in respect of shares which have not been taken or agreed to be taken by the exercise of the shareholders' pre-emption rights, offer, allot, grant options over or otherwise deal with or dispose of any them to such persons, at such times and generally on such terms, conditions and restrictions as the Board of Directors thinks fit.

Pre-Emption Rights

On an issue of shares at a certain date as determined by the Board of Directors, each existing shareholder has a right of pre-emption to subscribe for shares (apart from shares issued for a non-cash consideration) in cash in proportion to the aggregate amount of their shareholding.

The Company has to notify all shareholders in writing of its intention to issue new shares and the price to be issued. Each individual notice should include the number of shares each shareholder is entitled to buy, a period which a shareholder may exercise its pre-emption rights and purchase the offered shares, and the price per share.

Each shareholder will be given no less than 14 days following its receipt of the notice of the offer, such notice to set out the proposed terms and conditions of the offer, to notify the Company of its desire to exercise its pre-emption right on the same terms and conditions proposed in the notice. In respect of any shareholders who do not exercise all, or exercise in part, their pre-emption rights, the Board of Directors can decide who else to issue the rejected shares to. Unless the pre-emption rights are waived or disapplied, the Company must offer shares to be issued to the existing holders of shares on a pro rata basis. Such right of pre-emption may only be disapplied by means of a resolution of the shareholders in general meeting, during which the Board of Directors is required to present a written report indicating the reasons for the proposed resolution disapplying the pre-emption rights and justifying the proposed issue price. The shareholders may also respectively waive their pre-emption rights by notice to the Company.

With respect to shareholders holding their shares in dematerialised form through securities accounts with the participants of NDS, such notice may be sent to NDS which will in turn notify the Company.

Voting Rights

Subject to any special rights or restrictions as to voting attached to shares, every holder of shares who is present in person or by proxy, or (if applicable) through a telephone or other telecommunication connection shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each share held by him. A corporate shareholder may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate shareholder could exercise if it were an individual shareholder. No shareholder is entitled to vote at any general meeting unless all calls and other amounts payable by him in respect of shares have been fully paid.

Each shareholder is, subject to any special rights or restrictions attached to the shares held by him, entitled to attend general meetings, to address the meeting and to vote. Shareholders may attend meetings in person or be represented by proxy authorised in writing.

For a shareholder to be recognised as being entitled to attend and vote at a general meeting, he or she must present to the meeting proper evidence of his or her shareholding as at the date that will be specified in the notice convening the general meeting to the satisfaction of the Chairman of the meeting. A depositary certificate issued by an entity maintaining the securities account of a shareholder will be deemed sufficient evidence of shareholding. Therefore in order to be able to participate and vote at the general meeting, the Company's shareholders holding the shares in dematerialised form through the securities accounts with the participants of the NDS shall present depositary certificates issued in accordance with the relevant Act on Trading. Only shareholders registered as members of the Company in the securities accounts of the NDS as at the date two working days prior to the date appointed for holding the general meeting are, subject to any special rights or restrictions attached to their shares, entitled to attend and vote at the general meeting.

The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a copy (certified in the manner approved by the Board of Directors) of that power or authority shall be deposited at the registered office of the Company or at such other place as is specified for that purpose in the notice convening the meeting not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the proxy is to attend.

Subject to any rights or restrictions attaching to any class of shares, voting at meetings shall be conducted in person or by proxy or attorney and, where the shareholder is a corporate body, by a representative.

Dividends

The Company may declare dividends in an annual general meeting and declare interim dividends in an extraordinary general meeting. All such dividends are to be paid out of profits but no dividend or interim dividend shall exceed the amount recommended by the Directors. The Directors may, at any time, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves.

No distribution of dividends may be made when on the closing date of the last financial year the net assets, as set out in the Company's annual accounts, are, or following such a distribution would be, lower than the amount of the subscribed share capital.

The Directors may declare interim dividends as appear to them to be justified by the profits of the Company. Interim dividends can only be paid if interim accounts are drawn up showing that funds available for distribution are sufficient and the amount to be distributed may not exceed the total profits made since the end of the last financial year for which the annual accounts have been drawn up, plus any profits brought forward and sums drawn from reserves available for this purpose, less any losses brought forward and sums to be placed in reserve pursuant to the requirements of the Cyprus Companies Law or the Articles of Association.

The Company proposes to announce its intention to pay dividends and set a date (the record date) which will be used to ascertain which shareholders are entitled to receive dividends. The dividends should then be paid within 15 working days of the associated record date.

In respect of shareholders holding their shares in dematerialised form through securities accounts with participants of the NDS, the dividend will be paid through the facilities of the NDS. The NDS will then transfer the dividends to its participants, who in turn, will credit cash accounts of their clients.

Dividends will be paid once a year with the exception of any interim dividends that may be declared.

Variation of Rights

If at any time the share capital is divided into different classes of shares, the rights attached to the shares of any class may (whether or not the Company is being wound up) be varied or abrogated with the consent in writing of at least two-thirds of the holders of the shares of that class or with the sanction of a majority resolution passed at a separate meeting of the holders of the shares of that class.

The sanction of the majority resolution at such separate meeting requires over one-half of the votes cast by the class holders present (in person or by proxy) at the meeting where all the class holders present (in person or by proxy) represent in aggregate at least 50% in nominal value of the entire issued share capital of the Company and, in all other cases, two-thirds of the votes cast at such meeting.

Alteration of Capital

The Company may by ordinary resolution in a general meeting:

- increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;

- consolidate and divide all or any of its share capital into shares of larger amounts than the existing shares;

- subdivide the existing shares, or any of them, into shares of smaller amounts than is fixed by the Memorandum subject, nevertheless, to the provisions of Section 60(1)(d) of the Cyprus Companies Law; and

- cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person.

The Company may also, by special resolution in a general meeting, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any incident authorised, and consent required, by Law.

Purchase of Own Shares and Reduction of Capital

The Company may, subject to and in accordance with the provisions of ss. 57 and 57A to 57F (both including) Law, issue and redeem redeemable preference shares and purchase a number of its shares as permitted, and may transfer such shares within the time limits imposed by the Cyprus Companies Law or cancel them.

Winding Up

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the shareholders and any other sanction required by the Cyprus Companies Law:

- divide among the shareholders in specie or in kind the whole or any part of the property of the Company;

- for that purpose set a value as the liquidator considers fair on any property to be so divided;

- decide how the division is to be carried out as between the shareholders or different classes of shareholders; and

- vest the whole or any part of the property of the Company in trustees upon such trusts, for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other securities whereon there is any liability.

Form and Transfer of Shares

The Shares may generally be in certificated and uncertificated form. However, for the purposes of listing on the WSE, all the Shares will be registered with the NDS, which is a Polish central clearinghouse and depository of securities, and no physical share certificates will be issued to shareholders. The Shares, while registered with the NDS 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 and as provided by the Articles of Association.

Meetings of Shareholders

Subject to the Cyprus Companies Law, the Company will in each year hold a general meeting as its annual general meeting of shareholders on such day and at such place as the Directors determine. Special meetings of shareholders may be called at any time by the Board of Directors or by requisition in accordance with Section 126 of the Cyprus Companies Law.

Annual general meetings and meetings where a special resolution will be proposed can be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued 21 days before the meeting. All other general meetings may be convened with a notice issued 14 days before the meeting provided that the company offers the facility for shareholders to vote by electronic means accessible to all members who hold shares conferring voting rights and that a special resolution reducing the period to 14 days has been passed at the immediately preceding general meeting or at a general meeting held since that meeting.

A notice may be given by the Company to any member either personally or by sending it to him by post, telefax, electronic mail or by any other means for transmitting text to his or her registered address or his or her mailing address or his or her electronic or other address supplied by him to the Company for this purpose or to the fax number supplied by him to the Company for this purpose. Where a notice is sent by post, service of the notice shall be deemed to be effected at the expiration of 48 hours after the letter containing the same is posted, at the correct address and with the proper postage. Where a notice is sent by telefax, electronic mail or any other means of transmitting text, service of the notice shall be deemed to be effected 24 hours after the date of successful transmission or relay at the place of receipt.

A notice may be given by the Company to the joint shareholders of a Share by giving the notice to the joint shareholder first named in the register of shareholders in respect of the Share.

A notice may be given by the Company to the persons entitled to a share in consequence of the death or bankruptcy of a shareholder by sending it through the post in a prepaid letter addressed to them by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like descriptions, at the address, if any, supplied for the propose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

Notice of every general meeting shall be given in any manner described above to:

- every shareholder except those shareholders who have not supplied to the Company a registered address for the giving of notices to them;

- every person upon whom the ownership of a share devolves by reason of him or her being a legal personal representative or a trustee in bankruptcy would be entitled to receive notice of the meeting; and

- the auditor for the time being of the Company.

No other person shall be entitled to receive notices of general meetings.

The Company shall send such written notice to the NDS, which will then circulate it to the NDS participants, ensuring fast access to the notice.

Indemnity of Officers

Subject to the Cyprus Companies Law, each of the current or former officers of the Company shall be indemnified out of the Company assets against any losses or liabilities which he or she may sustain or incur in or about the execution of his or her duties. This includes liability incurred by him or her in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favour or in which he or she is acquitted, or in connection with any application under section 383 of the Cyprus Companies Law in which relief is granted to him or her by the court from liability for negligence, default, breach of duty or breach of trust in respect of the affairs of the Company.

Number of Directors

Unless and until otherwise determined by the Company in general meeting, the number of Directors shall be at least four and there shall be no maximum number. At least two members of the Board of Directors shall be independent (i.e. free of any business, family or other relationship with the Company, its controlling members(s), the management of either the Company or entities with significant connections with the Company, that would create a conflict of interest such as to impair his or her judgment) non-executive Directors. In assessing the independence of the members of the Board of Directors of the Company, the criteria stipulated in Annex II of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the supervisory board shall be applied. A member of the Board of Directors who is an employee of the Company or a company associated with it shall be deemed as lacking the necessary independence.

Board of Directors

The Directors may meet together or convene a telephone conference for the despatch of business, adjourn, and otherwise regulate their meetings as they think fit and questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote. A Director may, and the secretary on the requisition of a Director shall, at any time summon a meeting of the Directors, including a telephone conference.

The quorum necessary for any transaction of business of the Directors is a majority of the total number of the Directors, such Directors to be present throughout the entire meeting. Alternate directors may be counted in the quorum if the alternate director is not himself or herself a Director.

The continuing Directors may act notwithstanding any vacancy in their body, but, if and so long as their number is reduced below the number necessary to form a quorum, the continuing Directors or Director may act for the purpose of convening a general meeting of the Company and for no other purpose.

The Board of Directors may appoint one of their number to be the Chairman of the Board of Directors and may at any time remove him from such office. Unless he is unwilling to do so, the Director appointed as Chairman shall preside at every meeting of the Board of Directors and general meeting of the Company at which he is present. If the Chairman is not willing to preside at a meeting of the Directors or if he is not present within five minutes after the time appointed for holding the meeting, the Directors present may appoint one of their number to be Chairman of the meeting.

Subject to the provisions of the Cyprus Companies Law, the Board of Directors may appoint one or more of its body to be the holder of any executive office (except that of auditor) under the Company and may enter into an agreement or arrangement with any Director for his or her employment by the Company or for the provision by him of any services outside the scope of the ordinary duties of a Director. Any such appointment, agreement or arrangement may be made upon such terms, including terms as to remuneration, as the Board of Directors determines, and any remuneration which is so determined may be in addition to or in lieu of any ordinary remuneration as a Director. The Board of Directors may revoke or vary any such appointment but without prejudice to any rights or claims which the person whose appointment is revoked or varied may have against the Company by reason thereof.

Appointment of Directors

At any time, and from time to time, the Company at the general meeting may by ordinary resolution appoint any person as a Director. Without prejudice to the Company's power to appoint a person to be a Director, the Board of Directors shall have power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, subject to the total number of Directors not exceeding any maximum number fixed by or in accordance with the Articles of Association. Any Director so appointed by the Board of Directors shall, if still a Director, retire at the next annual general meeting after his or her appointment and shall then be eligible for re-election.

Directors' Interests

A Director may become:

(ee) a party to, or otherwise be interested in, any transaction or arrangement with the Company; or

(ff) a director or other officer of, or be employed by, or become a party to any transaction or arrangement with, or otherwise be interested in, any corporation promoted by the Company or in which the Company is otherwise interested,

and provided that the Director has disclosed to the Company the nature and extent of his or her interest, the Director shall not be accountable to the Company for any benefit which he or she may derive from such interest.

A member of the Board of Directors may vote as a Director on a resolution concerning any matter in which he or she has, directly or indirectly, an interest and, if he or she votes, the vote shall be counted and he or she shall be counted in the required quorum at the relevant meeting of Directors provided that he or she has disclosed his interest and has been granted permission to vote.

Any Director may act by himself or herself or his or her firm in a professional capacity for the Company, and he or she or his or her firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing contained in the Articles of Association of the Company shall authorise a Director or his or her firm to act as auditor to the Company.

Directors' Powers

The business of the Company shall be managed by the Directors, who may exercise all such powers of the Company as are not, by the Cyprus Companies Law or by the Articles of Association, required to be exercised by the Company in general meeting. This is subject to any directions given by the general meeting of the Company with the sanction of an ordinary resolution and to such regulations as may be prescribed by the Company in general meeting but no regulation made, or direction given, by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made. Unless specifically authorised by the Board of Directors, a Director shall exercise his or her powers only through the Board of Directors.

The Board of Directors may delegate any of its powers to any committee consisting of two or more persons (of whom at least one is a Director). Any committee so formed shall in the exercise of the powers so delegated conform to any Regulations that may be imposed on it by the Directors, as to its powers, constitution, proceedings, quorum or otherwise and in default the provisions of the Articles of Association regulating the proceedings of the Directors shall apply so far as they are capable of applying.

The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles of Association) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

All cheques, promissory notes, drafts, bills of exchange, and other negotiable instruments, and all receipts for monies paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine.

The Directors may grant retirement pensions or annuities or other gratuities or allowances, including allowances on death, to any person or persons in respect of services rendered by him or them to the Company whether as managing Director or in any other office or employment under the Company or indirectly as officers or employees of any subsidiary, associated or allied company of the Company, notwithstanding that he, she or they may be or may have been Directors of the Company and the Company may make payments towards insurances, trusts, schemes or funds for such purposes in respect of such person or persons and may include rights in respect of such pensions, annuities and allowances in the terms of engagement of any such person or persons.

The Directors may exercise all the powers of the Company to borrow money, and to charge or mortgage its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

Director's Remuneration

The shareholders of the Company shall approve the remuneration of all the non-executive members of the Board of Directors on the recommendation of the nomination and remuneration committee. Such remuneration shall correspond to the scope of tasks and responsibilities of the relevant member of the Board of Directors and be proportionate to the size of the Company’s business and reasonable in relation to its financial results.

Financial Statements and Independent Auditor

The Directors are under certain obligations with respect to the Company’s accounting records. In particular, the Directors shall cause proper books of account to be kept with respect to:

- all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure takes place;

- all sales and purchases of goods by the Company; and

- the assets and liabilities of the Company.

Proper books shall not be deemed to be kept if such books of account are not kept which are adequate to give a true and fair view of the Company’s affairs and to explain its transactions. In addition:

- The books of account shall be kept at the registered office of the Company, or, subject to section 141(3) of the Cyprus Companies Law, at such other place or places as the Directors think fit, and shall always be open to the inspection of the Directors.

- The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of shareholders not being Directors and no shareholder (not being a Director) shall have any right to inspect any account or book or document of the Company except as conferred by statute or authorised by the Directors or by the Company in general meeting.

- The Directors shall from time to time, in accordance with sections 142, 144 and 151 of the Cyprus Companies Law, cause to be prepared and presented to the Company in general meeting such financial statements of the Company (including consolidated financial statements) prepared pursuant to the Cyprus Companies Law.

- Auditors shall be appointed and their duties regulated in accordance with sections 153 to 155 of the Cyprus Companies Law and the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009.

TAXATION

The following summary of material Cypriot, Polish, Russian and Ukrainian tax consequences of ownership of shares is of a general nature and based upon laws, regulations, decrees, rulings, double taxation conventions, agreements and arrangements, administrative practice and judicial decisions in effect as at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth in this Prospectus. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the shares.

The following is intended only as a general guide and is not intended to be, nor should it be considered, legal or tax advice to any particular holder of shares. It is not intended to address all tax aspects that may be relevant to a holder of shares. Accordingly, potential investors should satisfy themselves as to the overall tax consequences in their own particular circumstances of their acquisition, ownership and disposal of shares, including any pending or proposed changes in relevant tax laws as at the date of this Prospectus and any actual changes in relevant tax laws after such date, by consulting their own tax advisers in all relevant jurisdictions.

Cyprus Tax Considerations

Tax Residency

A company which is considered to be a resident for tax purposes in Cyprus is subject to corporate income tax in Cyprus (the "**Corporate Income Tax**") on its worldwide income, subject to certain exemptions. A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus.

With respect to the individual shareholders, generally an individual is considered to be a tax resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in any calendar year.

Rates of Taxation

The rate of Corporate Income Tax in Cyprus is 10%.

A special contribution for the Defence of Cyprus (the "**Defence Tax**") is levied on certain types of income. Defence Taxes applied, subject to any available exemptions, at the following tax rates:

- 3% on 75% of certain rental income;
- 10% on interest income not arising in the ordinary course of business; and
- 15% on dividend income received or deemed to have been received from resident companies and on dividend income received from non-Cyprus resident companies.

Defence Tax is levied on the gross amount of income without any deduction for expenses.

Capital gains tax (the "**Capital Gains Tax**") is levied in Cyprus at a rate of 20% on profits from disposal of immovable property situated in Cyprus or shares of companies which own immovable property situated in Cyprus (unless the shares are listed on a recognised stock exchange).

Taxation of Income and Gains of Valinor

The analysis below is based on the assumption that Valinor is resident in Cyprus for tax purposes.

In the event that Valinor is not deemed to be Cyprus tax resident, non-Cypriot tax authorities may seek to establish that it is tax resident in their jurisdiction and challenge its Cypriot tax residency status. In such case, the application of the provisions of either the Cyprus-Russia Double Tax Treaty or Cyprus-Ukraine Double Tax Treaty may be denied.

Gains from the Disposal of Securities

Any gain arising from the disposal of securities by Valinor shall be exempt from Corporate Income Tax irrespective of the trading nature of the gain, the number of shares held or the holding period and shall not be subject to Defence Tax. Such gains shall also be exempt from Capital Gains Tax provided that the company which shares are disposed of will not own any immovable property situated in Cyprus at the point of disposal.

Dividends to be Received by Valinor

Dividend income received by Valinor (whether received from Cypriot resident or non-resident companies) is exempt from Corporate Income Tax in Cyprus. Dividend income received from Cypriot resident companies is also exempt from Defence Tax. Dividend income received from non-Cypriot resident companies is exempt from Defence Tax, unless the company paying the dividend engages directly or indirectly for more than 50% in activities which generate investment income and the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend (in practice "significantly lower" is interpreted as lower than 5%). If the dividend emanates from a foreign sub subsidiary of Valinor, the exemption from special defence contribution will be extended and applied if the underlying group does not carry on more than 50% investment activities. For the purposes of calculating the 50% threshold, any intra group dividends are ignored.

Therefore, any dividends received by Valinor from Dilpar, its 100% BVI subsidiary, should be exempt from the 15% Defence Tax provided those emanate out of dividends paid to Dilpar by the Ukrainian and Russian subsidiaries and those companies are not engaged directly or indirectly in activities which generate investment income exceeding total income by more than 50%. Any dividend received by Valinor from the directly held Russian subsidiaries should be exempt from Defence Tax, provided those subsidiaries are not engaged directly or indirectly for more than 50% in activities which generate investment income and their foreign tax burden is not substantially lower than the tax burden of Valinor.

If the exemption for Defence Tax does not apply, dividends from non-Cypriot resident companies are subject to 15% Defence Tax. Any foreign withholding tax can be credited against any such Defence Tax payable in Cyprus by Valinor irrespective of the existence of a double tax treaty or not. In the case of directly held Russian subsidiaries, only the foreign underlying tax (i.e. corporate profit tax of the Russian subsidiary which is paying the dividends to Valinor) can be claimed. This credit should be available provided that supporting documentation issued by the foreign tax authorities can be provided to the Cyprus tax authorities evidencing the fact that the foreign tax was withheld at source and that the underlying tax was suffered in Russia by the subsidiary which is paying the dividend to Valinor. No assurance can be provided as to whether such credit will be available in practice for Valinor.

Interest Income

Any interest accruing to Valinor which is considered to arise in the ordinary course of its business, including interest which is closely connected with the ordinary course of its business qualifies as business income and shall be subject to Corporate Income Tax in Cyprus at a rate of 10%. Such interest income shall be exempt from Defence Tax.

Specifically, interest income arising in connection with the provision of loans to related or associated parties such as the Russian or Ukrainian subsidiaries should be considered as income arising from activities closely connected with the ordinary carrying on of a business and should as such be exempt from Defence Tax and only be subject to Corporate Income Tax.

Any other interest income of Valinor shall be exempt from the Corporate Income Tax but shall be subject to the Defence Tax at a rate of 10%.

Arm's Length Principles

The arm's length principle contained in the Cyprus Tax Legislation requires transactions to be carried out, for tax purposes, at fair market value and on normal commercial terms. If not, the Cyprus tax authorities may intervene, deem that they were so carried out and tax the resulting profits/gains accordingly. There are no specific transfer pricing rules and transfer pricing documentation requirements in the Cyprus Tax Law. Therefore, the Company may be subject to potential adjustments of its taxable profits on any future examination of its tax affairs by the Cyprus tax authorities if it can be demonstrated that certain transactions with related parties were not carried out on an arm's length basis.

In addition, the arm's length principles contained in the Cyprus Tax Legislation does not provide for a corresponding adjustment for the related counterparty on a transaction that is subject to adjustment.

Deemed Distribution Rules

Defence Tax at a rate of 15% would be payable by Valinor on a deemed dividend to the extent its shareholders (both individuals and companies) are Cypriot tax residents. A Cypriot company which does not distribute 70% of its after-tax profits within two years of the end of the year in which the profits arose would be deemed to have distributed this amount as a dividend two years after that year end. The amount of this deemed dividend distribution (subject to Defence Tax) is reduced by any actual dividend (not subject to Defence Tax in case of companies) paid out of the profits of the relevant year at any time up to the date of the deemed distribution. The accounting profits to be taken into account in this respect do not include any fair value adjustments to movable or immovable property (if any).

Withholding Taxes

No withholding taxes shall apply in Cyprus with respect to payments of interest by Valinor to non-resident lenders (both corporations and individuals).

There is also no withholding tax in Cyprus on interest paid to Cypriot tax resident corporate lenders, unless the resident lender receiving the interest is considered to have generated this interest not in the course of its ordinary activities or in connection with activities closely connected to the ordinary carrying on of its business. In such a case, Valinor would have an obligation to withhold Defence Tax at a rate of 10% on payments made in favour of Cypriot tax resident corporate and individual holders.

There will also be no withholding tax in Cyprus on any dividends paid by Valinor to its non-Cyprus tax resident corporate and individual shareholders. For any dividends paid to Cyprus tax resident individuals Valinor would have an obligation to withhold Defence Tax at the rate of 15%.

Interest Expense

Interest expense is tax deductible if it is incurred wholly and exclusively for the production of income. However, no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing of any asset not used in the business. This provision applies for a period of 7 years from the date of purchase of the relevant asset. Investment in shares is considered by the Commissioner of Income Tax as a non-business asset and any interest expense that relates (or deemed to relate) to the acquisition or financing of such asset is considered not to be tax deductible. The restricted interest expense is usually determined by the following apportionment methodology: cost of the investment in shares multiplied by the average interest borrowing rate. A circular has been issued by the Cypriot tax authorities providing guidance on the method of calculation of the amount of interest to be restricted and on certain exemptions that apply.

Deductibility of expenses

Any expenses relating to the offering of the Shares are treated as expenses of a capital nature and are disallowed for tax purposes.

VAT

Any VAT suffered in connection with the offering will most probably not be recoverable.

Capital Duty

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorised and issued share capital of a Cypriot company upon its incorporation and upon subsequent increases in share capital thereon.

The capital duty rates for subsequent changes of the registered authorised and issued share capital are as follows:

- capital duties of 0.6% of the nominal value of additional registered authorised share capital; and

- allotment fees fixed at EUR 17.09 flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

Stamp Duty

Cyprus levies stamp duty on every document if:

- it relates to any property situated in Cyprus; or
- it relates to any matter or thing which is performed or done in Cyprus, irrespective of the place where it is executed.

Documents are subject to stamp duty at the rate of 0.15% for amounts up to EUR 170,860 and at the rate of 0.2% for amounts between EUR 170,860 and EUR 8,543,007. There is a maximum (capped) stamp duty of EUR 17,086 for documents exceeding the amount of EUR 8,543,007. If no amount is specified on the contract, the amount of stamp duty payable in Cyprus is a fixed fee of EUR 34.17.

With regard to loans to be provided by the Company to its foreign (Ukrainian) subsidiaries, the Commissioner of Stamp Duty is usually expected to be satisfied that the loan agreements should not be subject to stamp duty in Cyprus provided the agreement is governed by a foreign law and is to be submitted to the courts of a foreign jurisdiction, the contract is executed outside of Cyprus, the loan asset is not secured or to be secured by way of a registered charge on Cypriot assets, such as shares in companies, either in Cyprus or abroad and the funds are used outside Cyprus. Loan agreements between Valinor and its Ukrainian subsidiaries satisfy all the above-mentioned criteria.

Polish Tax Considerations

The following summary presents the principal Polish tax consequences for Polish and non-Polish investors in the shares. This summary is not intended to constitute a complete analysis of the tax consequences under Polish law of the acquisition, holding and sale of the shares. All legal terms presented in this summary referring to the actions related to investing in the shares have the meaning ascribed to them under Polish tax law and the applicable double tax conventions. Moreover, all references to residence for the purposes of this summary are to residence for the purposes of Polish tax law and the applicable double tax conventions.

Taxation of Income

Polish Residents

Pursuant to the Polish Corporate Income Tax Act of 15 February 1992 (consolidated version: Dz. U. of 2000, No. 54, Item 654, as amended) (the "**Polish CIT Act**"), inter alia, a Polish legal person having their registered office or management in Poland is subject to tax on its entire worldwide income, regardless of where such income is earned.

Pursuant to the Polish Personal Income Tax Act of 26 July 1991 (consolidated version: Dz. U. of 2010, No. 51, item 307, as amended) (the "**Polish PIT Act**"), a Polish individual, i.e., natural persons domiciled in Poland is subject to tax on their entire income (gains), regardless of where such income is earned (unlimited tax obligation). An individual is assumed to be domiciled in Poland if he/she: (i) has the centre of his or her personal or business interests (a life interest centre) in Poland; or (ii) spends more than 183 days during the fiscal year in Poland.

Dividend Income Received by the Polish Legal Persons or Individuals from Valinor

Pursuant to Article 10 of the Convention for the Avoidance of Double Taxation of 4 July 1992, entered into between Cyprus and Poland (Dz. U. of 1993, No. 117, item 523) (the "**Cyprus-Poland Double Tax Treaty**"), dividend paid by Valinor (as a company, resident in Cyprus), to Polish legal persons or individuals that are subject to unlimited tax liability in Poland under the laws of Poland may be taxed in Poland. However, according to the Cyprus-Poland Double Tax Treaty, such dividend income may also be taxed in the country in which Valinor (as the company paying the dividend) is resident, i.e., in Cyprus and in accordance with the laws of Cyprus. Nevertheless, if the beneficial owner of dividend income is a Polish legal person or a Polish individual, the tax so charged should not exceed 10% of the gross amount of the dividend income.

The above presented tax considerations do not apply if the Polish legal persons or individuals that are subject to unlimited tax liability in Poland under the laws of Poland holding the shares carries on business activity in Cyprus through a permanent establishment with which the shares are effectively connected.

Generally, dividend income earned by Polish tax residents, legal persons as well as individuals, is subject to 19% income tax in Poland.

The Cyprus-Poland Double Tax Treaty and the Polish CIT and PIT Acts provide for a deduction of the tax on the income of the Polish individuals or legal persons that are subject to unlimited tax liability in Poland under the laws of Poland in an amount equal to the income tax payable in Cyprus with the modification set forth in Art. 24.3 of the Cyprus-Poland Double Tax Treaty. However, such deduction should not exceed the part of the income tax, as calculated before the deduction is given, which is attributable, as the case may be, to the income gained in Cyprus.

Moreover, pursuant to Article 20.3 of the Polish CIT Act, dividend income and other income from profit distributions made by legal persons having their registered office or management outside Poland, is exempt from corporate income tax if all of the following conditions are met: (i) dividend or other profit distributions made by a legal person are paid out by an entity that is subject to taxation with corporate income tax on its entire income, regardless of where such income is earned, in a European Union member state other than Poland or another Member State of the European Economic Area; (ii) income (gains) from dividend or other profit distributions referred to in item (i) above is earned by a corporate income taxpayer having their registered office or management in Poland; (iii) the entity referred to in item (ii) above holds directly not less than 10% of shares in the share capital of the entity making these distributions; (iv) the entity referred to in item (ii) is not exempt from income tax on its entire income, regardless of the location of its source.

The exemption referred to above is applied if an entity deriving income (gains) from dividends and other profit distributions made by a legal person with its registered office or management outside Poland holds at least 10% of shares in the entity that makes these distributions for an uninterrupted period of two years. Such exemption also applies if the uninterrupted period of two years, for which the entity earning the income (gains) from dividends and other profit distributions made by a legal person with registered office or management outside Poland has continuously held shares in the amount specified above, expires after the date such income has been earned. If the condition which requires the holding of shares in the amount specified above for an uninterrupted period of two years is not satisfied, the taxpayer is obliged to file an adjustment to the return for the tax years in which the taxpayer benefited from this exemption and as a consequence to pay outstanding taxes, if any, as well as penalty interest for late payment of tax.

Moreover, based on Art. 20.15 of the Polish CIT Act the exemption applies: (a) if the shares (referred to in section (iii) above) are held on the basis of ownership title; (b) with respect to income generated from shares held on the basis of the following titles: (A) ownership title (B) any title other than ownership title, provided that such income (revenue) would qualify for the exemption if the holding of such shares was not transferred.

Sale of the Shares

Pursuant to the Cyprus-Poland Double Tax Treaty, income from the sale of the shares gained by Polish tax residents (individuals as well as legal persons that are subject to unlimited tax liability in Poland under the laws of Poland) is subject to taxation only in Poland. In such a case, tax is payable on the difference between the proceeds of sale and the acquisition cost of the relevant shares (capital gains).

With respect to legal persons, such capital gains generated on sale of the shares are subject to a flat 19% corporate income tax rate.

With respect to individuals, capital gains generated on the sale of the shares are subject to a flat 19% personal income tax rate, assuming the trading of the shares does not form part of their business activity.

Income (Gains) of Non-Polish Residents

Furthermore, pursuant to the Polish CIT Act, a foreign legal person, i.e., a taxpayer with its registered office and management outside Poland, is subject to corporate income tax exclusively on the income earned in Poland.

Moreover, pursuant to the Polish PIT Act, individuals domiciled outside Poland are subject to the tax obligation exclusively with respect to their income (gains) earned in Poland (limited tax obligation).

Dividend Income of Non-Polish residents

Dividend income paid by a Cypriot company to a Non-Polish tax resident is not taxed in Poland. The tax treaty between Cyprus and the country of residence of the recipient of the dividend should be applied.

Income from the Disposal of Shares of Non-Polish Residents

Polish tax provisions are unclear as to whether income gained by Polish tax non-residents from alienation of shares in non-Polish tax resident companies through the Warsaw Stock Exchange is subject to tax in Poland. The prevailing approach is that income gained by Polish tax non-residents from alienation of shares in non-Polish companies through the Warsaw Stock Exchange should be classified as “income gained in the territory of Poland”, and thus, in principle, taxed in Poland. There is, however, no established tax practice in this respect.

Notwithstanding the above, the Polish domestic rules should be overruled by the provisions of the double tax treaties concluded by Poland as the country of the source of the income and the country of residency of the investor. Under most of the double tax treaties, income from alienation of shares in a Cypriot company through the Warsaw Stock Exchange should not be subject to tax in Poland, if received by a person who is not resident in Poland. However, each case should be analysed separately.

Tax on Civil Law Transaction

Tax on civil law transactions is levied on the sale or exchange of the shares at the rate of 1% of the market value of the transferred shares. Tax on civil law transactions applies to agreements for the sale or exchange of shares, provided that they cover property rights exercised in Poland. The tax is also imposed on agreements for the sale or exchange of shares exercised outside Poland only if the following conditions are met simultaneously: the sale or exchange agreement is concluded in Poland and the purchaser has a place of residence or seat in the territory of Poland.

As a rule, the rights attributable to the Offer Shares should not be treated as property rights exercised in Poland for these purposes. Therefore, the sale or exchange of the Offer Shares will be subject to the tax on civil law transactions, if the purchaser of the Offer Shares has its residence or seat in Poland and the contract is signed in Poland.

However, pursuant to Article 9(9) of the Polish Act on Tax on Civil Law Transactions of 9 September 2000 (consolidated version: Dz. U. of 2010 , No. 101, item 649, as amended), sale of property rights that are brokerage financial instruments (i) to investment firms (including foreign investment firms), or (ii) through their intermediation, or (iii) the sale of such instruments in an organised trading, or (iv) outside the organised trading by investment firms (including foreign investment firms) if such financial instruments had been acquired by such firms as a part of organised trading within the meaning of the Polish Trading Act is exempt from tax on civil law transactions.

Taxation of Inheritances and Donations

Pursuant to the Polish Act on Inheritance and Donation Tax of 28 July 1983 (consolidated version: Dz. U. of 2009, No. 93, item 768, as amended), the Polish tax on inheritance and donations is paid by individuals who received title to property rights exercised outside the territory of Poland (including, inter alia, shares in foreign companies) by right of succession, as legacy, further legacy, testamentary instruction or gift only if at the moment of opening of the testament or conclusion of the donation agreement the acquirers were Polish citizens or had their permanent place of residence within the territory of Poland.

The rates of tax on inheritances and donations vary depending on the degree of kinship by blood, kinship through marriage or other types of personal relationships existing between the testator and the heir, or between the donor and the donee (the degree of the kinship is decisive for the assignment to a given tax group). The tax rate varies from 3% to 20% of the taxable base depending on the tax group to which the recipient belongs.

Under the Polish Act on Inheritance and Donation Tax, acquisition of ownership or property rights (including to securities) by a spouse, descendants, ascendants, stepchildren, siblings, stepfather or stepmother is tax exempt if the beneficiary notifies the head of the competent tax office of the acquisition within six months of the day when the tax liability arose or, in the case of an inheritance, within six months of the day when the court decision confirming the acquisition of the inheritance becomes final. If that condition is not complied with, the acquisition of ownership or property rights is subject to tax in accordance with the rules applicable to acquirers falling within the first tax group.

Russian Tax Considerations

Dividends from Russian Subsidiaries

Dividends received by a Russian company from its Russian and foreign subsidiaries can be exempt from taxation provided that: (a) the company holds at least 50% of the equity of the distributing entity (or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed); (b) such ownership is for a period of 365 calendar days at the time the decision is made to distribute the dividends; (c) the jurisdiction of the subsidiary's permanent location is not included in the list published by the Russian Ministry of Finance of countries and territories with beneficial tax treatment and/or which do not require the disclosure and provision of information on financial operations (so called "offshore zones"). If the above requirements are not met, the dividends received by a Russian parent company will be subject to income tax at the rate of 9%.

Dividends distributed to foreign companies are subject to withholding income tax at the rate of 15% unless the relevant double tax treaty provides for a reduced withholding income tax rate. Under the Cyprus-Russia Double Tax Treaty, the withholding tax rate on dividends may be reduced to 5% if the recipient has directly invested in the capital of the Russian subsidiary not less than the equivalent of USD 100,000 (although Cyprus and Russia have agreed to change this to EUR 100,000 from a yet to be determined date) or to 10% in all other circumstances of dividend payments to Cypriot shareholders.

In order to apply benefits of the Cyprus-Russia Double Tax Treaty to dividends payable from Russian subsidiaries, the Company should be the beneficial owner of the income. There is no guidance in Russian legislation and court practice on the application and interpretation of the "beneficial ownership" concept. However, the Ministry of Finance of Russia has issued several clarification letters stating that treaty relief should not be available on the basis of the mere fact that the dividend income was received by an entity having the legal right to such income and which is located in a country with which Russia has a double tax treaty. The Ministry of Finance further stated that for the purposes of applying double tax treaties, the recipient of dividend income should be the direct beneficiary and should not act as an agent or conduit for another person who in fact receives the benefit of the income. If the recipient of dividends is not a beneficial owner of the income, such dividends would be subject to Russian withholding income tax at the rate of 15%.

Cyprus-Russia Double Tax Treaty

Certain changes to the provisions of the Cyprus-Russia Double Tax Treaty between Cyprus and Russia introduced by the protocol signed by the governments of the Russian Federation and Cyprus on 7 October 2010 may affect the taxation of the Cypriot companies of the Group. The protocol is still awaiting ratification in order to come into effect. The most significant change which might be applicable to the Group's companies is that the capital gains received by Cyprus parent companies and relating to shares deriving more than 50% of their value from immovable property located in Russia may be taxed in Russia. This provision will come into effect on 1st January of the fourth calendar year following the year in which the protocol enters into force (i.e. not earlier than 2016).

The President of the Russian Federation in his budget message of 25 May 2009 said that it was his goal to restrict the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of the country which is a party to them. Should this initiative be reflected in a change of law, the Group may become unable to claim benefits under the Cyprus-Russia Double Tax Treaty. Furthermore, the Resolution of the Government of the Russian Federation on entering into international double tax treaties and the prevention of tax evasion No. 84, dated 24 February 2010, which is intended to be used by the Russian authorities as a guideline when negotiating new double tax treaties and/or renegotiating existing treaties and which introduces, inter alia, limitations on tax benefits for entities that are owned as to more than 50% of their shares/units by entities that are not a resident of a contracting state was introduced on 16 March 2010. However, it is currently unclear whether the provisions of the resolution will be implemented with existing treaty partners by protocols or by entering into new treaties, or whether the new initiative will be implemented at all.

Ukrainian Tax Considerations

Dividends from Ukrainian Subsidiaries

Dividends paid by Ukrainian subsidiaries (except for dividends paid by companies registered as FAT payers), are subject to Advance CIT in Ukraine. Advance CIT is charged on the dividend at the rate of 23% and is due prior to or at the time of the payment of the distribution. The Advance CIT paid may be offset against future corporate income tax liabilities of the Ukrainian subsidiaries and may be carried forward to future tax periods without limitation. Currently, a number of Ukrainian subsidiaries in the Group are subject to a special regime of taxation applicable to producers of agricultural products and pay FAT instead of corporate income tax (See *"Risk Factors – Risks Relating to the Group's Business and Industry – The Group currently benefits from tax exemptions, which may be discontinued in the future"*). With effect from 1 April 2011, the Advance CIT rule is not applicable to FAT payers.

All of the Company's Ukrainian subsidiaries are held indirectly through the Company's subsidiary, Valars Agro, which is incorporated in Cyprus. In turn, Valars Agro is wholly-owned by Dilpar, a 100% subsidiary of the Company which is incorporated in the British Virgin Islands and is registered as a BVI business company limited by shares. Thus, the ability of the Company to receive dividends depends on the ability of Valars Agro to receive dividends from its Ukrainian subsidiaries and transfer them to the Company through Dilpar. Dividends distributed to Valars Agro from its Ukrainian subsidiaries may be exempt from withholding tax by virtue of the Cyprus-Ukraine Double Tax Treaty.

However, the Ukrainian Tax Code also provides for the concept of a beneficial ownership of Ukrainian-sourced income. A legal entity or individual who acts in the capacity of an agent or nominee/nominee owner, or who is recognised as an intermediary, may not be regarded as the beneficial owner of income, even if they are entitled to receive the income in question and, therefore, payments of dividends to it would be subject to withholding tax.

There is virtually no guidance as to how the tax authorities will apply these rules. Were the tax authorities to view a Group company that makes an onward distribution of dividends/interest as not being the beneficial owner, 15% withholding tax would apply to the dividend and interest payments made by that Group company to Valars Agro.

Cyprus-Ukraine Double Tax Treaty

There can be no assurance that the Cyprus-Ukraine Double Tax Treaty will not be renegotiated. On 16 January 2008, the CMU authorised the Ukrainian Ambassador in Cyprus to sign a new the onvention between the Government of Ukraine and the Government of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income. In contrast to the Cyprus-Ukraine Double Tax Treaty, which exempts dividends, capital gains, interest payments, and royalty payments from Ukrainian withholding tax, under the proposed convention, dividends paid by the Group's operating companies to the Company would be taxable at source in Ukraine at 5% of the gross amount of dividends paid to the holders of more than 25% of equity and at 15% to other shareholders. The proposed convention also provides for taxation at source in Ukraine of interest at 10% of the gross amount of the interest if the beneficial owner of the interest is a resident of Cyprus. The proposed provisions incorporate the concept of beneficial ownership which means that companies incorporated in Cyprus will require substance in order to prove they are the beneficial owners of income received.

The Ukrainian Government has the power to renounce the existing Cyprus-Ukraine Double Tax Treaty without adopting a new one. In this case, all income paid by Ukrainian entities of the Group to the Company would be taxable at source in Ukraine at 15% of the gross amount.

TERMS AND CONDITIONS OF THE OFFERING

The Offering

On the basis of this Prospectus, the Company is offering not less than 10,000,000 New Shares with a nominal value of USD 0.01 per share and the Selling Shareholder is offering not less than 10,000,000 Sale Shares with a nominal value of USD 0.01 per share.

In addition, the Selling Shareholder has granted to the Stabilisation Manager an Over–Allotment Option exercisable for up to 30 days following the first listing date of the Shares on the main market operated by the WSE to purchase up to an additional 2,000,000 Shares, the maximum number of which is equal to 10% of the number of the Offer Shares being offered in the Offering.

In Poland, the Offer Shares are being offered in a public offering on the basis of this Prospectus, which has been approved by the Cyprus SEC in its capacity as the competent authority in Cyprus as the Company's home member state within the meaning of the Prospectus Directive. The Company will be authorised to carry out the public offering in Poland once the Polish FSA, which is the competent authority in Poland, is notified of the approval of this Prospectus by the Cyprus SEC and once the Prospectus together with its Polish summary is made available to the public in Poland. In jurisdictions outside of Poland and the United States, the Offer Shares will be offered by way of a private placement to certain Institutional Investors in accordance with Regulation S under the U.S. Securities Act and applicable securities regulations in each jurisdiction in which the Offer Shares are being offered.

This Prospectus is the sole legally binding document that has been prepared for the purposes of the Offering and which contains information on the Group and the Offering.

The following are authorised to take part in the Offering: (i) Retail Investors; and (ii) Institutional Investors. The Offering is not divided into tranches. Consequently, the Company and the Selling Shareholder reserve the right to allocate the Offer Shares between groups of investors at their absolute discretion in agreement with the Managers. Should that happen, all of the Offer Shares may be subscribed solely by Institutional Investors or by Retail Investors, or by the mixture thereof, as the case may be.

Authorisation

On 21 April 2011, the Board of Directors reached a decision to file this Prospectus with the Cyprus SEC for its approval, apply for the passporting of this Prospectus to Poland and to do all that is necessary for the Offering, including entering into a depositary agreement with the NDS and submitting an application to the WSE in respect of the listing of the Shares on the WSE. The Board of Directors will further form, prior to the Offering, a pricing committee and delegate to it the authority to determine, jointly with the Managers, the final terms on which the New Shares will be offered, including the final Offer Price and the final number of the New Shares to be offered.

On 9 May 2011, the Company, at its general meeting, resolved to issue the New Shares, as the Board of Directors deem necessary and appropriate, and waive the pre-emptive rights of existing shareholders in respect of the issuance of the New Shares in the Offering. On 1 July

2011, the Board of Directors resolved to issue the New Shares following the aforementioned decision of the general meeting of the Company.

Proposed Timetable of the Offering

Information on the proposed timetable of the Offering is set forth below.

4 July 2011	Date of this Prospectus.
6 July 2011	Commencement of the book building process for Institutional Investors.
8 July 2011	Commencement of the subscription period for Retail Investors.
14 July 2011	End of the subscription period for Retail Investors.
	Completion of the book building process among Institutional Investors (until 5.00 p.m. CET).
	Determination of the final number of Offer Shares, the final number of Offer Shares to be offered to Retail Investors and Institutional Investors, as well as the Offer Price.
On or about 15 July 2011	Publication of the Offer Price, the final number of Offer Shares and the number of Offer Shares to be offered to Retail Investors and Institutional Investors.
From 15 July 2011 to 19 July 2011	Acceptance of purchase orders from Institutional Investors.
Until 20 July 2011	Submission of purchase orders, if any, by the Managers in performance of their obligations under the Placement Agreement.
	Allotment of the Offer Shares in the Offering.
On or about 25 July 2011	Registration of the Offer Shares in the securities accounts of Retail Investors and Institutional Investors.
On or about 27 July 2011	First day of listing of the Shares on the WSE.

The above timetable may be subject to change. Certain events provided therein are beyond the control of the Company or the Selling Shareholder. The Company and the Selling Shareholder, in agreement with the Managers, reserve the right to change the above timetable for the Offering, including the opening and closing dates of the subscription periods for the Offer Shares (such changes will not, however, reverse the order of the periods when purchase orders are accepted from Retail Investors and Institutional Investors). Information about any changes to the proposed timetable of the Offering will be published in the form of an announcement pursuant to section 27 of the Public Offer and Prospectus Law and an updated communication published in the same manner as this Prospectus in accordance with Article 52 of the Polish Offering Act. If, in the Company's opinion, a change of dates for subscriptions would be a material factor affecting the evaluation of the Offer Shares, then such change should be made public in the form of a supplement to this Prospectus, which will be published in the same manner as this Prospectus and investors will have the right to void the validity of their purchase orders by submitting a relevant statement to that effect within three business days from the date of the publication of such supplement to this Prospectus, which will be published in the same manner as this Prospectus.

Cancellation or Suspension of the Offering

At any time prior to the commencement of the subscription period for Retail Investors, the Company and the Selling Shareholder, in agreement with the Managers, may withdraw from the Offering without stating any reasons for their decision, thereby effectively cancelling the Offering.

From the commencement of the subscription period for the Offer Shares for Retail Investors, the Managers may cancel the Offering provided that such cancellation may only occur for reasons which, in the opinion of the Joint Global Coordinators and Joint Bookrunners, may include, among other things: (i) the occurrence of a change in the financial markets in the United States, the United Kingdom, Russia, Ukraine, Cyprus or any other member or associate member of the European Union, or in the international financial markets or the occurrence of certain events such as terrorist acts, wars, natural disasters or floods that may prejudice the success of the Offering or dealings in Shares in the secondary market; (ii) the occurrence of a sudden or unforeseeable change other than those stated in (i) above which that may prejudice the success of the Offering or dealings in Shares in the secondary market; (iii) the occurrence of a material adverse change to the Group's business, financial condition or operating results; (iv) the suspension of, or material limitation in, trading of securities on the WSE, the New York Stock Exchange, the London Stock Exchange or Euronext; or (v) the termination of the Placement Agreement.

Information about the cancellation of the Offering will be published in the form of a supplement to this Prospectus, which will be published in the same manner as this Prospectus. If the Offering is cancelled, any purchase orders received for the Offer Shares will be deemed void, and all payments made will be refunded, without any payment of interest or compensation, no later than 14 days following the announcement of the cancellation of the Offering.

A decision to suspend the Offering, without providing any reason for doing so, may be taken at any time before the commencement of the subscription period for Retail Investors by the Company and the Selling Shareholder. From the commencement of the subscription period for Retail Investors up to the date of the allotment of the Offer Shares, the Managers, may decide to suspend the Offering only for reasons that are (in the opinion of the Joint Global Coordinators and Joint Bookrunners) material, which may include, among other things, any event that might adversely affect the success of the Offering. The decision to suspend the Offering may be made without specifying a new timetable for the Offering, which may be determined at a later date.

If the decision to suspend the Offering is made in the period between the commencement of the subscription period for Retail Investors and the allotment of the Offer Shares, the Issuer and the Selling Shareholder, in agreement with the Managers, shall decide if the purchase orders received and any payments made are valid, however, investors will have the right to void the validity of their purchase orders by submitting a relevant statement to that effect within three business days from the date of the publication of the supplement to this Prospectus relating to the suspension of the Offering.

Information about the suspension of the Offering will be published in the form of a supplement to this Prospectus, which will be published in the same manner as this Prospectus and investors will have the right to void the validity of their purchase orders by submitting a relevant statement to that effect within three business days from the date of the publication of such supplement to this Prospectus.

Determination of the Offer Price

The Offer Price will not exceed the Maximum Price of PLN [●] per Offer Share.

The Offer Price will be the same for both Retail Investors and Institutional Investors and will be expressed in PLN.

The Offer Price will be determined, based on the book-building results, by the Company and the Selling Shareholder, in agreement with the Joint Global Coordinators and Joint Bookrunners and in consultation with the Domestic Lead Manager. When determining the Offer Price, the following criteria will be taken into account: (i) the volume and price sensitivity of the demand estimated in the book-building process; (ii) the current and forecast situation in the capital market; and (iii) development outlook, risk factors and other information concerning the Company's business.

Information on the final Offer Price will be filed with the Cyprus SEC and published in the form of an announcement made pursuant to section 13(4) of the Public Offer and Prospectus Law.

Retail Investors and Institutional Investors will not bear any additional costs or taxes in connection with the submission of purchase orders for Offer Shares, other than the costs associated with opening and maintaining a securities account (unless an investor already has an account) and/or any broker's commissions payable under any relevant agreements or pursuant to the regulations of the entity accepting such purchase order. For information relating to taxation, see "*Taxation*".

Final Number of the Offer and the Final Number of Offer Shares to be Offered to Retail Investors and Institutional Investors

The final number of Offer Shares and the final number of Offer Shares to be offered to Retail Investors and Institutional Investors will be determined by the Company and the Selling Shareholder in agreement with the Managers based on the following terms and criteria: (i) the volume and quality of the demand for the Offer Shares from Institutional Investors during the book-building process; (ii) the number of the Offer Shares subscribed for by Retail Investors during the subscription period for Retail Investors; (iii) the anticipated demand from various groups of investors during the period of the first 30 days from the first listing date of the Shares on the WSE; and (iv) the current and anticipated situation on the Polish and international capital markets.

The final number of Offer Shares and the final number of Offer Shares to be offered to Retail Investors and Institutional Investors will be published following the completion of the subscription period for Institutional Investors in the form of an announcement made pursuant to section 13(4) of the Public Offer and Prospectus Law, which will be published in the same manner as this Prospectus.

Rules Governing the Placing of Purchase Orders

Retail Investors

Subscription orders from Retail Investors will be accepted at the offices of the Domestic Lead Manager and the Offering Broker, and at certain offices of Bank Zachodni WBK S.A., which is acting as an agent of the Domestic Lead Manager and the Offering Broker. The Domestic Lead Manager and the Offering Broker may establish a distribution consortium. A detailed list of places where subscriptions will be accepted will be published before the commencement of the subscription period for Retail Investors on the Company's website (www.valinor-in.com) and the website of the Domestic Lead Manager and the Offering Broker (www.dmbzwbk.pl).

Subscription orders must be placed on the subscription forms made available at brokerage houses accepting orders for the Offer Shares or through fax, telephone or other electronic means of communication if the brokerage house accepting the subscription orders provides for such possibility and in compliance with the terms and conditions set down for such placement.

Retail Investors who intend to subscribe for the Offer Shares should maintain a securities account at an investment firm accepting subscription orders from Retail Investors. If they do not have a securities account, Retail Investors should open such a securities account prior to the subscription. On the basis of accepted subscriptions from Retail Investors, investment firms accepting subscription orders from Retail Investors will submit, subject to their own responsibility for the accuracy of such orders, orders to buy shares to the WSE.

For information on the detailed rules governing the placing of purchase orders, in particular: (i) the documents required if an order is placed by a statutory representative, proxy or any other person acting on behalf of an investor; and (ii) the possibility of placing orders and deposit instructions in a form other than in writing, Retail Investors should contact the brokerage houses accepting orders for the Offer Shares.

Investors have the right to place multiple subscription orders, provided that the aggregate number of the Offer Shares subscribed for by one investor is not greater than the total number of the Offer Shares. Subscription orders for a number of the Offer Shares greater than the total number of the Offer Shares shall be considered to be orders for all of the Offer Shares. A subscription order placed by an investor must be made in respect of one or more Offer Shares.

Institutional Investors

Once the book building process has been completed, the Company and the Selling Shareholder, in agreement with the Managers, will select, at their sole discretion, those Institutional Investors to whom invitations to submit a purchase order for the Offer Shares will be sent and who will be entitled to purchase the Offer Shares in a number specified in an invitation to place a purchase order and to make payments for the Offer Shares to an account stated in such invitation. Invitations to Institutional Investors will be sent by the Managers.

Purchase orders placed by Institutional Investors who were invited by the Managers to subscribe for the Offer Shares will be accepted by the Managers. For information on the detailed rules governing the placement of purchase orders, Institutional Investors should contact the Managers.

Each Institutional Investor may submit one or several purchase orders for such number of the Offer Shares as is indicated in the invitation to place a purchase order addressed to that Institutional Investor. Purchase orders which jointly cover a number of the Offer Shares greater than that stated above will be treated as purchase orders for the maximum number of the Offer Shares that may be covered by a purchase order submitted by a given Institutional Investor. Institutions that manage assets on behalf of third parties may submit a single collective purchase order on account of specific customers, attaching to the order a list of such customers containing such data as is required in the purchase order form.

Payment for the Offer Shares

Retail Investors

Retail Investors placing purchase orders for the Offer Shares should pay for such orders at the latest upon the placement of such orders. Payment should be made in an amount corresponding to the product of the number of the Offer Shares for which such Retail Investor places his or her purchase order and the Maximum Price, increased by the brokerage commission, if any, of the entity accepting the purchase order. Payment for the Offer Shares must be made in Polish Zloty in accordance with the rules of the relevant investment firm accepting the purchase order for the Offer Shares. Payment for the Offer Shares subject to the purchase order, increased by such brokerage commission, if any, will be blocked upon the submission of the purchase order.

Payments for the Offer Shares do not bear any interest. Any previously unsettled receivables may not be credited as payment for the Offer Shares.

A purchase order placed by a Retail Investor which is not fully paid will be invalid.

Institutional Investors

Institutional Investors are required to pay for their purchase orders by no later than the end of the last day on which purchase orders from Institutional Investors are accepted, in Polish Zloty, for the number of the Offer Shares stated in the invitation and in compliance with the instructions stated in the invitation to submit a purchase order.

If a purchase order is not paid in full by an Institutional Investor, such order may be deemed validly placed for such number of the Offer Shares as corresponds to the amount actually paid by that Institutional Investor, calculated as the product of the number of the Offer Shares and the Offer Price.

Allotment of the Offer Shares

The allotment of the Offer Shares to Retail Investors will be completed through the WSE on the basis of a separate agreement entered into between the Issuer and the WSE.

The minimum allotment in the Offering will be one Offer Share, regardless of how and through whom the subscription order has been placed (without prejudice to the possibility of the Company and the Selling Shareholder, acting in agreement with the Managers, to allocate no Offer Shares at all to certain investors participating in the Offering).

All dealings in the Offer Shares prior to the commencement of official trading on the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been informed about the number of the Offer Shares allotted to him.

The Offer Shares will be allotted immediately after completing the acceptance of purchase orders by Institutional Investors.

Retail Investors

In the case of an over-subscription, the Offer Shares will be allotted to Retail Investors participating in the Offering in accordance with the proportional reduction principle with respect to each order placed.

Fractional allocations (after any proportional reduction) will be rounded down to the nearest integer value, and the remaining Offer Shares will be allocated to those Retail Investors who subscribed for the largest number of the Offer Shares.

Retail Investors who have not been allotted any Offer Shares, or whose purchase orders for Offer Shares were subject to a reduction or were invalid, will be reimbursed for their payments, just as any excess payments will be reimbursed, to the cash account indicated in the purchase order within 7 days from the date of the allotment of the Offer Shares or the date of the announcement of the withdrawal from the Offering, respectively. All excess payments and payments will be reimbursed without payment of any interest or costs, if any, being incurred by Retail Investors in relation to placing purchase orders for the Offer Shares and without payment of any interest.

Institutional Investors

The Offer Shares will be allotted to Institutional Investors based on their purchase orders, on condition that such orders have been fully paid for in accordance with the rules described in this Prospectus, in a number that will be notified to Institutional Investors by the Managers in the invitation to place purchase orders referred to in "*Rules Governing the Placing of Purchase Orders*" above.

Upon completion of the book building process, invitations to submit purchase orders for the Offer Shares will be sent to Institutional Investors. Institutional Investors to whom the invitations will be sent will be allotted the Offer Shares in the number as stated in the invitations, provided that a purchase order is duly submitted and the relevant number of the Offer Shares is paid for.

If an Institutional Investor has only made a partial payment for the Offer Shares or has placed a purchase order for a number of Offer Shares lower than that specified in the invitation, such Institutional Investor will be allotted as many Offer Shares as such Institutional Investor has paid for or an even lower number of the Offer Shares may be allotted to such Institutional Investor than those for which it has paid.

Institutional Investors who have not been allotted any Offer Shares or whose purchase orders for the Offer Shares were invalidated or otherwise not granted will be reimbursed, just as any excess payments will be reimbursed, within seven days from the date of the allotment of the Offer Shares or the date of the announcement of the cancellation of the Offering, without any interest or damages to an account stated in the purchase order.

Delivery of the Offer Shares

All the 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 registered address at. ul. Książęca 4, 04-498 Warsaw, Poland.

Immediately after the allotment and the registration of the Offer Shares with the NDS, the Offer Shares will be posted in the securities accounts of the investors designated in the depository instruction.

Bearing the above in mind, the Company does not envisage any delivery of documents concerning the Offer Shares acquired. Notices of the recording of the Offer Shares in the investor's securities account will be delivered to investors in accordance with the rules of a given brokerage house. However, the date of the delivery of such notices to the investors will not have any impact on the date of commencement of the listing of the Shares on the WSE as the notices may be delivered to the investors after the listing has commenced.

Public Announcement of the Offering Results

Information on the results of the Offering will be made public within two weeks of its completion.

Intentions of Significant Shareholders and Members of Management, Supervisory and Administrative Bodies of the Company as to Participation in the Offering

According to the information available to the Company, obtained after a review carried out with due diligence, none of the present members of the management, supervisory or administrative bodies, including the existing shareholders of the Company intend to subscribe for the Offer Shares.

Listing of the Shares

The Shares have not been and are not traded on any regulated market.

The Company intends to apply for the listing of all the Shares on the WSE. The Company's estimation is that the first listing of the Company's shares will take place within approximately one month from the date of the allotment of the Offer Shares.

The admission to trading and the listing of the Shares on the WSE requires, amongst other things: (i) the signing of an agreement between the Company and the NDS related to the registration of the Shares in the depository operated by the NDS; and (ii) the WSE's management board resolving to admit and introduce the Shares to trading and listing on the WSE. It is the Company's intention that, in the absence of any unforeseen circumstances, trading in the Shares on the WSE will commence within approximately one week after the date of the allotment of the Offer Shares.

Investors should consider that since the Company is a Cypriot company, no court registration process is needed in order for it to validly issue the Offer Shares under the Offering. Specifically, the issuance of shares requires a notification of the issuance to the companies' register and the failure to file or a delay in filing such notification does not affect the validity of the issuance. Consequently, all the Shares, including the Offer Shares, will be eligible for a listing application to the WSE promptly upon payment by investors, subject to the completion of the necessary procedures indicated above.

PLACEMENT, STABILISATION, OVER-ALLOTMENT AND LOCK-UP ARRANGEMENTS

Placement

The Company, the Selling Shareholder, Kirill Podolskiy, the Managers and CISCO have entered into, on or about the date of this Prospectus, a placement agreement (the "**Placement Agreement**").

Under the Placement Agreement, the Managers have undertaken to procure subscribers and purchasers for the Offer Shares. The Managers' undertaking to purchase or subscribe for Offer Shares only relates to those allocated to Institutional Investors.

The Placement Agreement provides that the obligations of the Managers are subject to certain conditions precedent, including agreement as to the Offer Price and delivery of customary legal opinions and comfort letters. If any or all of these conditions are not met or waived, a breach of the Company's representations and warranties occurs or if any circumstances which will be referred to in the Placement Agreement occur prior to payment for and delivery of the Offer Shares, the Joint Global Coordinators and Joint Bookrunners (on behalf of the Managers) may in their absolute discretion, or after consultation with the Company and the Selling Shareholder where in the opinion of the Joint Global Coordinators and Joint Bookrunners it is reasonably practicable to do so, terminate the Placement Agreement.

Each of the Company and the Selling Shareholder will jointly and severally undertake: (i) to take all actions to list the Company's Shares on the WSE, and in particular to file relevant applications; (ii) not to enter into any other agreement in respect of the Shares; and (iii) to use the proceeds from the Offering for the purposes indicated in this Prospectus. The Joint Global Coordinators and Joint Bookrunners (on behalf of the Managers) may in their absolute discretion terminate the Placement Agreement in the event of any occurrence of a Material Adverse Change (as defined in the Placement Agreement, but in any case including publication or an intention to publish a supplement to this Prospectus), upon prompt written notice of the terminating party.

In addition, each of the Company, the Selling Shareholder and Kirill Podolskiy have jointly and severally agreed to indemnify each of the Managers, their affiliates and their respective directors and employees against certain liabilities, including liabilities under applicable securities laws. These indemnifications will survive expiry and termination, if any, of the Placement Agreement.

In connection with the Offering, the Company and Selling Shareholder will agree to (pro rata to their respective gross proceeds from the Offering) pay the Managers a combined management and placing commission of up to approximately [●].

The Company will also agree to pay expenses in connection with the Offering. However, investors will bear their own costs connected with the evaluation and participation in the Offering. The Managers will not charge any commission or fees on the subscription orders collected from investors participating in the Offering.

Stabilisation and the Over-Allotment Option

The Selling Shareholder expect that, in connection with the Offering, the Stabilising Manager will have the right to acquire Shares on the WSE in an amount of up to 10% of the final number of the Offer Shares to be offered in the Offering in order to stabilise the price of the Shares on the WSE at a level higher than that which would otherwise develop had such actions not been taken. The Shares will be purchased under stabilising transactions on the terms provided for in the Stabilisation Regulation.

The Share purchase transactions will need to be completed within a period no longer than the Stabilisation Period and at a price no higher than the Offer Price. The Stabilising Manager will not, however, be required to take any stabilisation actions. If the Stabilising Manager does take such action, it may be discontinued at any time, however no later than before the end of the Stabilisation Period. No assurance may be given that such actions will be taken and that the expected results of such actions, should they be taken, will be achieved.

In addition to the Offer Shares, investors may be allotted up to 2,000,000 Over-Allotment Shares. The Over-Allotment Shares will be made available by the Selling Shareholder to the Stabilising Manager. All Over-Allotment Shares allotted to Investors as part of the Offering shall be allotted at the same time and under the same criteria as the Offer Shares. All Over-Allotment Shares shall be of the same class as the remaining Shares.

In connection with the stabilising transactions that may be carried out by the Stabilising Manager, the Selling Shareholder has granted to the Stabilisation Manager the Over-Allotment Option which is exercisable for up to 30 days following the first listing date of the Offer Shares on the main market operated by the WSE to purchase the Over-Allotment Shares, the maximum number of which is equal to 10% of the number of the Offer Shares being offered in the Offering, solely to cover over-allotments, if any, made in connection with the Offering and short positions resulting from stabilisation transactions. The number of the Shares covered by the Over-Allotment Option will be exactly the same as the number of the Over-Allotment Shares.

The stabilisation transactions made by the Stabilising Manager will be financed from the proceeds from the placement of the Over-Allotment Shares.

Information on any stabilisation actions will be provided on the terms stated in the Stabilisation Regulation.

The Stabilisation Manager will also perform any other actions required by the applicable rules and regulations. With the exception of the aforementioned, the Stabilisation Manager does not intend to disclose the extent of any additional allotments and/or stabilisation transactions under the Offering.

Investors should keep in mind that the stabilisation and the transactions executed during the stabilisation period may result in a market price for the Shares that is higher than the otherwise prevailing market price.

Lock-Up arrangements

The Placement Agreement contains the following undertakings which all expire 180 days after the Shares are admitted to trading and listing on the WSE:

- The Company agrees not to directly or indirectly (i) issue, offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any interest in Shares or any securities convertible into or exercisable or exchangeable for, or substantially similar to, Shares or any interest in Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares or file any registration statement under the Securities Act or file or publish any prospectus with respect to any of the foregoing; or (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of the Shares or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any of the transactions described above, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of the Shares or such other securities, in cash or otherwise. The foregoing undertaking shall not apply to the issue and offer by or on behalf of the Company of the New Shares;

- Each of the Selling Shareholder and Mr. Kirill Podolskiy agree not to (i) dispose of any of the Shares they hold after the Offering (except pursuant to a tender offer for all the Shares and in certain other limited circumstances) and/or (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of the Shares owned by it or him or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any of the transactions described above, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of the Shares or such other securities, in cash or otherwise; and

- Mr. Kirill Podolskiy agrees not to (i) dispose of any of the shares he holds in the Selling Shareholder except with the consent of the Joint Global Coordinators and Joint Bookrunners and/or (ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of these shares or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any of the transactions described above, whether any such swap or transaction described in (i) or (ii) above is to be settled by delivery of the these shares or such other securities, in cash or otherwise.

The restrictions on disposal of Shares will not restrict the disposal of Shares following the exercise of any security over those Shares.

TRANSFER AND SELLING RESTRICTIONS

No action has been taken by the Company 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 (or any other offering or publicity materials or application form(s) relating to the Offer Shares) in any jurisdiction where action for that purpose may be required (or any other offering or publicity materials or application form(s) relating to the Offer Shares) in any jurisdiction where action for that purpose may be required.

No Public Offering outside of Poland

No action has been or will be taken by the Company, the Selling Shareholder 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 the Company or the Offer Shares, in any jurisdiction where action for that purpose is required. Accordingly, the Offer 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 Offer 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.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States for offer or sale as part of their distribution and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the benefit of, U.S. persons (as defined in Regulation S). The Offer Shares offered hereby are being offered and sold outside the United States in offshore transactions in accordance with Regulation S. The Offer Shares are not transferable except in accordance with the restrictions described herein.

EEA

This Prospectus has been prepared on the basis that all offers of Offer Shares other than the offer(s) contemplated in this Prospectus in Poland, once this Prospectus has been approved by the Cyprus SEC and notified by the Cyprus SEC to the Polish FSA in accordance with the Prospectus Directive, will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of Offer Shares. Accordingly, any person making or intending to make any offer within the EEA of Offer Shares which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of Offer Shares through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer Shares contemplated in this Prospectus.

United Kingdom

This Prospectus is communicated to or directed at persons who: (i) are outside the United Kingdom; or (ii) are persons falling within article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**") (Investment Professionals); or (iii) are persons falling within article 49(2)(a)-(d) of the Financial Promotion Order (high net worth companies, unincorporated associations, etc.) (all such persons together being referred to as "**Relevant Person**"). This Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment activity to which this Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Russia

This Prospectus should not be considered as a public offer or advertisement of the Shares in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any Shares in the Russian Federation. Neither the Shares nor any prospectus or other document relating to them have been or will be registered with the Federal Service for the Financial Markets of the Russian Federation and the Shares are not intended for "placement" or "circulation" in the Russian Federation, unless otherwise permitted under Russian law. Any information on the Shares in this Prospectus is intended for, and addressed only to, "qualified investors" (as defined under Russian law) or persons outside of the Russian Federation. The Shares are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

Ukraine

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

Switzerland

The Shares may not be and will not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares constitutes a prospectus as such term is understood pursuant to article 652a of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd., and neither this Prospectus nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland.

CERTAIN DEFINITIONS

"Adjusted EBITDA"	Profit or loss for the relevant period before: (i) income tax expense/benefit; (ii) gain realised from acquisitions of subsidiaries; (iii) non-operating foreign exchange gains/losses, net; (iv) finance income; (v) finance costs, net; (vi) impairment loss on goodwill and property, plant and equipment; (vii) depreciation and amortisation; and (viii) loss on disposals.
"Advance CIT"	Advance corporate income tax payable pursuant to the Ukrainian Tax Code.
"Alfa Bank Ukraine"	PJSC Alfa Bank Ukraine.
"Alfa Bank Ukraine Share Pledge"	The pledge granted by the Selling Shareholder in favour of Alfa Bank Ukraine over 15% of the Existing Shares.
"Alfa Bank Ukraine Use of Proceeds Agreement"	The agreement on post-offering use of proceeds entered into between the Selling Shareholder and Alfa Bank Ukraine dated on or about the date of this Prospectus.
"AMC"	The Antimonopoly Committee of Ukraine.
"Articles of Association"	The articles of association of the Company.
"Board of Directors"	The board of directors of the Company.
"CAGR"	Compound annual growth rate.
"Capital Gains Tax"	Capital gains tax payable pursuant to the laws of Cyprus.
"CBR"	The Central Bank of Russia.
"Chairman"	The Director appointed to act as the chairman of the Board of Directors.
"CIS"	The Commonwealth of Independent States.
"Code of Best Practice"	The Code of Best Practice for WSE Listed Companies, which constitutes an Appendix to Resolution No. 17/1249/2010 of the WSE Supervisory Board dated 19 May 2010.
"Corporate Income Tax"	Corporate income tax payable pursuant to the laws of Cyprus.

"CMU"	The Cabinet of Ministers of Ukraine.
"CPI"	Consumer price index.
"CPT"	Carriage Paid To, an arrangement where the seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.
"Cyprus-Poland Double Tax Treaty"	The agreement entered into between Cyprus and Poland for the avoidance of double taxation signed on 4 July 1992 (Dz. U. of 1993, No. 117, item 523).
"Cyprus-Russia Double Tax Treaty"	The agreement between Cyprus and Russia for the avoidance of double taxation with respect to taxes on income and on capital signed on 5 December 1998.
"Cyprus-Ukraine Double Tax Treaty"	The agreement entered into between Cyprus and Ukraine relating to taxation matters, a successor treaty to the double tax treaty between the Union of Soviet Socialist Republics and Cyprus dated 29 October 1982.
"Cyprus Companies Law"	Cyprus Companies Law Cap. 113 Law 99(1), as amended.
"Cyprus SEC"	The Cyprus Securities and Exchange Commission.
"Defence Tax"	Special contribution for the defence of Cyprus payable pursuant to the laws of Cyprus.
"Deutsche Bank"	Deutsche Bank AG, London Branch.
"Deutsche Bank Call Option"	The call option granted by the Selling Shareholder in favour of Deutsche Bank with respect to up to 9.99% of the Existing Shares.
"Deutsche Bank First Facility Agreement"	The senior secured facility agreement in the amount of USD 65 million entered into between Deutsche Bank and the Company on 10 May 2011.
"Deutsche Bank Second Facility Agreement"	The senior secured facility agreement in the amount of up to USD 200 million entered into between Deutsche Bank and the Company on 30 June 2011.
"Deutsche Bank Share Pledge"	The pledge over 15% of the Existing Shares given as security for the Deutsche Bank First Facility Agreement.
"Director"	A director of the Company.
"Domestic Lead Manager" or	Dom Maklerski BZ WBK S.A.

"Offering Broker"	
"EBRD"	The European Bank for Reconstruction and Development.
"EEA"	The European Economic Area.
"EUR", "Euro" or "€"	The lawful currency of the member states of the European Union.
"Executive Committee"	The executive committee formed by the Board of Directors.
"Existing Shares"	Other Existing Shares together with the Sale Shares.
"EXW"	Ex-Works, an arrangement where title to goods passes to the buyer once the goods are loaded onto the buyer's transporter of choice.
"FAT"	Fixed agricultural tax payable pursuant to the Ukrainian Tax Code.
"Financial Promotion Order"	The Financial Services and Markets Act 2000. (Financial Promotion) (Amendment) Order 2005, United Kingdom.
"FOB"	Free on Board, an arrangement where the seller agrees to absorb the cost of delivering the goods to the purchaser's vessel of choice.
"Former Group"	The precursor group to the Group which was involved in agricultural trading, logistics and production activities.
"GMO"	Genetically modified organisms.
"IFRS"	International Financial Reporting Standards adopted by the International Accounting Standards Board.
"IMF"	The International Monetary Fund.
"Insider Dealing Law"	The Insider Dealing and Market Manipulation (Market Abuse) Law N.116 (I)/2005 of Cyprus.
"Institutional Investors"	Institutional investors in the Polish Offering and institutional investors in the International Offering.
"IFRS"	International Financial Reporting Standards.
"International Offering"	The offering to certain institutional investors outside of the United States and Poland.

"Joint Global Coordinators and Joint Bookrunners"	Deutsche Bank and Troika Dialog.
"Management"	The Directors together with the senior management of the Company as listed in the section "*Management and Corporate Governance*".
"Management Committee"	The management committee formed by the Board of Directors.
"Managers"	The Joint Global Coordinators and Joint Bookrunners and the Domestic Lead Manager and Offering Broker.
"Maximum Price"	The maximum price per Offer Share.
"Memorandum"	The Company's Memorandum of Association.
"NBU"	The National Bank of Ukraine.
"NDS"	The National Depository for Securities, (Krajowy Depozyt Papierów Wartościowych S.A.), a Polish central clearinghouse and depository of securities with its registered address at. ul. Książęca 4, 04-498 Warsaw, Poland.
"Nedberg"	Nedberg Holding Limited, a company incorporated in Cyprus.
"New Shares"	Not less than 10,000,000 new ordinary shares in the Company with a nominal value of USD 0.01 per share.
"Offer Price"	The price per Offer Share.
"Offer Shares"	Sale Shares together with the New Shares.
"Offering"	The Polish Offering jointly with the International Offering.
"Other Existing Shares"	All of the other existing ordinary shares in the Company, not being Sale Shares.
"Over-Allotment Option"	The over-allotment option granted to the Stabilisation Manager by the Selling Shareholder.
"Over-Allotment Shares"	Shares acquired by the Stabilisation Manager pursuant to the over-allotment option.
"Petrocommerce Bank"	OJSC Commercial Bank Petrocommerce, Russia.
"Placement Agreement"	A placement agreement, dated on or about the date of this Prospectus, between the Company, the Selling Shareholder, Mr. Kirill Podolskiy, the Managers and

	The Cyprus Investment and Securities Corporation Limited.
“PLN” or “Polish Zloty”	The lawful currency of Poland.
“Polish CIT Act”	The Corporate Income Tax Act of Poland dated February 15, 1992 (consolidated version: Dz. U. of 2000, No. 54, Item 654, as amended).
“Polish FSA”	The Polish Financial Supervisory Authority.
“Polish Offering”	The public offering in Poland to retail investors and institutional investors.
“Polish PIT Act”	The Personal Income Tax Act of Poland dated 26 July 1991.
“Prospectus”	This prospectus, constituting a prospectus within the meaning of the Prospectus Directive, prepared in relation to the Offering described herein.
“Prospectus Directive”	The Directive 2003/71/EC of the European Parliament and the Council of the European Union as amended, including the amending Directive 2010/73/EU to the extent implemented in the relevant European Union Member State.
“Public Offer and Prospectus Law”	The law of Cyprus entitled “Law providing for the conditions for making an offer to the public of securities, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and other incidental matters of 2005”, Law 114 (I)/2005, as amended.
“Regulation 809/2004”	The European Commission Regulation (EC) 809/2004.
“Regulation S”	Regulation S under the U.S. Securities Act.
“Relevant Member State”	The member states of the EEA that have implemented the Prospectus Directive except Poland.
“Relevant Person”	All such persons that this Prospectus is communicated to or directed at.
“Retail Investors”	Individuals and legal entities who intend to purchase Offer Shares in the Offering.
“RUB” or “ruble”	The lawful currency of Russia.
“Russian Agricultural Bank”	OJSC “Russian Agricultural Bank”, Russia.

“Sale Shares”	Not less than 10,000,000 existing ordinary shares in the Company with a nominal value of USD 0.01 per share held by the Selling Shareholder to be offered in the Offering.
“Sberbank”	Sberbank of Russia OJSC.
“Sberbank Share Pledge”	The pledge granted by the Selling Shareholder in favour of Sberbank over 40% of the Existing Shares.
“Sberbank Use of Proceeds Agreement”	The agreement on post-offering use of proceeds entered into between the Selling Shareholder and Sberbank dated 28 June 2011.
“Shares”	The New Shares together with the Existing Shares.
“Stabilisation Manager”	Deutsche Bank AG, London Branch.
“Taganrog Shipyard”	OJSC “Taganrog Shipyard”, a company incorporated in Russia.
“Takeover Law”	The Take Over Bids Law (N41) (I)/2007 of Cyprus.
“Takeover Directive”	The Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids.
“Tax Amendments Law”	The Federal Law of the Russian Federation “On Introducing Amendments and Changes to Section 2 of Tax Code of the Russian Federation and Certain Other Legislative Acts of the Russian Federation on Taxes and Duties”, No. 110-FZ dated 6 August 2001.
“Trade Law”	The Federal law of the Russian Federation “On the Fundamentals of Governmental Regulation of Trade in the Russian Federation”, dated 1 February 2010.
“Troika Dialog”	CJSC “Investment Company “Troika Dialog”” and TD Investments Limited.
“UAH” or “hryvnia”	The lawful currency of Ukraine.
“Underwriter responsible for drawing up the Prospectus”	The Cyprus Investment and Securities Corporation Limited (CISCO).
“USD”, “U.S. dollars” or “U.S. $”	The lawful currency of the United States.
“Valars Agro”	Valars Agro Limited, a company incorporated in Cyprus.
“Valars Group”	VHL and its subsidiaries.

“Valary”	LLC “Valary”, a company incorporated in Russia.
“Valary-Trade”	LLC “Valary-Trade”, a company incorporated in Russia.
“Valinor” or the “Company”	Valinor Public Limited, a company incorporated in Cyprus as a public company with limited liability under Cypriot law.
“Valinor Group” or the “Group”	The Company together with its consolidated subsidiaries.
“VHL”	Valars Holding Limited, a company incorporated in Cyprus.
"VML"	Valars Management Limited, a company incorporated in Cyprus.
“Volary”	LLC “Volary”, a company incorporated in Ukraine.
“Volary-Agro”	LLC “Volary-Agro”, a company incorporated in Ukraine.
“Volary Export”	LLC “Volary Export”, a company incorporated in Ukraine.
“Vozrozhdenie Bank”	OAO Vozrozhdenie Bank, Russia.
“Warsaw Stock Exchange” or the “WSE”	The main market of the Giełda Papierów Wartościowych w Warszawie S.A.
“WTO”	The World Trade Organisation.

DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available free of charge at the registered office of the Company during normal business hours from the date of this Prospectus and throughout the validity period of this Prospectus:

- Memorandum and Articles of Association;
- the Auditors' report dated 16 May 2011 on the Company's consolidated financial statements;
- the consolidated financial statements of the Company for the three years ended 31 December 2010, 2009 and 2008; and
- this Prospectus together with its summary translated into the Polish language.

CONSENTS

The following parties, The Cyprus Investment and Securities Corporation Limited, Deloitte Limited, Deutche Bank, AG, London Branch, Troika Dialog, Dom Maklerski BZ WBK S.A., InvestoHills Capital, Clifford Chance LLC, Clifford Chance CIS Limited, Clifford Chance, Janicka, Krużewski, Namiotkiewiczi wspólnicy spółka komandytowa, Harneys Aristodemou Loizides Yiolitis LLC, Weil, Gotshal & Manges, Weil, Gotshal & Manges – Paweł Rymarz Sp.k, ALRUD and Sayenko Kharenko, have each given and have not withdrawn their written consent to the inclusion in this Prospectus of their names and the references thereto in the form and context in which they appear.

(i) **From the independent auditor, Deloitte Limited**

The statutory independent auditors Deloitte Limited, have given and have not withdrawn their written consent presented below relating to the references to their name in the form and context in which they appear in the Prospectus.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

The consolidated financial statements of Valinor Public Limited and its subsidiaries for the years ended 31 December 2008, 2009 and 2010 were audited by us in accordance with International Standards on Auditing. We have issued a qualified opinion on these consolidated financial statements.

In accordance with the requirements of paragraph 23 of Annex I of Regulation 809/2004 of the Commission of the European Union, with this letter, we give and do not withdraw our consent for:

(a) the inclusion of our Auditors' report for the three years ended 31 December 2010 within the Prospectus dated 4 July 2011 in the form and format this is presented; and

(b) for the references to our name in the form and context in which they appear in the Prospectus dated 4 July, for which you as Directors are solely responsible.

Deloitte Limited
Certified Public Accountants and Registered Auditors

(ii) **From the underwriter responsible for drawing up the Prospectus, the Cyprus Investment and Securities Corporation Ltd**

The underwriter responsible for drawing up the Prospectus, The Cyprus Investment and Securities Corporation Ltd, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

The Cyprus Investment and Securities Corporation Limited

(iii) **From the joint global coordinator and joint bookrunner, Deutsche Bank AG, London Branch**

The joint global coordinator and joint bookrunner, Deutsche Bank AG, London Branch, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Deutsche Bank AG, London Branch

(iv) **From the joint global coordinator and joint bookrunner, Troika Dialog**

The joint global coordinator and joint bookrunner, Troika Dialog, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our names in the form and context in which they appear in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

CJSC "Investment Company "Troika Dialog"" and TD Investments Limited

(v) **From Dom Maklerski BZ WBK S.A., the Domestic Lead Manager and Offering Broker**

The Domestic Lead Manager and Offering Broker, Dom Maklerski BZ WBK S.A., has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Dom Maklerski BZ WBK S.A.

(vi) **From the consultant to the Company, InvestoHills Capital**

The Consultant to the Company, InvestoHills Capital, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

InvestoHills Capital

(vii) **From the legal advisor to the Company as to English and Ukrainian law, Clifford Chance LLC**

The legal advisor to the Company as to English and Ukrainian law, Clifford Chance, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Clifford Chance LLC

(viii) **From the legal advisor to the Company as to Polish law, Clifford Chance, Janicka, Krużewski, Namiotkiewiczi wspólnicy spółka komandytowa**

The legal advisor to the Company as to Polish law, Clifford Chance, Janicka, Krużewski, Namiotkiewiczi wspólnicy spółka komandytowa, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Clifford Chance, Janicka, Krużewski, Namiotkiewiczi wspólnicy spółka komandytowa

(ix) **From the legal advisor to the Company as to Russian law, Clifford Chance CIS Limited**

The legal advisor to the Company as to Russian law, Clifford Chance CIS Limited, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Clifford Chance CIS Limited

(x) **From the legal advisor to the Managers as to English law, Weil, Gotshal & Manges**

The legal advisor to the Managers as to English law, Weil, Gotshal & Manges, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Weil, Gotshal & Manges

(xi) **From the legal advisor to the Managers as to Poliah law, Weil, Gotshal & Manges**

The legal advisors to the Managers as to Polish law, Weil, Gotshal & Manges – Paweł Rymarz Sp.k has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Weil, Gotshal & Manges – Paweł Rymarz Sp.k

(xii) **From the legal advisor to the Managers as to Russian law, ALRUD**

The legal advisor to the Managers as to Russian law, ALRUD, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

ALRUD

(xiii) **From the legal advisor to the Managers as to Ukrainian law, Sayenko Kharenko**

The legal advisor to the Managers as to Ukrainian law, Sayenko Kharenko, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Valinor Public Limited dated 4 July 2011 of which you, as Directors, are solely responsible.

Sayenko Kharenko

(xiv) **From the legal advisor of the Company and Managers as to Cypriot law, Harneys Aristodemou Loizides Yiolitis LLC**

The legal advisor as to Cypriot law, Harneys Aristodemou Loizides Yiolitis LLC, has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

4 July 2011

Board of Directors
Valinor Public Limited
Nicosia

Prospectus of Valinor Public Limited

Dear Sirs,

The undersigned Harneys Aristodemou Loizides Yiolitis, lawyers in Limassol, hereby confirm the following regarding the Prospectus of Valinor Public Limited dated 4 July 2011:

The aforementioned company is incorporated and operates in accordance with the Cyprus Companies Law, Cap. 113 and has the power to issue securities to the public.

The information in the Prospectus under “Statutory and other Information on the Issuer and its Share Capital” is in accordance with the details and documents to be found in the records of the Company as these are kept in the Companies Registry at the Department of the Registrar of Companies and Official Receiver.

We authorise the Cyprus Securities and Exchange Commission to publicise, at its discretion, any of the information which appears in the present confirmation to the public or any other party, if it deems this necessary.

With this letter, we give and do not withdraw our consent for the inclusion of our Confirmation within the Prospectus dated 4 July 2011 in the form and format those are presented as well as for the references to our name in the form and context in which they appear in the Prospectus dated 4 July 2011 for which you, as Directors, are solely responsible.

Harneys Aristodemou Loizides Yiolitis LLC

(xv) **Approval of the Board of Directors**

The Prospectus has been presented to the Board of Directors of the Company and has been approved. The Directors of the Company, who have taken all reasonable care to ensure that such is the case, accept responsibility for the accuracy, correctness and completeness of the information contained in the Prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

INDEPENDENT AUDITORS

Deloitte Limited, independent auditors and a member of the Institute of Certified Public Accountant of Cyprus (ICPAC number E047/072), with their address at Maximos Plaza, Tower 1, 3rd Floor, 213 Arch. Makariou III Avenue, CY-3030 Limassol, Cyprus, have audited the consolidated financial statements for the years ended 31 December 2010, 2009 and 2008.

FINANCIAL INFORMATION

Valinor Public Limited and its subsidiaries
Independent Auditors' report and consolidated financial statements
for the years ended 31 December 2010, 2009 and 2008

RESPONSIBILITY STATEMENT

The Company, and the Directors that are signing this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of their knowledge and belief, the Company, and the Directors that are signing this Prospectus, declare, having exercised due care so as to form a responsible opinion, that the information contained in this Prospectus is true and correct and contains no omission likely to affect its import.

In accordance with the provisions of the Public Offer and Prospectus Law, this Prospectus is signed by the following persons, who are responsible as to its accuracy, completeness, clarity and update:

On behalf of the Company, **VALINOR PUBLIC LIMITED:**

Mr. Kirill Podolskiy, Chief Executive Officer

____

Mikhail Cherkasov, Executive Director

____

Marina Barbarash, Executive Director

____

RESPONSIBILITY STATEMENT

The Selling Shareholder accepts responsibility for the information contained in this Prospectus. To the best of its knowledge and belief, the Selling Shareholder declares, having exercised due care so as to form a responsible opinion, that the information contained in this Prospectus is true and correct and contains no omission likely to affect its import.

In accordance with the provisions of the Public Offer and Prospectus Law, this Prospectus is signed by the following persons, who are responsible as to its accuracy, completeness, clarity and update:

On behalf of **VALARS MANAGEMENT LIMITED:**

Mr. Alexey Ponomarenko

____

RESPONSIBILITY STATEMENT

The Underwriter responsible for drawing up the Prospectus accepts responsibility for the information contained in this Prospectus. To the best of its knowledge and belief, the Underwriter responsible for drawing up the Prospectus declares, having exercised due care so as to form a responsible opinion, that the information contained in this Prospectus is true and correct and contains no omission likely to affect its import.

In accordance with the provisions of the Public Offer and Prospectus Law, this Prospectus is signed by the following persons, who are responsible as to its accuracy, completeness, clarity and update:

On behalf of **THE CYPRUS INVESTMENT AND SECURITIES CORPORATION LIMITED:**

____

The Managers are acting for, and are responsible to, the Company and the Selling Shareholder only.

ANNEX 1

Details of the Company and its subsidiaries

Name	**Address**	**Date of establishment**	**Registration number**	**Number of board directors**	**Proportion of ownership by the Group**
Valinor Public Limited	Stasandrou, 8, 3rd floor, Flat/Office 301 P. C. 1060, Nicosia, Cyprus	21 September 2010	HE 273907	10	100%
Dilpar Trading Inc.	Vanterpool Plaza 2nd Floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands	30 April 2010	1479424	1	100%
Valars Agro Limited	Stasandrou, 8, 3rd floor, Flat/Office 301 P. C. 1060, Nicosia, Cyprus	10 April 2008	HE 227218	2	100%
Agrofirma "Zemlyanky" Limited Liability Company ("Zemlyanky" LLC)	Zemlianky Village, Hlobynskyi District, Poltavska Oblast, Ukraine, 39013	28 January 2000	30748767	1	100%
"Agroteks - Mykolaiv" Limited Liability Company ("Agroteks - Mykolaiv" LLC)	27, Kaunaska Street, Kyiv, Ukraine, 02160	16 November 2000	31193280	1	100%
"Tinki" Limited Liability Company ("Tinki" LLC)	Tinky Village, Chyhyrynskyi District, Cherkaska Oblast, Ukraine, 20924	31 December 2004	33278344	1	100%
"Agrocomplex "Nemyriv Ltd" Limited Liability Company ("Agrocomplex "Nemyriv Ltd" LLC)	14, Kalinina Street, Kovalivka Village, Nemyrivskyi District, Vinnytsia Oblast, Ukraine, 22830	19 April 2007	34893401	1	100%
"Agrostroi" Limited Liability	19-A, Enhelsa Street, Poltava,	19 February	32386498	1	100%

Name	**Address**	**Date of establishment**	**Registration number**	**Number of board directors**	**Proportion of ownership by the Group**
Company (“Agrostroi” LLC)	Ukraine, 36038	2003			
“Romny-Invest” Limited Liability Company (“Romny-Invest” LLC)	11B, Haharina Street, Hudymy Village, Romenskyi District, Sumska Oblast, Ukraine, 42088	9 April 2008	32356877	1	100%
“Zamyatnitsa” Limited Liability Company (“Zamyatnitsa” LLC)	Tinky Village, Chyhyrynskyi District, Cherkaska Oblast, Ukraine, 20924	14 March 2000	30842416	1	100%
“Kristal” Limited Liability Company (“Kristal” LLC)	7, Zavodska Street, Brailiv Urban Village, Zhmerynskyi District, Vinnytsia Oblast, Ukraine, 23130	3 June 1999	00371920	1	100%
Limited Liability Company “Obolon” (“Obolon” LLC)	42, Karla Marksa Street, Obolon Village, Semenivskyi District, Poltavska Oblast, Ukraine, 32230	2 February 2004	32843851	1	100%
“Zhovten” Limited Liability Company (“Zhovten” LLC)	159, Poltavska Street, Karlivka, Karlivskyi District, Poltavska Oblast, Ukraine 39503	29 May 2001	31539058	1	100%
“Batkivschyina” Limited Liability Company (“Batkivschyina ” LLC)	Klymivka Village, Karlivskyi District, Poltavska Oblast, Ukraine, 39532	6 February 2002	31786887	1	100%
Limited Liability Company “Fedorivka i K” (“Fedorivka i K”	54, Lenina Street, Fedorivka Village, Karlivskyi	11 August 2003	32583422	1	100%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
LLC)	District, Poltavska Oblast, Ukraine, 39531				
Agricultural Limited Liability Company “Agrofirma “Druzhba” (“Agrofirma “Druzhba” ALLC)	Krupoderyntsi Village, Orzhytskyi District, Poltavska Oblast, Ukraine, 37721	24 February 2000	03773004	1	100%
“Im. CL. Petrovskogo” Limited Liability Company (“Im. CL. Petrovskogo” LLC)	1, Tsentralna Street, Kimivka Village, Berezanskyi District, Mykolaivska Oblast, Ukraine, 57440	21 September 2006	34559826	1	100%
“Yugtranzitservis-Agroprodukt” Limited Liability Company (“YuTS-Agroprodukt” LLC)	20, Shevchenka Street, Beryslav, Beryslavskyi District, Khersonska Oblast, Ukraine, 74300	20 January 2006	33731096	1	100%
Private Agricultural Enterprise Im. T. G. Shevchenko (“Im. T. G. Shevchenko” PAE)	2A, Horodnya Street, Synyukhin Brid Village, Pervomayskyi District, Mykolayivska Oblast, Ukraine, 55243	4 January 2001	03764005	1	100%
Public Joint Stock Company “Brailivs’ke” (“Brailivs’ke” PJSC)	7, Zavodska Street, Brailiv Urban Village, Zhmerynskyi District, Vinnytsia Oblast, Ukraine, 23130	19 September 1996	00385661	1	77.7105%
Public Joint Stock Company “Lebid” (“Lebid” PJSC)	26, Lenina Street, Budylka Village, Lebedynskyi District, Sumska	19 August 1993	14021460	1	75.5971%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
	Oblast, Ukraine, 42238				
“Nauka – Independent Quality Expertise” Limited Liability Company (“Nauka - IQE” LLC)	19A, Enhelsa Street, Poltava, Poltavska Oblast, Ukraine, 36038	24 June 2003	32559667	1	100%
Private Agricultural Enterprise “Dobrobut” (“Dobrobut” PAE)	Kanavy Village, Kobelyatskyi District, Poltavska Oblast, Ukraine, 39235	4 February 2004	32813228	1	100%
Private Agricultural Enterprise “Peremoga” (“Peremoga” PAE)	Verkhnya Lanna Village, Karlivskyi District, Poltavska Oblast Ukraine, 39540	19 April 1993	03770939	1	100%
Agrofirma “Veresen” (Agrofirma “Veresen”)	27, Zhovtneva Street, Pohreby Village, Hlobynskyi District, Poltavska Oblast, Ukraine, 39075	13 February 1996	23810167	1	100%
Public Joint Stock Company “Kamyanomostivske hlibopriymalne pidpriemstvo” (“Kamyanomostivske hlibopriymalne pidpriemstvo” PJSC)	1A, Kosmonavtiv Street, Kamianyi Mist Urban Village, Pervomaiskyi District, Mykolaivska Oblast, Ukraine, 55232	26 August 1998	00955029	1	87.5422%
Private Joint Stock Company “Pidgorodnyanskiy elevator” (“Pidgorodnyanskiy elevator”	2, Komsomolska Street, Pidgorodna Urban Village, Pervomaiskyi District, Mykolaivska	30 December 1997	00955058	1	75.0010%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
PJSC)	Oblast, Ukraine, 55222				
Private Agrofirm "Poluzirska" ("Poluzirska" PAF)	10, Myru Street, Poluzirya Village, Novosanzharskyi District, Poltavska Oblast, Ukraine, 39310	20 January 2000	30731348	1	100%[1]
"Valinor-Management" Limited Liability Company ("Valinor-Management" LLC)	13, Mykoly Pymonenka Street, building 6 A, office 51, Kyiv, Ukraine, 04050	18 May 2011	37615249	1	100%
"Agroinvestsoyuz" Open Joint Stock Company	159, Mira Street, Kuleshovka village, Beloglininsky region, Krasnodarski krai, the Russian Federation, 353062	29 March 2006	1062326001154	5	100%
"Azovskoye" Closed Joint Stock Company	15, Oktyabrskaya street, Novopoltavsky village, Azovskiy district, Rostov region, the Russian Federation 346763	27 August 1993	1026100513053	11	75.54%
"Aygurskiy" Farm Unit Open Joint Stock Company	1, Zapadnaya street, Aigursky village, Apanasenkovskiy district, Stavropolsky region, the	30 December 2004	1042600342311	5	91.4%

[1] (1) The Group's ownership of "Poluzirska" PAF has not yet been registered due to litigation involving the former holder of corporate rights; see "*Business – Legal Proceedings – Litigation Concerning "Poluzirska"PAF*".

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
	Russian Federation, 356715				
"Valinor-Management" Limited Liability Company (LLC "Valinor-Management")	1, Komsomolsky spousk, Taganrog, Rostov region, the Russian Federation, 347922	26 October 2005	1056154065880	n/a	100%
"Don" Food Company Limited Liability Company	21, Komsomolskaya street, Spitsevka village, Grachevsky district, Stavropolsky region, the Russian Federation, 356254	10 October 2000	1022603026126	n/a	100%
"Agrofirma "Kagalnitskaya" Open Joint Stock Company	23, Sovetskaya street, Dvurechye village, Kagalnitsky district, Rostov region, the Russian Federation, 347704	9 August 1999	1026101068036	9	79.76%
"Kalinina" Limited Liability Company	22, Kolkhozny pereulok, Aleksandrovka village, Azovskiy district, Rostov region, the Russian Federation, 346765	5 October 2009	1096188000897	n/a	100%
"Krasnokutskoe" Close Joint Stock Company	1, Tsentralnaya, Pozdneyevka village, Veselovsky district, Rostov region, the Russian Federation,	26 January 1993	1026100810603	9	92.39%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
	347785				
“Stepnoy” Limited Liability Company	9, Zapadny pereulok, Krasnaya Polyana Village, Peschanokopsky district, Rostov region, the Russian Federation, 347565	24 March 2008	1086127000068	n/a	100%
“Primorskiy” Open Joint Stock Company	17, Primorskaya street, Semibalki village, Azovsky district, Rostov region, the Russian Federation, 346757	19 February 2007	1076101000447	9	70.5%
“Valars Agro” Limited Liability Company	1, Komsomolsky spousk, Taganrog, Rostov region, the Russian Federation, 347922	23 December 2008	1086154008005	n/a	100%
“Petrovskoe” Limited Liability Company	17, Moskovskaya street, Novomirsky village, Azovsky district, Rostov region, the Russian Federation, 346757	9 March 2000	1026100516199	n/a	100%
“Razvilenskoye” Limited Liability Company	50/3, Lenin street, Letnik village, Peschanokopsky district, Rostov region, the Russian Federation, 347568	23 March 2004	1046127000336	n/a	100%
“Agrofirma Razdolie” Limited Liability	42, Lenin street, Latonovo village, Matveevo-	07 April 2000	1026101233256	n/a	100%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
Company	Kurgansky district, Rostov region, the Russian Federation, 346969				
“Rassvet” Limited Liability Company	10, Lenin street, Bolshekrepinskaya village, Rodiono-Nesvetaisky district, Rostov region, the Russian Federation, 346591	05 August 2004	1046130000620	n/a	100%
“Sarmat” Limited Liability Company	1, Pobedy street, Andreyevo-Melentyevo village, Neklinovsky district, Rostov region, the Russian Federation, 346841	16 March 2009	1096123000104	n/a	100%
“Zarya” Open Joint Stock Company	32, Gagarina Street, Alekseyevka village, Matveyevo – Kurgansky district, Rostov region, the Russian Federation, 346972	28 November 2002	1026101233003	5	80.34%
“Metchetinsky elevator” Open Joint Stock Company	7, Promyshlennaya street, Mechetinskaya village, Zernogradsky district, Rostov region, the Russian Federation,	28 June 2002	1026100958146	7	77%

Name	Address	Date of establishment	Registration number	Number of board directors	Proportion of ownership by the Group
	347750				
"Matveevkurgan khleboproduct" Open Joint Stock Company	6, Slavy street, Matveyev-Kurgan village, Rostov region, the Russian Federation, 346970	6 January 1999	1026101231144	5	89.6%
"Razvilenskiy combinat khlebnykh productov" Limited Liability Company	1, Shosseinaya street, Razvilnoye village, Peschanokopskiy district, Rostov region, the Russian Federation, 347560	19 November 2009	1096186000591	n/a	100%
"Elcom" Limited Liability Company	1, Komsomolsky spousk, Taganrog, Rostov region, the Russian Federation, 347922	26 December 2008	1086154008115	n/a	100%

THE COMPANY

Valinor Public Limited
Stasandrou 8, 5th floor, Office 301 P.C. 1060, Nicosia
Cyprus

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Joint Global Coordinator and Joint Bookrunner

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Joint Global Coordinator and Joint Bookrunner

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Russia

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Domestic Lead Manager and Offering Broker
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pl. Wolności 15
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Consultant
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