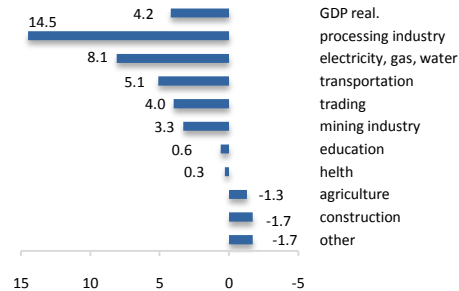


AGRICULTURAL SECTOR OF UKRAINE

Agricultural sector of Ukraine makes up about 10% of GDP of the country and provides the population with food at the level of 95%, that is one of the highest rates in the world. Besides of that, the agricultural products market of Ukraine has a vast potential to increase in the absolute numbers and great possibilities to substitute many import positions. Due to UNO data Ukraine closes the set of three world leaders as for the dynamics in agricultural production (after Brazil and Russia). The sector becomes even more attractive taking into consideration the dynamic growth of food prices in 2010-2011 in the world as a whole and in Ukraine in particular.

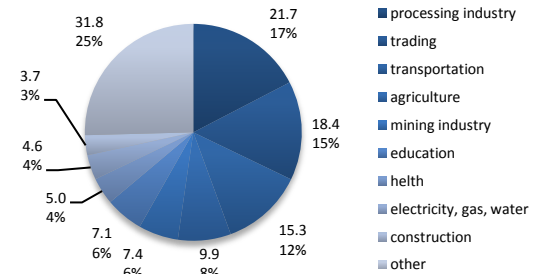
For the last 4-5 years the investment attractiveness of the agricultural sector of Ukraine grew in times. Due to the results of the "crisis" 2009 year the agriculture of Ukraine was the only one economic sector which showed the growth of the production volumes (+0.1%). In 2008 the capital investments to the sector achieved the record sum in 3.2 bln USD (7.2% from the total volume of investments). In 2010-2011 we can observe an activation of the players in this particular sector that can be explained by the existence of a great potential, and also by the absence of the sector overheating because of the speculators. Besides of that the agriculture is a part of "protected" sectors – sectors that are the most resistant to world economic fluctuations.

Ukrainian GDP dynamics by sectors (2010), %



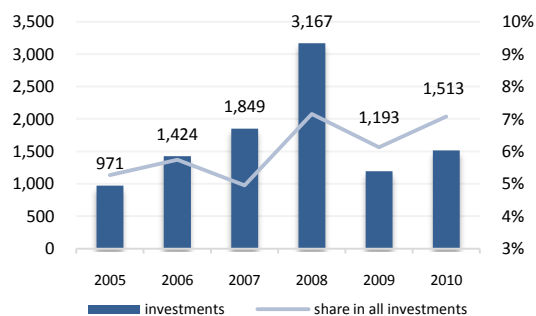
Source: State Statistics Committee of Ukraine

GDP structure of by sectors (2010), bln USD



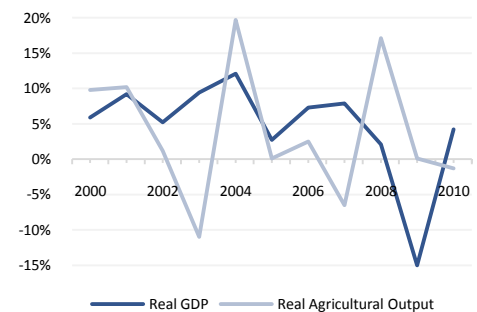
Source: State Statistics Committee of Ukraine

Capital investments in agriculture, bln USD



Source: State Statistics Committee of Ukraine

Dynamics of GDP and agricultural sector of Ukraine, YoY, %

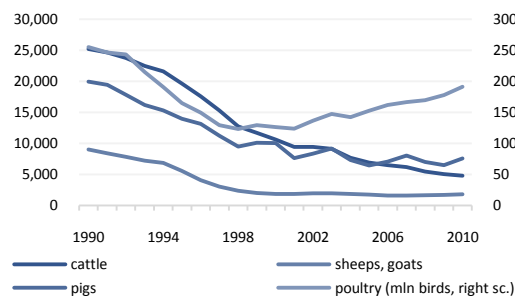


Source: State Statistics Committee of Ukraine

PRODUCTION. In 2010 Ukraine the farms of all types produced 39.2 mln tonnes of grain crops, that is 14.8% lower than in 2009, but is higher than an average number for the 10 years (36.7 mln tonnes). In particular the wheat production last year decreased by 19.4%, that was caused by the lowering of crop capacity of grain crops (to 4.1 centner/ha or by 6.9%). In 2011 we expect the grain yield at the level of 42 mln tonnes. At the same time the growth of production volumes of livestock products in 2010 on the contrary grew by 4.5% that is the highest level from 2006. The last was favoured by the fact that import was substituted to the products of domestic enterprises and by the strengthening of the positions of large Ukrainian agricultural holding companies on the foreign markets.

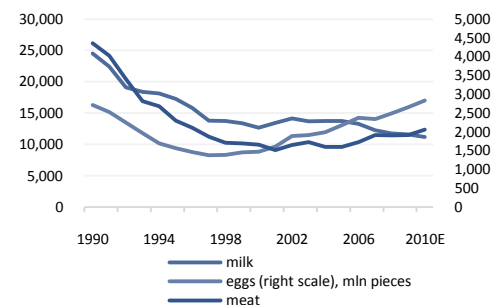
EXPORT. Recent years Ukraine occupies one of the leading positions on the world market of grain crops, and in 2009/10 marketing year was confidently among the first three leaders of main grain exporters. In 2009/10 marketing year Ukraine shipped to export 21.2 mln tonnes grain freights – the second record volume for the history of independent country after 2008/09 marketing year. Because of the poor crop last year in 2011 the government of Ukraine introduced the quotas for export of grain crops and this measure restricted the volumes of its supply from Ukraine. From July, 2011 the export quotas will be annulled.

Livestock and poultry in Ukraine, ths heads



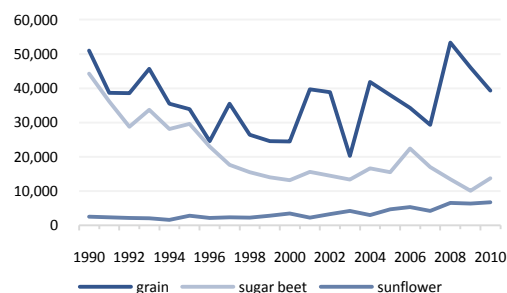
Source: State Statistics Committee of Ukraine

Manufacturing of livestock products (left scale), ths tonnes



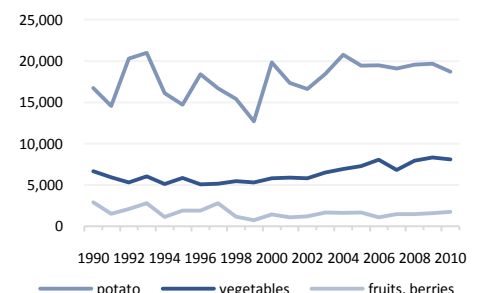
Source: State Statistics Committee of Ukraine

Crop production, ths tonnes



Source: State Statistics Committee of Ukraine

Crop production, ths tonnes



Source: State Statistics Committee of Ukraine

CURRENT TENDENCIES OF THE DEVELOPMENT OF THE AGRICULTURAL SECTOR OF UKRAINE:

- ✓ many times excess of profitability from new modernised companies comparing with the enterprises of “old formation”;
- ✓ consolidation of different agricultural directions in one huge holding company (vertical integration);
- ✓ increasing interest from the side of portfolio and strategic investors;
- ✓ entrance to the international markets (IPO, Private Placement). In 2006-2010 the huge Ukrainian companies (agricultural and industrial holdings “Myronivsky Hliboproduct”, “Kernel”, “Astarta”, “Mriya Agro Holding”, “Agroton”, “Milkiland”, “Dakor”, “KGS Agro”, “Industrial milk company”, “Agroleague”, “Avangard Agroholding” and others) successfully placed their shares on western and Ukrainian exchanges. The main exchanges for IPO, SPO and PP of Ukrainian companies – London, Warsaw and Frankfurt stock exchanges.
- ✓ 2-3 times price increase on agricultural products in Ukraine during 2010-2011;
- ✓ as a result – considerable increase of attractiveness of the agricultural business in Ukraine.

In 2012 it is also planned to cancel the moratorium on the selling of the lands for agricultural purposes, that can become a driver for the sector development.

At the moment the Ukrainian agricultural market has two distinctive advantages – these are: unsaturated internal market and government support.

Thus the consumption of the main food types in Ukraine are lower than in the developed countries, but these figures increase in very dynamic speed (for the last decade the meat consumption increased by 60%, milk and milk products – by 30%, fruit – by 20%). The increasing demand opens vast prospects for the development of facilities of the existing and also for opening of the new agricultural productive and processing enterprises.

Nowadays in Ukraine there is a regime of the most-favoured status for the producers of the agricultural products, they are given advantages and benefits as for the taxes. The state implements stimulating programmes, carries out compensations as for the percent to the credits for agricultural producers and others. The programmes that support the agricultural business will be active during the next 5-10 years.

Tax benefits for agricultural business

Tax	Usual enterprise	Agricultural enterprise
Profit tax	25%	0% fixed agricultural tax (FAT) about 35-50 UAH/ha per year (3-5 EUR/ha per year)
VAT	20%	0% the agricultural enterprise can choose the special tax regime Law of Ukraine "On value added tax" Due to the special tax regime, the sum of value added tax should not be paid to the budget and fully leaves at the disposal of the agricultural enterprise for production purposes.
Concessional lending	no	In budget for 2011 the funds are foreseen for compensation of the part of interest expenses on the loans of agricultural sector.

In general, taking into account the above mentioned privileges, the companies from the agricultural sector of Ukraine during the last 3 years have been evaluated pretty high – at the level of 12-16 EBITDA (before the crisis and nowadays). For the foreign investors the main factors of attractiveness of the agricultural enterprises of Ukraine are the low level of operating costs comparing to European countries, domestic fertile black soil, high potential for growth of crop capacity, as well as the high prices for agricultural products.

The market multipliers and margins (2010) of Ukrainian agricultural companies and world analogues

Company/region	Ticker	Country	EV/S	EV/EBITDA	EV/EBIT	EV/E	EBITDA margin, %	EBIT margin, %	Profit margin, %
Kernel Holding	KER PW	Ukraine	2.68	15.6	17.8	18.0	17.2	15.0	14.9
MHP	MHPC LI	Netherlands	2.84	8.2	10.4	13.1	34.6	27.4	21.8
Avangard	AVGR LI	Ukraine	3.01	8.7	9.5	7.3	34.6	31.8	41.4
Milkiland	MLK PW	Ukraine	2.17	14.6	19.6	53.6	14.9	11.1	4.1
Astarta Holding	AST PW	Ukraine	3.66	6.7	7.9	7.5	54.8	46.6	48.5
Mriya Agro Holding	MAYA GR	Cyprus	6.20	13.1	13.1	14.5	47.3	47.2	42.9
Agroton	AGT PW	Ukraine	5.43	16.7	22.1	19.8	32.5	24.5	27.5
Ukraine average	-	-	3.01	13.1	13.1	14.5	34.6	27.4	27.5
The USA	-	-	2.82	10.0	11.7	18.0	12.1	8.2	3.6
Latin America	-	-	2.76	9.2	11.5	15.4	12.9	8.7	10.2
Western Europe	-	-	2.20	10.7	11.3	12.4	20.4	17.3	11.6
Eastern Europe	-	-	1.10	8.0	11.8	20.9	7.9	3.4	3.4
Middle East, Africa	-	-	1.34	8.8	8.4	11.8	15.2	4.5	4.9
Asia – developed countries	-	-	1.08	11.6	13.5	19.8	6.6	3.3	4.4
Asia – developing countries	-	-	1.89	8.5	11.4	17.1	17.7	12.1	8.8

Source: Bloomberg, AMC "NIKO" calculations

From the table it is difficult not to notice the fact of high activity efficiency of the huge agricultural holding companies in Ukraine (EBITDA margin is 30-50%) and high score of the foreign for the domestic companies – from 2-3 up to 6 sales of the company (EV/S coefficient), when the analogical median value for world companies as a rule is not higher than 2.

SECTOR RISKS:

- ✓ high competition from the side of the huge agricultural companies;
- ✓ not solved issue with the moratorium to sell the lands.

5-YEARS PROSPECT:

- ✓ increase of the volumes of internal consumption and export;
- ✓ import substitution with the domestic production;

- ✓ favourable conjuncture on world markets throughout the prolonged period of time due to the increase of demand on Asian market and due to the soft money policy of the world central banks;
- ✓ the improvement of the conditions for the activity of the enterprises due to the state support;
- ✓ increase of competition due to the sector attractiveness;
- ✓ increase of the competitiveness of the domestic products comparing to the import ones.

OUR OPINION. We consider the agricultural sector of Ukraine – the most profitable investment to the real sector at the moment (along with the investments to “green” energy and retail sector).

We believe that for the investor entrance in the correlation investments/profits the most perspective direction in the agriculture are poultry breeding and eggs production. Then the pork/beef production and gardening follow, – more cost based types of investments.

Taking into account the high fertility of black soil in Ukraine, state support of agricultural, considerable rise in price on grain crops during last years, as well as the increasing world “food” crisis, that will push the prices up, we see huge perspectives of attractiveness increase of the sector for grain growth and for the growth of other cultures.

In our opinion the agricultural sector has a huge gap for growth, including the full import substitution with the own products, those, by the way, at the even start have considerable advantages comparing with the foreign ones (it is true about the products from livestock first of all, e.g., fresh meat).

ABOUT THE COMPANY

ASSET MANAGEMENT COMPANY "NIKO" is the investment company, a member of the international "NIKO" Group of companies. The main Company's activity priority is the development of global strategy and selection of the individual instruments for each client: the formation of investment portfolio based on the client's requirements, operational management of the investment targets, share and debt capital raising, M&A, the development of new investment projects and their implementation. The main Company's mission is to not only provide a full-range of wealth management services based on the total confidentiality but to guarantee the flexibility and formation of financial model which matches all client's needs and expectations.

AMC "NIKO" areas of expertise among others include:

- I) **Investment Banking** (fund raising, M&A);
- II) **Alternative Investments** (direct and venture investments, corporate treasury);
- III) **Asset Management** (for private investors and corporate clients).

Established in 2006, the Company currently manages more than UAH 440 million in assets. The Company's activity is regulated by the State Commission on Securities and Stock Market of Ukraine (licence AB №456907 dated 05.02.2009).

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Trading foreign exchange, commodities, and securities, as well as investing in different kinds of projects carries a high level of risk, and may not be suitable for all investors. Before deciding to trade foreign exchange or investing in projects you should carefully consider your monetary objectives, level of experience and risk appetite. The possibility exists that you could sustain a loss of some or all of your deposited funds and therefore you should not speculate with capital that you cannot afford to lose. You may be liable for losses that exceed the amount of margin that you post. You should be aware of all the risks associated with foreign exchange, commodities, securities trading, investing in projects and seek advice from an independent advisor if you have any doubts.

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