



U.S.\$125,000,000

**7.875 per cent. Loan Participation Notes due 2008**

**issued by UkrChem Capital B.V. on a limited recourse basis  
for the sole purpose of funding a loan by Moscow Narodny Bank Limited to**

**Joint Stock Company Concern Stirol**

*(incorporated in Ukraine)*

**Issue Price: 100 per cent.**

UkrChem Capital B.V. (the "Issuer") is issuing an aggregate principal amount of U.S.\$125,000,000 7.875 per cent. Loan Participation Notes due 2008 (the "Notes") for the sole purpose of funding a 100 per cent. participation by the Issuer (the "Sub-Participation") in a loan (the "Loan") to Joint Stock Company Concern Stirol ("Stirol" or the "Company") by Moscow Narodny Bank Limited (the "Lender") pursuant to a sub-participation agreement dated 28 July 2005 (the "Sub-Participation Agreement") between the Issuer and the Lender. Pursuant to the Sub-Participation Agreement, the Lender will use the proceeds of the Sub-Participation for the sole purpose of financing the Loan which will be made under an agreement dated 28 July 2005 (the "Loan Agreement") between the Lender and the Company, as borrower (the "Borrower").

The Notes will be issued on 4 August 2005 and constituted by a trust deed dated on or about 4 August 2005 (the "Trust Deed") between the Issuer, the Lender and The Bank of New York as trustee (the "Trustee").

A13.4.13

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the holders of the Notes (the "Noteholders"), on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Sub-Participation Agreement. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Company in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable semi-annually in arrear in equal instalments on 19 February and 19 August in each year commencing on 19 February 2006 as described under "Terms and Conditions of the Notes — Interest". There will be a long first Interest Period (as defined in the Loan Agreement), and accordingly, interest in respect of such period will accrue from and including 4 August 2005 to but excluding 19 February 2006, and the amount of interest payable in respect of such period shall be calculated in accordance with the provisions of the Loan Agreement. See "The Loan Agreement — Payment and Calculation of Interest". The Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Sub-Participation Agreement, which interest under the Sub-Participation and the Loan is equal to 7.875 per cent. per annum.

The Issuer will charge, by way of first fixed charge as security for its payment obligations in respect of the Notes, its rights and interests as participant under the Sub-Participation Agreement (including all sums due to the Issuer thereunder) and the Lender will charge, by way of first fixed charge as security for its payment obligations under the Sub-Participation Agreement, its rights and interests as lender under the Loan Agreement (including all sums due to the Lender thereunder, other than in respect of certain reserved rights) to the Trustee, for the benefit of the Noteholders and the Issuer and the Lender will assign their respective administrative rights under the Sub-Participation Agreement and the Loan Agreement (together, the "Loan Agreements") to the Trustee, all as more fully described under "Description of the Transaction".

Payments in respect of the Notes will, except in certain limited circumstances as provided in the Terms and Conditions (See "Terms and Conditions of the Notes — Taxation"), be made without any deduction or withholding for or on account of taxes of The Netherlands, except as required by law. In that event, the Issuer will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Sub-Participation Agreement. Payments under the Sub-Participation Agreement shall, except in certain limited circumstances, be made without any deduction or withholding for or on account of taxes of the United Kingdom, except as required by law. In that event, the Lender will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Loan Agreement. Payments under the Loan Agreement shall, except in certain limited circumstances, be made without any deduction or withholding for or on account of taxes of Ukraine, except as required by law, in which event Stirol will be obliged to increase the amounts payable under the Loan Agreement. In certain circumstances the Loan may be prepaid at its principal amount, together with accrued interest, at the option of Stirol upon Stirol being required to increase the amount payable or to pay additional amounts on account of taxes payable in The Netherlands, the United Kingdom or Ukraine or required to pay additional amounts on account of certain costs incurred by the Lender pursuant to the Loan Agreement. The Lender may require the Loan to be prepaid if it becomes unlawful for the Loan, the Sub-Participation or the Notes to remain outstanding, as set out in the Loan Agreement. Upon a prepayment of the Loan and the Sub-Participation in accordance with the terms of the Loan Agreements, and subject to the receipt of the relevant funds by the Issuer, the Notes will be redeemed by the Issuer immediately following such receipt.

On the occurrence of a Put Event, as defined in the "Terms and Conditions of the Notes", each Noteholder shall have the option to give notice or procure that notice is given for the prepayment of the applicable amount of the Sub-Participation and, in turn, the Loan. To the extent such amount is actually received by the Lender from the Company and by the Issuer from the Lender, each Note held by the relevant Noteholder shall be redeemed on the Put Settlement Date, as defined in "Terms and Conditions of the Notes", at its principal amount together with accrued interest (if any) (see "Terms and Conditions of the Notes — Redemption at the Option of the Noteholders upon a Change of Control or a Rating Downgrade").

Save as otherwise expressly provided in this document and in the Trust Deed, no proprietary or other direct interests in the Issuer's rights under or in respect of the Sub-Participation Agreement or the Sub-Participation or the Lender's rights under or in respect of the Loan Agreement or the Loan exist for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Sub-Participation Agreement or the Loan Agreement or have direct recourse to the Company except through action by the Trustee to enforce the Note Security as defined in the "Terms and Conditions of the Notes".

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 13.**

**The Notes, the Sub-Participation and the Loan (collectively, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act ("Regulation S")).**

Application has been made to the Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000, as amended (the "FSMA") (in such capacity the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the "Investment Services Directive").

The Notes will be issued in registered form in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "Global Note Certificate") registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with The Bank of New York as common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 4 August 2005. Individual note certificates ("Individual Note Certificates") evidencing holdings of Notes will be available only in certain limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".

*Joint Lead Managers*

**ING Financial Markets**  
*(Sole Bookrunner)*

**MNB Capital Markets**

**The date of this Prospectus is 28 July 2005**

*This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Company, the Lender, the Issuer or the Managers (as defined in "Subscription and Sale") to subscribe for, or purchase, any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Lender, the Company, the Issuer and the Managers to inform themselves about and to observe any such restrictions. Information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "Subscription and Sale".*

*No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Company, the Issuer, the Lender, the Trustee, the Managers, or the Notes other than as contained in this Prospectus. Any such representation or information must not be relied upon as having been authorised by the Issuer, the Lender, the Trustee, the Company or the Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. This Prospectus may only be used for the purposes for which it has been published.*

*No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Managers assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Company, the Issuer and the Lender and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.*

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

**In connection with the issue of the Notes, ING Bank N.V., London Branch (or persons acting on its behalf) may over-allot Notes, provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes, or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that ING Bank N.V., London Branch (or persons acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.**

### RESPONSIBILITY STATEMENT

The Issuer and the Company (the “Responsible Persons”) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Responsible Persons (which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

A7.1.1

A7.1.2

A9.1.1

A9.1.2

A13.1.1

A13.1.2

### **FORWARD-LOOKING STATEMENTS**

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning the Company’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Company uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Summary”, “Risk Factors”, “Financial Review”, “Business” and other sections of this Prospectus. The Company has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgement of the Company’s management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Company’s forward-looking statements and from past results, performance or achievements. Although the Company believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Company has identified in this Prospectus, or if any of the Company’s underlying assumptions prove to be incomplete or incorrect, the Company’s actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as of the date of this Prospectus. Except to the extent required by law, the Company is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on the Company’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

### **ENFORCEABILITY OF JUDGMENTS**

Ukrainian courts will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party or by an “ad hoc” treaty in effect between such country and Ukraine providing for enforcement of such judgments on a reciprocal basis and only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). Since the Loan Agreement contains a provision allowing for arbitration of disputes, respective arbitral awards may be enforced in Ukraine under provisions of the New York Convention.

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## PRESENTATION OF CERTAIN INFORMATION

### Financial Information

The financial information of the Company set forth herein has, unless otherwise indicated, been derived from its consolidated balance sheets and statements of income, cash flows and changes in shareholder's equity as at and for the years ended 31 December 2004 (the "2004 Financial Statements") and 2003 (the "2003 Financial Statements" and together with the 2004 Financial Statements, the "Financial Statements"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), formerly referred to as International Accounting Standards ("IAS"). A9.11.4.1

The Financial Statements were audited by the Company's independent auditors, KPMG Ukraine Ltd. ("KPMG"), located at 11 Mykhaylivska Street, Kyiv 01001, Ukraine, in accordance with International Standards on Auditing. However, KPMG qualified its independent auditor's reports on the Financial Statements because it was not able to observe the counting of physical inventories or determine if adjustments to the carrying amounts of inventories were necessary as of 31 December 2004 and 2003 and, as a result, whether costs of revenues, income tax expense and net profit for 2004 and 2003 needed adjusting. KPMG further qualified its auditors' report on the 2003 Financial Statements because the Company's significant subsidiaries and its related party balances and transactions in 2003 (the "2003 Related Party Transactions") were not disclosed in the 2003 Financial Statements. See "Risk Factors — Risks Relating to the Company — KPMG has qualified its independent auditors' reports on the Financial Statements". A9.2.1 A9.11.3.1

The Financial Statements are set forth elsewhere in this Prospectus.

The 2003 Financial Statements included in this Prospectus contain unaudited comparative figures as at, and for the year ended, 31 December 2002. The 2002 financial statements were compiled by KPMG in accordance with the International Standard on Auditing applicable to compilation engagements. KPMG's independent auditors' report on the 2003 Financial Statements stated that they did not audit or review the 2002 financial statements and that accordingly they expressed no opinion, or any other form of assurance, thereon. As a result there can be no assurance as to the accuracy or completeness of such figures or their value as comparatives to the 2003 audited financial information. Investors should not rely upon such unaudited figures as at, and for the year ended, 31 December 2002 in making any investment decision. See "Risk Factors — Risks Relating to the Company — KPMG has qualified its independent auditors' reports on the Financial Statements".

### Currency

In this Prospectus, all references to "hryvnia" and "UAH" are to the lawful currency for the time being of Ukraine, all references to "dollars", "U.S. dollars" and "U.S.\$" are to the lawful currency for the time being of the United States of America, all references to "pounds sterling" or "£" are to the lawful currency for the time being of the United Kingdom and all references to "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates based on those established by the National Bank of Ukraine ("NBU") and effective as at the dates of the respective financial information presented elsewhere in this Prospectus in respect of both balance sheet and income statement items. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The official hryvnia/dollar exchange rates as reported by the NBU (after rounding adjustment) were UAH 5.3 to U.S.\$1.00 on both 31 December 2004 and 31 December 2003. The official hryvnia/dollar exchange rate as reported by the NBU (after rounding adjustment) on 27 July 2005 was UAH 5.1 to U.S.\$1.00.

### Rounding

Some figures included in this Prospectus have been subject to rounding adjustments.

## CONDENSED DESCRIPTION OF THE COMPANY AND THE OFFERING

*This condensed description of the Company and the offering may not contain all of the information that may be important to prospective purchasers of the Notes. This entire Prospectus, including the more detailed information regarding the Company's business and the Financial Statements included elsewhere in this Prospectus, should be read carefully. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Prospectus are forward-looking statements that also involve risks and uncertainties as described under "Forward-looking Statements".*

### THE COMPANY

#### *Overview*

Stirol is a Ukrainian joint stock company whose core production facilities are located in the Donetsk region. The company now comprising Stirol was originally established as a State-owned company, Gorlovka Nitrogenous Fertiliser Plant, on 23 April 1933.

During the 1960s, Stirol's production capacities were expanded and a number of new facilities such as granulated ammonium nitrate and polystyrene plants were put into operation. The late 1970s and early 1980s marked a period of extensive modernisation and further expansion of Stirol's operations. During the 1990s, Stirol launched a number of new business activities such as production of pharmaceuticals and packaging materials.

On 10 October 1995, Stirol was registered under Ukrainian law as a joint stock company for an unlimited duration. The Company's shares were initially distributed to the employees of the Company and the State of Ukraine. As at 1 July 2005, LLC IK Stirolchiminvest was the nominal holder of 82.13 per cent. of the Company's shares, 10.74 per cent. of shares were held by the depository JSC Mezhhregionalnyj Fondovyj Soyuz and 5.56 per cent. were held by JSB ING Bank Ukraine, as nominee. Dr. Nikolay A. Yankovskiy, the Company's Chairman, beneficially owns a controlling shareholding in the Company through LLC IK Stirolchiminvest's nominal holding.

As at the date of this Prospectus, the Company's share capital comprises 27,125,280 fully paid ordinary shares, each with a nominal value of UAH 12 per share.

#### *Principal Business Activities*

Stirol is the leading producer of ammonia and its derivatives in Ukraine. Stirol's business is focused on the production and distribution of ammonia and two closely related products, urea and ammonium nitrate. Urea and ammonium nitrate are mainly used as fertilisers. Ammonia is the core raw material used in the production of urea and ammonium nitrate. Stirol processes approximately 60 per cent. of the ammonia it produces into urea and ammonium nitrate. The remainder is sold in its pure form and is subsequently used mainly in the production of more complex mineral fertilisers containing nitrogen and phosphorus. Stirol exports approximately 85 per cent. of its total production output by value.

In addition, Stirol has several non-core business activities, the most significant of which include organic products, pharmaceuticals, packaging and other products derived from chemicals.

#### *Strategy*

Stirol has the following strategic objectives:

- To strengthen its leading position among Ukrainian producers of nitrogen fertilisers;
- To enhance its competitive position through continued improvements of its operational efficiency;
- To increase the proportion of higher value-added products; and
- To reduce dependence on global fertiliser markets.

#### *Credit Ratings*

The Notes, on issue, are expected to be assigned a B rating by Fitch Ratings Ltd. ("Fitch") and a B3 rating by Moody's Investor Service, Inc. ("Moody's"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

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### THE OFFERING

<b>The Offer</b> .....	U.S.\$125,000,000 7.875 per cent. Loan Participation Notes due 2008	A13.4.1
<b>Issuer of the Notes and participant under the Sub-Participation Agreement:</b> .....	UkrChem Capital B.V.	A13.4.2 A13.4.10 A8.3.2
<b>Lender under the Loan Agreement and obligor under the Sub-Participation Agreement:</b> .....	Moscow Narodny Bank Limited	A9.4.1.1
<b>Company, as Borrower under the Loan Agreement:</b> .....	Joint Stock Company Concern Stirol	A9.4.1.1
<b>Lead Managers:</b> .....	ING Bank N.V., London Branch and Moscow Narodny Bank Limited	
<b>Issue Price:</b> .....	100 per cent. of the principal amount of the Notes	
<b>Maturity Date:</b> .....	19 August 2008	A13.4.9
<b>Trustee:</b> .....	The Bank of New York	
<b>Registrar:</b> .....	The Bank of New York	
<b>Principal Paying and Transfer Agent:</b> .....	The Bank of New York	A8.3.7 A13.4.8
<b>Use of Proceeds:</b> .....	The proceeds from the offering of the Notes, being U.S.\$125,000,000, will be used by the Issuer for the purpose of funding its Sub-Participation in the Loan. The Lender will use the gross proceeds from the Sub-Participation for the sole purpose of financing the Loan to the Company. The Company will receive gross Loan proceeds of U.S.\$125,000,000. The Company intends to use the proceeds of the Loan to refinance certain short-term indebtedness, to finance capital expenditures carried out within the Company's strategic development programme and certain strategic acquisitions in Ukraine and other CIS countries and for general corporate purposes.	
<b>Interest:</b> .....	The Notes will bear interest from 4 August 2005 at a rate of 7.875 per cent. per annum payable semi-annually in arrears in equal instalments on 19 February and 19 August in each year commencing on 19 February 2006.	A13.4.8 A13.4.13
<b>Risk Factors:</b> .....	An investment in the Notes involves a high degree of risk. See "Risk Factors".	
<b>Limited Recourse:</b> .....	The Notes will constitute the obligation of the Issuer to apply an amount equal to the proceeds from the issue of the Notes solely for the purpose of funding the Sub-Participation pursuant to the terms of the Sub-Participation Agreement. The Issuer will account to the holders of the Notes for amounts equivalent to those (if any) received from the Lender under the Sub-Participation Agreement and the Lender will account to the Issuer for amounts equivalent to those (if any) received from the Company under the Loan Agreement, in each case less any amounts withheld in respect of the Reserved Rights (as defined in "Terms and Conditions of the Notes — Security").	
<b>Form:</b> .....	The Notes will be issued in registered form in denominations of U.S.\$100,000 each and integral multiples of U.S.\$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Individual Note Certificates in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".	A8.1.1 A13.4.4 A13.4.5



**Early Redemption:** . . . . . The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Company (a) upon the Company being required to pay additional amounts on account of the Company, the Lender or the Issuer being required to deduct or withhold any taxes of The Netherlands, the United Kingdom or Ukraine from payments to be made by them in respect of the Notes or under the Loan Agreements, (b) upon the Company being required to pay additional amounts on account of certain increased costs incurred by the Lender pursuant to the Loan Agreement or (c) upon the Company being required to pay additional amounts following an Issuer Relevant Event or Borrower Relevant Event (both as defined in “Terms and Conditions of the Notes — Enforcement”).

The Lender may require the Loan to be prepaid in whole (but not in part) if it becomes unlawful for the Loan, the Sub-Participation or the Notes to remain outstanding, as set out in the Loan Agreement.

Upon a prepayment of the Loan and the Sub-Participation in accordance with the terms of the Loan Agreements, and subject to the receipt of the relevant funds by the Issuer, the principal amount of all outstanding Notes will be prepaid by the Issuer, together with accrued interest. See “Terms and Conditions of the Notes — Redemption; Purchase”.

#### **Negative Pledge and Other**

**Covenants:** . . . . . The Loan Agreement contains a negative pledge in relation to the creation of Security Interests, other than Permitted Security Interests and Security Interests where the Loan is secured equally (each as defined in the Loan Agreement) to secure the Indebtedness of the Company and its Subsidiaries (each as defined in the Loan Agreement).

The Loan Agreement also contains covenants restricting, *inter alios*, mergers and disposals by the Company, transactions between the Company and its Affiliates (as defined in the Loan Agreement) and payments of dividends by the Company. See “The Loan Agreement”.

#### **Redemption at the Option of the Noteholders:** . . . . .

The Notes may be redeemed at the option of the Noteholders at their principal amount, together with accrued interest to the date of redemption, following the occurrence of a Put Event (as defined in “Terms and Conditions of the Notes — Redemption at the option of the Noteholders upon a Put Event”).

#### **Events of Default/Relevant**

**Event:** . . . . . In the case of an Event of Default (as defined in the Loan Agreement) or an Issuer Relevant Event or Lender Relevant Event (both as defined in the “Terms and Conditions of the Notes — Enforcement”), the Trustee may, as provided in the Trust Deed, (a) declare or require the Lender to declare all amounts payable under the Loan Agreement by the Company to be due and payable (in the case of an Event of Default) or (b) enforce (i) the security granted by the Lender following the occurrence of a Lender Relevant Event (as defined in the Trust Deed) and (ii) the security granted by the Issuer following the occurrence of an Issuer Relevant Event (as defined in the Trust Deed).

Upon repayment of the Sub-Participation and the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due, and thereupon shall cease to be outstanding.

#### **Withholding Tax or Increased**

**Costs; Gross-up:** . . . . . In the event that any payments to be made by the Company under the Loan Agreement become subject to any withholding tax imposed by The Netherlands, Ukraine, the United Kingdom or any taxing authorities thereof or therein or certain other circumstances result in the Lender

incurring any increased cost associated with the Loan or the Sub-Participation, the Company will (save in certain circumstances and subject to the enforceability of such provisions) be required to pay any additional amount necessary to compensate the Lender for the tax withheld or the increased cost to the Lender. See “The Loan Agreement”.

**Tax Redemption:** ..... In the event that the Company is required to pay additional amounts under the Loan Agreement as a result of tax imposed by any taxing authority in The Netherlands, the United Kingdom and/or Ukraine, the Company will have the right to prepay the Loan, upon not less than 30 days’ notice to the Lender, in whole (but not in part) at any time. See “The Loan Agreement”. In such circumstances, the Lender will exercise its right to prepay the Sub-Participation and the Issuer will exercise its right to redeem the Notes. See “Terms and Conditions of the Notes”.

**Listing and admission to trading:** ..... Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market.

**Selling Restrictions:** ..... The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. The Notes have not been registered in Ukraine and may not be offered or sold within Ukraine without prior registration in Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See “Subscription and Sale”.

**Governing Law:** ..... The Notes, the Loan Agreements and the Trust Deed will be governed by English law.

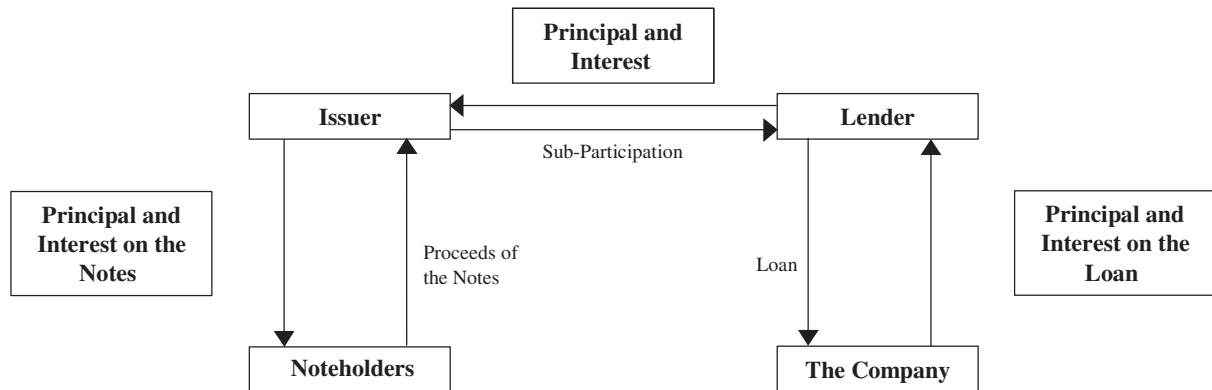
A8.2.2.1  
A13.4.3

**Security Codes:** ..... ISIN: XS0225482719  
  
Common code: 022548271

A13.4.2

## DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “The Loan Agreement” appearing elsewhere in this Prospectus. A8.3.1



The transaction will be structured as a loan to the Company by the Lender. The Issuer will issue the Notes which will be limited recourse loan participation notes issued for the sole purpose of funding a 100 per cent. sub-participation by the Issuer in the Loan. The Lender will use the proceeds of the Sub-Participation for the sole purpose of financing the Loan. The Notes will be subject to, and have the benefit of, a trust deed to be entered into by the Issuer, the Lender and the Trustee (the “Trust Deed”). The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to pay to the Noteholders an amount equal to and in the same currency as sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Sub-Participation Agreement. A8.2.1  
A8.2.2.5  
A8.2.2.6  
A8.2.2.7  
A8.3.3  
A8.3.4.1  
A13.3

Noteholders must rely solely and exclusively upon the covenant of the Borrowers to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided in the Terms and Conditions and in the Trust Deed. Assuming the due performance by the Borrower of its obligations under the Loan Agreement to pay such amounts and subject to the limited recourse nature of the Notes, the Loan Agreement has the capacity to produce funds to service any payments due and payable on the Notes.

As provided in the Trust Deed, the Lender will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations under the Sub-Participation Agreement (a) its rights to principal, interest and additional amounts (if any) as lender under the Loan Agreement, (b) its right to receive all sums payable by the Company under any claim, award or judgment relating to the Loan Agreement and (c) amounts received pursuant to the Loan Agreement into an account with The Bank of New York in the name of the Lender, together with the debt represented thereby (the “Lender Account”), in each case other than certain amounts in respect of certain Reserved Rights (as defined in “Terms and Conditions of the Notes — Security”). The Lender will assign certain administrative rights under the Loan Agreement to the Trustee. A8.2.2.8  
A8.3.8

The Company will be obliged to make payments under the Loan to the Lender to the Lender Account in accordance with the terms of the Loan Agreement. A8.3.4.5

In addition, as provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to principal, interest and additional amounts (if any) as the participant under the Sub-Participation Agreement, (b) its right to receive all sums payable by the Lender under any claim, award or judgment relating to the Sub-Participation Agreement and (c) amounts received pursuant to the Sub-Participation Agreement into an account with The Bank of New York in the name of the Issuer, together with the debt represented thereby (the “Issuer Account” and, together with the Lender Account, the “Accounts”). The Issuer will assign certain administrative rights under the Sub-Participation Agreement to the Trustee. A8.3.8

The Lender’s obligation to make payments under the Sub-Participation will be deemed to be satisfied to the extent that payments are made to the Issuer Account by the Lender in amounts equal to those received into the Lender Account by the Lender from the Company pursuant to the Loan Agreement.

Each of the Lender and the Issuer will covenant in the Trust Deed not to agree to any amendment to or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement and the Sub-Participation Agreement unless the Trustee has given its prior written consent. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with the Terms and Conditions of the Notes and will be binding on the Noteholders.

The relevant security created under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in the Terms and Conditions of the Notes.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of <sup>A8.3.4.7</sup> The Netherlands, except as required by law. In that event, the Issuer will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Sub-Participation Agreement and the Lender receives the corresponding amount under the Loan Agreement. The Loan Agreement will provide for the Company to pay such corresponding amounts in these circumstances. Payments under the Sub-Participation Agreement will be made without any deduction or withholding for or on account of United Kingdom taxes, except as required by law. In that event, the Lender will only be required to pay additional amounts to the extent that it receives corresponding amounts under the Loan Agreement. In addition, payments under the Loan Agreement will be made without any deduction or withholding for or on account of Ukrainian taxes, except as required by law, in which event the Company will be obliged to increase the amounts payable under the Loan Agreement (save in certain circumstances).

In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Company upon the Company being required to pay additional amounts on account of taxes in The Netherlands, Ukraine or the United Kingdom pursuant to the Loan Agreement and the Notes or required to pay additional amounts on account of certain costs incurred by the Lender. The Lender may (in its own discretion) require the Loan to be prepaid if it becomes unlawful for the Loan, the Sub-Participation or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent the Lender has actually received the relevant funds from the Company) the payment amount of the relevant Notes (or in the case of prepayment for tax reasons or illegality, all outstanding Notes) will be prepaid by the Issuer together with accrued interest.

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The materialisation of these risks, individually or together, could have a material adverse effect on the Company's business, operations and financial condition and/or the trading price of the Notes.*

A7.3.1  
A9.3.1  
A13.2

### Risks Relating to Ukraine

#### *General*

Since independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state. Concurrently with this transformation, Ukraine is progressively changing to a market economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine, although the list is not an exhaustive one.

#### *Risks Associated with Emerging Markets including Ukraine*

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

#### *Official Statistics*

Official statistics and other data published by Ukrainian State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. The Company has not independently verified such official statistics and other data and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information.

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

#### *Political Considerations*

Historically, a lack of political consensus in the Verkhovnyaya Rada (Parliament) 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 and, as a result, Ukraine has had thirteen different prime ministers during this period. The various State authorities, and the relations with them, as well as the Ukrainian government's policies and the political leaders who formulate and implement them, are subject to rapid change.

Following the second round of presidential elections in November 2004, massive demonstrations and strikes took place throughout Ukraine to protest the election process and results. While tensions in Ukraine appear to have subsided following the invalidation of the November elections results by the Supreme Court of Ukraine and the revote of the presidential runoff held on 26 December 2004 resulting in the victory of Mr. Viktor Yushchenko, the long-term effects of these events and policy direction of the new Government are not yet clear.

The new Cabinet of Ministers was formed based on a compromise of different political and economic groups that were supporting Mr. Yushchenko at the time of the elections. At the same time, some ministers and other officials were allegedly appointed due to their close relations with the President. As some members of the new

Government have conflicts of interest due to their own business activity, they may be obstructing certain actions of the Government.

In addition, the newly elected President has yet to set out detailed economic and other policy goals. Swift action by President Yuschenko is necessary as a result of, among other things, constitutional reform scheduled to occur on 1 September 2005, subject to the introduction of local government reform, or on 1 January 2006 at the latest that will significantly limit the powers of the President and transfer them to the Parliament and the Prime Minister. On 4 February 2005, the Parliament approved the nomination as Prime Minister of Ms. Yuliya Tymoshenko, a long-term ally of Mr. Yuschenko. The President later appointed a new Cabinet of Ministers, new regional governors and made several other key appointments.

President Yuschenko's policies are generally expected to have a positive effect on the economy and political stability of Ukraine. However, he faces several challenges: appeasement of the divergent factions within the eastern and western regions of Ukraine, recovery of relations with Russia, implementation of unpopular economic reforms and building of a political consensus. There is no certainty that President Yuschenko's policies will succeed or that political stability will be achieved. Political instability in Ukraine may have negative effects on the economy and thus on the business of the Company.

### ***Relationships with Western Governments and Institutions***

Ukraine continues to pursue the objectives of a closer relationship with the North Atlantic Treaty Organisation, joining the World Trade Organisation (the "WTO") in the next few years and becoming an associate member of the European Union (the "EU"). It has recently strengthened its relationship with the United States and was part of the coalition that dispatched troops to Iraq in support of the U.S.-backed military campaign there. Although, in late 2004, the Ukrainian Parliament decided to withdraw troops from Iraq, which was confirmed by the adoption of a Presidential Decree in the middle of April 2005, this did not adversely affect Ukraine's relationship with the United States. The visit of Mr. Yuschenko to Washington, D.C. in early 2005 demonstrated that Ukraine may expect a positive resolution of many key issues existing between the two countries. Shortly after the visit, the U.S. Senate allocated an additional U.S.\$60 million of financial assistance to Ukraine, which was subsequently approved by the U.S. House of Representatives. Ukraine also expects the United States to support its WTO aspirations and abolish the Jackson-Vanik amendment that currently restricts Ukrainian exports. However, such actions, as well as the recognition by the United States of Ukraine as a market economy, may be conditioned upon the demonstration by Ukraine of sufficient intellectual property protection efforts.

Any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the economy and thus on the business, results of operations and financial condition of the Company.

### ***Regional Relationships***

Ukraine generally maintains positive relations with its neighbours. Taking into account its geographical position and history, Ukraine's closest relationships are with the Russian Federation and Poland. Significant relations have also been developed with other countries of the EU (including Germany, Hungary and Slovakia), the former Commonwealth of Independent States ("CIS") countries (including Belarus and Georgia) as well as Turkey and Romania.

At the beginning of August 2004, the Gosudarstvennaya Duma (Parliament) of the Russian Federation adopted a law amending certain provisions of Russia's Tax Code. As a result of these amendments, exports of oil and gas from Russia to Ukraine will be subject to a zero per cent. VAT rate instead of the previously effective 18 per cent. VAT rate. The applicable provisions entered into force on 1 January 2005.

However, the recent Ukrainian presidential elections have, to a certain extent, negatively affected relations between Ukraine and Russia. Recently, Russia increased its oil export duty from U.S.\$102.6 to U.S.\$136.2 per tonne. In April 2005, Ukraine signed a long-term agreement with Turkmenistan for the supply of natural gas at the price of U.S.\$58.0 per thousand cubic metres with a contemplated volume of approximately 50 billion cubic metres annually, which may substantially reduce energy dependence on Russia.

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



### *External Debt*

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt burden resulting from the accumulation of large payments on external debt coming due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal and interest but excluding debt owed to the International Monetary Fund (the "IMF")) to gross domestic product ("GDP") has risen from approximately 1.9 per cent. as at 31 December 2001 to approximately 2.3 per cent. as at 31 December 2002 and approximately 2.9 per cent. as at 31 December 2003, and has fallen to approximately 2.4 per cent. as at 31 December 2004 based on official Ukrainian government sources. Total government external debt servicing (excluding payments to the IMF) was approximately U.S.\$1.4 billion in 2003, approximately U.S.\$1.5 billion in 2004 and is estimated to be approximately U.S.\$1.6 billion in 2005, based on official government sources.

On 29 March 2004, the Board of Directors of the IMF approved a new precautionary stand-by arrangement for Ukraine providing the Ukrainian government with a 12-month precautionary credit of approximately U.S.\$605 million. Ukraine has not drawn any funds on this facility which has expired. This was Ukraine's first such credit arrangement with the IMF since the expiration of Ukraine's 1998 Extended Fund Facility in September 2002.

Ukraine has been able to access the international capital markets raising approximately U.S.\$1 billion in new financing in 2003 and U.S.\$1.1 billion in 2004 and its credit rating was upgraded from B2 to B1 by Moody's in November 2003, from B+ to BB- by S&P in May 2005 and from B+ to BB- by Fitch in January 2005. However, the absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future. Under such circumstances, any failure of Ukraine to receive support from official creditors and international financial institutions (such as the IMF and the World Bank) could adversely affect the financing of the budget deficit, the level of inflation and/or the value of the hryvnia, which in turn could harm the business, results of operations and financial condition of the Company.

### *Economic Considerations*

In recent years, the Ukrainian economy has continued to experience a number of factors which could lead to economic instability, including:

- a relatively weak banking system, providing limited liquidity to Ukrainian enterprises;
- tax evasion;
- significant capital flight; and
- low wages for a large portion of the Ukrainian population.

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

Whereas the Ukrainian economy has improved in a number of areas since 1999, there has historically been no clear consensus between the President and the Parliament as to the scope, pace and content of economic and political reform. No assurance can be given that current reform policies favouring privatisation, industrial restructuring and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will continue to improve.

While Ukraine has made significant gains in increasing its GDP, decreasing inflation, stabilising its currency, increasing real wages, and improving its trade balance and current account surplus, the political instability in the fourth quarter of 2004 negatively impacted the main economic indicators at that time.

While Ukraine's economy in the main withstood the recent political upheaval, the first six months of 2005 have been a difficult time for the new Government and the President. The rate of inflation for 2005 is expected to be 9.8 per cent., which is lower than 12.3 per cent. recorded in 2004, but higher than 8.2 per cent. and (0.6) per cent. recorded in 2003 and 2002, respectively. Currency exchange fluctuations are anticipated in the first couple of months in 2005 as is general instability in the banking sector following significant withdrawals by depositors during the political upheaval. In addition, it is expected that in 2005, Ukraine's GDP growth will be slower with a growth forecast of 8.2 per cent. (as compared to 12.1 per cent. and 9.4 per cent. GDP growth in 2004 and 2003,



respectively). An economic downturn may have an adverse effect on the Company's business, results of operations and financial condition.

Recent statements made by the Minister of Economy of Ukraine and other officials have suggested that the Ukrainian currency is undervalued and the Government may take steps to revalue the hryvnia. On 21 April, the NBU set the UAH/U.S.\$ exchange rate at 5.05 compared with 5.28 at the beginning of April. See "The Company is exposed to currency exchange rate risk". Such revaluation may adversely affect Ukrainian exports and the economy generally, which may have an adverse effect on the business of the Company.

#### ***Fluctuations in the Global Economy***

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any of such developments may have negative effects on the economy of Ukraine and directly on the business of the Company.

#### ***Lack of Continued Access to Foreign Trade and Investment***

Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain attractive to foreign trade and investment. In particular, the climate for foreign direct investment may be adversely affected by the plans recently initiated by the President and the Government to review the privatisation of 22 major companies that they believe were sold at unfairly low prices under the previous administration. Any deterioration in the climate for foreign direct investment in Ukraine could have a material adverse effect on the economy of Ukraine and, in turn, on the business of the Company.

#### ***Corruption and Money Laundering Issues***

External analysts have identified corruption and money laundering as problems in Ukraine. An anti-money laundering law came into force in Ukraine in June 2003 that significantly improved money laundering monitoring procedures. The NBU and financial institutions are now required to take comprehensive actions to more closely monitor certain financial transactions for evidence of money laundering. As a result of the passage of this law as well as amendments to other related anti-money laundering legislation, the Financial Action Task Force on Money Laundering ("FATF") recommended lifting sanctions against Ukraine. In addition, Ukraine was removed from the FATF's list of non-cooperative countries and territories in February 2004. However, any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine and, in turn, on the business of the Company.

#### ***Developing Legal System***

Risks associated with the Ukrainian legal system include:

- inconsistencies between and among Ukraine's constitution, laws, presidential decrees and Ukrainian governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- the lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine;
- the general inconsistency in the judicial interpretation of Ukrainian legislation in the same or similar cases; and
- corruption within the judiciary.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, with effect from 1 January 2004, Ukraine adopted a new civil code, a new commercial code, new secured finance laws and a new law on personal income

tax. The relatively recent origin of much Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system, in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation in many cases contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These weaknesses in the Ukrainian legal system could make it difficult for the Company to implement its policies or could lead to conflicts between the Ukrainian government and the Company, which could have a negative effect on the business of the Company.

### *Uncertainties of the Judicial System*

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

The system of general and specialised courts is understaffed and under-funded. Judicial precedents under Ukrainian law have no binding effect on subsequent decisions. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Court decisions are not open to public access and, therefore, may not serve as guidelines in interpreting applicable Ukrainian legislation to the public at large. Moreover, courts themselves are not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. The Ukrainian judicial system became more complicated and hierarchical as a result of recently introduced judicial reform. The expected result of the judicial reform is that the Ukrainian judicial system will become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. The Company may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on the Ukrainian economy and thus on the business of the Company.

### *Uncertainties of the Tax System*

Ukraine currently has a number of laws related to various taxes imposed by both central and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), customs duties, a number of turnover-based taxes, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, often resulting in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Company and its business generally. For example, with effect from 1 January 2004, personal income tax was reformed by the introduction of a new flat tax of 13 per cent. (to be increased to 15 per cent. from 1 January 2007) for all levels of income. In addition, with effect from 1 January 2004, the rate of corporate profits tax was reduced from 30 per cent. to 25 per cent. Recent amendments to the Budget Law, effective 31 March 2005, abolished different tax preferences, including, *inter alia*, those for domestic and foreign investors that may become grounds for numerous lawsuits against the State. See "Business — Taxation". Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax administration, creating uncertainties and areas of conflict.

Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, tax declarations/returns in Ukraine remain open and subject to inspection for three years. However, this statutory limitation period may not be observed or may be extended in certain circumstances. The Company believes that it is currently in compliance in all material respects with the tax laws affecting its operations. While the authorities have consistently found the Company to be in compliance in all material respects with tax laws, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may result in a material adverse effect on the Company's results of operations and financial condition.

### ***Disclosure and Reporting Requirements and Fiduciary Duties***

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of the free market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with Western or European standards. The concept of fiduciary duties of management or members of the board to their companies or shareholders is not as developed in Ukraine as it is in the United States or western Europe. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's directors or to the Company's shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, materially adversely affecting the value of an investment in the Notes.

### **Risks Relating to the Company**

Factors that may affect the Company's future operating results include: general economic conditions, the relative balance of supply and demand for nitrogen fertilisers, the availability and cost of natural gas, the number of planted acres (which is affected by both worldwide demand and governmental policies) and the types of crops planted, the effects general weather patterns have on the timing and duration of field work for crop planting and harvesting, the effect of environmental legislation on supply and demand for the Company's products, the availability of financing sources to fund Stinol's seasonal working capital needs and the potential for interruption to operations due to accident or natural disaster.

### ***Stinol is subject to the control of its principal shareholder, whose interests may differ from the interests of the Noteholders*** A9.9.2

Dr. Nikolay A. Yankovskiy (the "Principal Shareholder") beneficially owns 76.82 per cent. of Stinol's outstanding common shares, held by LLC IK Stinolchiminvest as nominal holder. As a result, the Principal Shareholder effectively controls approval of any action requiring shareholder approval at any level of Stinol's share ownership structure. If circumstances were to arise where the Principal Shareholder's interests conflicted with the interests of Noteholders, Noteholders could be disadvantaged, as the Principal Shareholder could take actions contrary to the Noteholders' interests. For example, the Principal Shareholder has the ability to exercise control over the Company's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of his equity investment without necessarily benefiting the interests of Noteholders. For a description of the ownership structure of the Company, its subsidiaries and associates (the "Group"), see "Business — Stinol's Subsidiaries, Associates and Joint Ventures" and "Principal Shareholders".

### ***Ukrainian law prohibits a member of the Verkhovnaya Rada (Parliament) from acting as Chairman of a Management or Supervisory Board***

The Principal Shareholder has been a People's Deputy (member of the Parliament) of Ukraine since his election in 1998. In May 1998, the Principal Shareholder was appointed Chairman of the Management Board of the Company and in April 2005, the Principal Shareholder was appointed Chairman of the Supervisory Council of JSB Brokbusinessbank. See "Related Party Transactions — JSB Brokbusinessbank".

Applicable Ukrainian legislation prohibits a People's Deputy from being an officer of a Ukrainian company, including the chairman of its management or supervisory boards. It is expected that the Principal Shareholder will remain in office as a People's Deputy and hold his positions of Chairman of the Management Board of the Company and Chairman of the Supervisory Council of JSB Brokbusinessbank at least until the scheduled Verkhovnaya Rada (Parliamentary) elections in March 2006.

Under the Company's charter, its Chairman is entitled to appoint candidate members, who have an advisory role, and members of the Management Board. Further approval by the General Meeting of Shareholders is necessary. However, before the scheduled General Meeting of Shareholders, these Chairman-appointed members of the Management Board have voting rights.

The prohibition against serving as parliamentarian and chairman simultaneously has been disregarded in practice and the Ukrainian authorities and courts have not taken any steps to enforce it with respect to the Company. However, there is a risk that the validity of certain decisions adopted solely by the Principal Shareholder in his capacity as the Chairman of the Management Board of the Company or by the Management Board including members appointed by the Principal Shareholder pending their ratification by the General Meeting of Shareholders (rather than by the approved Management Board as a whole or by any other governing body of the Company) may be challenged, and certain decisions adopted by the Management Board of the Company and signed by the Principal Shareholder may be challenged as having been executed in contradiction with Ukrainian law.

***Stirol's sales are primarily made through two related parties***

Related party transactions constitute a considerable part of the business of the Group. In particular, a substantial portion (over 85 per cent. in 2004) of the Group's sales of urea, ammonia, ammonium nitrate and other products are made through trading companies related to the Group. Of these sales, over 90 per cent. were made through two trading companies, namely Friston LLP in the United Kingdom, which beneficially owns a 9.99 per cent. holding in Stirol through LLC IK Stirolchiminvest as nominal holder and is beneficially owned by the Principal Shareholder, and Interprofit 2000 in Hungary, of which a close family member of the Principal Shareholder is a director.

Although the Company endeavours to conclude such related party transactions on an arm's length basis, at market rates and in compliance with Ukrainian law, conflicts of interest may arise between the Company and these trading companies which may result in transactions concluded on terms not determined by market forces. The Ukrainian government regulates the minimum prices for ammonia and urea sold by Ukrainian producers. This regulation gives some assurance that the Company must maintain certain baseline prices, even when dealing with its related parties. See "— Government regulation and agricultural policy may adversely affect the Company's business, financial condition and results of operations". If the Ukrainian government ceases its regulation of the price of these products or reduces the minimum prices substantially below market levels, it may be possible for the Company to set prices for certain of its products at below-market levels, which could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company. The Company has agreed in the Loan Agreement, however, that at least 80 per cent. of its sales of ammonia, urea and ammonium nitrate in any financial year will be sold at, or above, the Applicable Market Price (as defined in the Loan Agreement) for the relevant product at the time of the relevant sale. See "Related Party Transactions — Relationship with Trading Companies" and "The Loan Agreement — Limitations on certain transactions".

***KPMG has qualified its independent auditors' reports on the Financial Statements***

Because the Company's independent auditors, KPMG, were not appointed until after 31 December 2003 and thus were not able to observe the counting of physical inventories, or satisfy themselves concerning inventory quantities or conditions by alternative means, on that date or as of 31 December 2004, KPMG was not able to determine if adjustments to the carrying amounts of inventories were necessary as of 31 December 2003 and, as a result, whether costs of revenues, income tax expense and net profit for 2003 and 2004 needed adjusting. Accordingly, KPMG qualified its independent auditors' reports.

In addition, the 2003 Financial Statements did not disclose the Company's related party balances and transactions or list significant subsidiaries, as required under IAS 24 and 27, respectively, and thus KPMG qualified its independent auditors' report on the 2003 Financial Statements in this respect.

KPMG's independent auditors' report on the 2003 Financial Statements stated that the consolidated financial statements of the Group as at, and for the year ended, 31 December 2002 were compiled by them in accordance with the International Standard on Auditing applicable to compilation engagements and that they did not audit or review the 2002 financial statements and that accordingly they expressed no opinion, or any other form of assurance, thereon. As a result there can be no assurance as to the accuracy or completeness of such figures or their value for comparison with the 2003 audited financial information. Investors should not rely upon such unaudited figures as at, and for the year ended, 31 December 2002 in making any investment decision.

***Declines in the prices of the Company's products may reduce its profit margins and price volatility resulting from periodic imbalances of supply and demand may cause the results of the Company's operations to fluctuate***

Prices for nitrogen products are influenced by the global supply and demand conditions for ammonia and other nitrogen products. Long-term demand is affected by population and rising living standards that determine food consumption. Short-term demand is affected by world economic conditions and international trade decisions. Supply is affected by increasing worldwide capacity and the increasing availability of nitrogen product exports from major producing regions such as the former Soviet Union, North America, the Middle East, Trinidad, India, China and Venezuela. A substantial amount of new ammonia capacity is expected to be added abroad in the foreseeable future. If industry oversupply occurs, as is common in commodity businesses, the price at which the Company sells its nitrogen products may decline, which could have a material adverse effect on the Company's business, financial condition and results.

Historically, prices for the Company's products have reflected frequent changes in supply and demand conditions. Changes in supply result from capacity additions or reductions and from changes in inventory levels. Demand for



these products is dependent, in part, on demand for crop nutrients by the global agricultural industry. Periods of high demand, high capacity utilisation and increasing operating margins tend to result in new plant investment and increased production until supply exceeds demand, followed by periods of declining prices and declining capacity utilisation until the cycle is repeated. In addition, markets for the products are affected by general economic conditions. As a result of periodic imbalances of supply and demand, product prices have been volatile, with significant price changes from one growing season to the next. Fertiliser products are global commodities and can be subject to intense price competition from both domestic and foreign sources. During periods of oversupply, the price at which the Company sells its products may be depressed and this could have a material adverse effect on its business, financial condition and results of operations.

***Sales and profitability may be adversely affected by disruption of the delivery and production of the Company's natural gas supplies or changes in the prices of natural gas and by reliance on one supplier of natural gas***

The continuous supply of natural gas is fundamental to ammonia and nitrogen fertiliser production. The availability of this raw material is influenced by a number of factors which may be beyond the Company's control, including but not limited to, supply interruptions and shortfalls, price and transportation cost fluctuations, regulatory reforms and tariffs. Gas prices in Ukraine may rise in the near future as a result of recent disagreements between NJSC Naftogaz of Ukraine ("Naftogaz") and OJSC Gazprom of Russia ("Gazprom") over the prices of and methods of payment for gas delivered by Gazprom to, or in, Ukraine, as well as statements recently made by Turkmenistan that it may refuse to accept payments in kind for gas from Ukraine due to Ukraine's current levels of arrears in payments.

In addition, the Company is substantially reliant on one supplier, Naftogaz, for its natural gas. If the Company's relations with Naftogaz were to deteriorate, the supply of natural gas may be interrupted or the prices may increase. The Company is unable to significantly adjust the prices of its products to react to rising costs. Any interruption of the supply of natural gas or increase in its cost that is not hedged or recovered through an increase in the price of Stinol's core products could adversely affect the Company's business, financial condition and results of operations.

***Stinol is dependant on the Togliatti-Gorlovka-Odessa pipeline***

The Company is located close to the Togliatti-Gorlovka-Odessa ("TGO") ammonia pipeline through which it ships the majority of its produced ammonia and it is the only Ukrainian company to be able to pump ammonia directly into the pipeline from its production facilities. As a result, the Company's transportation costs are lower than its competitors'. However, were circumstances to change and Stinol not to have access to the pipeline, the Company's inability to transport its products through the pipeline could have an adverse effect on its business, financial condition and results of operations.

***The Company's products are global commodities and it faces intense competition from other fertiliser producers***

Fertilisers are global commodities and customers, including end-users, dealers and other crop nutrient product distributors, base their purchasing decisions principally on the delivered price and availability of the product. The Company competes with a number of producers in other countries including state-owned and government-subsidised entities. Some of its principal competitors may have greater financial resources, may have access to cheaper supplies of natural gas and may be less dependent on earnings from fertiliser sales than is the Company. Stinol's inability to compete successfully could result in the loss of customers, which could adversely affect its sales and profitability.

***The Company's business is subject to the seasonality of the nitrogen fertiliser business and risks related to weather conditions***

The nitrogen fertiliser business is seasonal and follows agricultural planting cycles. The impact of this volatility is mitigated by the fact that the Company's products are sold in various regions with different planting cycles. However, poor weather conditions may have a significant adverse effect on demand for the Company's nitrogen products. Weather conditions that delay or intermittently disrupt field work during the planting and growing season may cause agricultural customers to use different forms of fertilisers, which may adversely affect demand for the forms that the Company sells. Weather conditions following harvest may delay or eliminate opportunities to apply fertiliser in the autumn. Weather can also have an adverse effect on crop yields, which lowers the income

of agricultural customers and could impair their ability to pay for the Company's products, which could adversely affect its sales and profitability.

***Stirol could be subject to liabilities that are not covered by insurance, which could adversely affect its operations and financial condition***

The insurance industry is not yet well developed in Ukraine and many forms of insurance protection common in more economically developed countries are not yet available in Ukraine on comparable terms, including coverage for business interruption. Stirol only has insurance coverage for its plant facilities that are pledged to secure borrowings and does not have full coverage against loss of, or damage to, much of its plant and equipment, losses arising from interruption of business or third party liability in respect of accidents occurring on its premises or as a result of its operations, including environmental damage. In the event of severe damage to Stirol's facilities, Stirol could experience significant disruptions in its production capacity, for which it would not be compensated. Depending on the severity of any such property damage, Stirol may not be able to rebuild damaged property in a timely manner or at all. Any such loss or third-party claim for damages may have a material adverse effect on Stirol's business, results of operations and financial condition.

***Stirol's operations may have resulted in damage to the environment, and future changes in environmental laws or unanticipated environmental impacts from Stirol's operations, could require Stirol to incur increased costs***

Stirol has been operating in the chemical industry in Ukraine for many years and its activities may have resulted or may in the future result in damage to the environment. In addition, Stirol produces, stores, handles and transports hazardous materials, such as ammonium nitrate, in the course of its operations. These activities are subject to a number of laws and regulations relating to environmental protection and health and safety in Ukraine. The enforcement of existing legislation, regulations and licenses is continually evolving and may become more stringent, and more comprehensive environmental legislation could be adopted. Future changes in environmental laws or in the enforcement of such laws may require Stirol to make significant capital expenditures or otherwise alter aspects of its operations and such changes may have an adverse effect on its operations and financial condition.

***Government regulation and agricultural policy may adversely affect the Company's business, financial condition and results of operations***

Existing and future governmental regulations and agricultural policies may have a significant impact on Stirol's business, financial condition and results of operations by affecting the number of acres planted, the level of grain inventories, the mix of crops planted and crop prices or through export bans. For example, on 4 February 2005, in an attempt to ensure sufficient supplies of mineral fertilisers to satisfy demand from domestic agricultural producers, the Ukrainian government entered into a Memorandum on Coordination of Actions among Agricultural Producers and National Chemical Enterprises with respect to Supplying Agricultural Producers with Mineral Fertilisers in 2005, which, among other things, established fixed prices for sales of urea and ammonium nitrate to domestic agricultural producers and made it compulsory for domestic agricultural producers to purchase such fertilizers from domestic producers. This was followed by the imposition of a temporary ban on exports of ammonium nitrate for the period of the planting season, which was terminated on 25 May 2005.

In addition, the Ministry of Economy and European Integration ("Ministry of Economy") sets minimum prices for ammonia and urea and recommended prices for ammonium nitrate which apply to all Ukrainian producers. Such prices are generally set at a slight discount to world market prices and adjusted regularly, though the Ministry of Economy has in the past been willing to adjust such minimum or recommended prices in response to fluctuations in world market prices for these products. Stirol, which generally requires trading companies to pay for its products in advance, has limited exposure to the effect of any decreases in such minimum or recommended prices as they do not apply retroactively. However, there can be no assurance that the minimum or recommended prices will continue to reflect world market prices or that the Ministry of Economy will continue to respond in timely manner or at all to requests from producers to adjust such prices. See "Business — Price Regulation". The Terms and Conditions of the Notes provide that in the event that the Ministry of Economy ceases to set minimum prices or to issue recommendations as described above, in certain circumstances the Noteholders will have the option to redeem their Notes. See "Terms and Conditions of the Notes — Redemption at the Option of the Noteholders upon a Put Event" and "The Loan Agreement — Prepayment upon a Put Event".

***The Company is dependent on the political, economic, regulatory and social conditions in the countries where it ships its products***

For the year ended 31 December 2004, the Company derived approximately 84.2 per cent. of its net sales from customers located outside of Ukraine. International sales are subject to numerous risks and uncertainties, including difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations, unexpected changes in regulatory environments, political and economic instability and the imposition of tariffs, exchange controls or other protectionist restrictions.

As the Company continues to expand its export business, its success will be dependent, in part, on its ability to anticipate and effectively manage these and other risks that it faces.

***The Company is dependent on qualified personnel***

The Company's success will depend, in part, on its ability to continue to retain, motivate and attract qualified and experienced production, technical and management personnel. Competition in the Ukrainian chemicals industry for personnel is considerable. In order to recruit and retain qualified and experienced employees, the Company provides training to its employees through a variety of in-house and external training programmes, sponsors high schools to supplement scientific training, pays for ongoing education and rewards completion of additional education with bonuses. The Company's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its prospects. See "Business — Employees".

***The Company is exposed to currency exchange rate risk***

The principal operating assets of the Company are located in Ukraine and its costs are primarily in hryvnia. However, most of its revenues are in U.S. dollars. Recently, the hryvnia has appreciated against the U.S. dollar, from UAH 5.305 to U.S.\$1.00 on 31 December 2004 to UAH 5.05 to U.S.\$1.00 on 27 July 2005. Such an appreciation reduces Stirol's revenues in hryvnia terms. Consistent with the prevailing market practice in Ukraine, Stirol does not hedge against currency fluctuations. The continued appreciation of the hryvnia against the U.S. dollar may adversely affect Stirol's competitiveness in the export markets and may have a negative impact on Stirol's business, financial condition and results of operations.

***Stirol may be unable to carry out investments in its current business plan if it does not either generate sufficient cash from operations or fails to secure additional financing***

Management currently estimates that Stirol will make capital expenditures of approximately U.S.\$139 million by the end of 2007 to upgrade and modernise its plant and equipment and increase the capacity of its production facilities.

The cash that Stirol generates from its operations may not be sufficient to meet its capital requirements in accordance with its current business plan. Accordingly, Stirol may require additional debt and/or equity financing. Management cannot be certain that any additional financing will be available or available on terms that are satisfactory to it. In addition, the Loan Agreement will restrict Stirol's ability to obtain additional financing. A reduction in capital expenditures resulting from an inability to obtain additional financing may limit the implementation of Stirol's business plan, which may have an adverse effect on its business, financial condition and results of operations.

***The Company's business entails operational risk***

The Company is exposed to many types of operational risk, including the risk of equipment breakdown or failure or death of or injury to personnel.

The Company maintains a system of controls designed to keep operational risk at appropriate levels including constant upgrading of equipment, application of modern technology for breakdown diagnosis and usage of production training displays, which upgrades the qualifications of personnel and decreases the induction period for new staff. However, there can be no assurance that the Company will not suffer losses if these controls fail to detect or contain operational risk in the future.



## **Risks Relating to the Offering, the Notes and the Trading Market**

### ***Payments under the Notes limited to the amount of certain payments received by the Issuer in respect of the Sub-Participation***

In each case where amounts of principal, interest and additional amounts, if any, under the Terms and Conditions of the Notes or the Trust Deed are to be paid by the Issuer in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts, if any, actually received by or for the account of the Issuer pursuant to the Sub-Participation Agreement. The Lender is obliged under the Sub-Participation Agreement only to account to the Issuer on each date upon which payments are due under the Sub-Participation for an amount equivalent to sums of principal, interest and additional amounts, if any, received by or for the account of the Lender, pursuant to the Loan. Consequently, the failure of the Company to meet its payment obligations under the Loan in full would result in the Noteholders receiving less than the scheduled amount of principal or interest or other amounts, if any, on the relevant due date.

### ***Noteholders will be taking additional credit risk on the Lender, the Issuer and The Bank of New York while funds are held but not yet disbursed***

Under the Loan Agreement, the Company is required to make payments of principal and interest in respect of the Loan to the Lender Account two business days before the date when payment is due on the Notes. Any such payment so made will discharge *pro tanto* the Company's obligation to make the relevant payment under the Loan Agreement. The Lender is obliged under the Sub-Participation Agreement to account to the Issuer on each date upon which payments are due under the Sub-Participation for an amount equivalent to the amount received by the Lender from the Company, pursuant to the Loan Agreement, and the Issuer is only obliged to account to the Noteholders amounts equivalent to principal, interest and additional amounts, if any, actually received by or for the account of the Issuer. The Issuer has directed the Bank of New York as Principal Paying Agent, to make payments of principal and interest in respect of the Notes from amounts received into the Issuer Account.

Upon the Lender paying the amounts into the Issuer Account, the Lender's obligation to make payment under the Sub-Participation Agreement will be discharged *pro tanto*. As a result, Noteholders will be taking additional credit risk on the Lender (when payment is received in the Lender account but not yet paid into the Issuer account) and the Issuer and The Bank of New York whilst such funds are held (and not disbursed) in the Issuer Account. Whilst the payment into the Issuer Account will not discharge the Issuer's payment obligations under the Notes (such obligation will only be satisfied upon payment being made to the common depositary for Euroclear and Clearstream, Luxembourg), in the event that The Bank of New York were to become insolvent whilst such funds were in the Issuer Account, Noteholders would only be able to look to the Issuer (as a creditor of The Bank of New York) for payments due under the Notes and the Issuer would not have sufficient assets to be able to meet its payment obligations under the Notes, the payment obligations of the Company under the Loan Agreement and the Lender under the Sub-Participation Agreement having been discharged upon payment by them of amounts due thereunder into the Accounts.

### ***The Company may be unable to repay the Loan at maturity***

A8.3.4.2

At maturity, the Company may not have the funds to fulfil its obligations under the Loan Agreement and it may not be able to arrange for additional financing. Noteholders have no direct recourse to the Company. Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Company, except through action by the Trustee to enforce the security under the Trust Deed. As further described in and subject to the provisions of the Trust Deed, neither the Issuer, the Lender nor the Trustee, pursuant to the assignment of the Transferred Rights (as defined in "Terms and Conditions of the Notes"), shall be required to enter into proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

***The claims of Noteholders may be limited in the event that the Company is declared bankrupt***

In the event of the Company's bankruptcy, the Company's obligations to the Lender would be effectively subordinated to the following obligations:

- obligations secured on the Company's assets;
- severance pay;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- obligations arising as a result of inflicting harm to the life or health of individuals;
- employment related obligations; and
- obligations in respect of payment of taxes and other mandatory charges (including, without limitation, mandatory contributions to the pension fund and the social security fund), as well as obligations in respect of the state reserve fund.

As a chemical company, Stirol is subject to special rules on insolvency proceedings under Ukrainian law, including, *inter alia*, participation of State authorities in the proceedings, an extended term for rehabilitation and a prohibition of auction sales. The Company may not be easily liquidated, as creditors and State authorities may decide to extend the term of rehabilitation up to 10 years in exceptional circumstances and thus all creditors would have to wait for the Company to be rehabilitated or liquidated and its remaining assets distributed. In the event of bankruptcy, Ukrainian bankruptcy law may materially adversely affect the Company's ability to make payments to the Lender or the Trustee.

***Double Tax Treaty relief may not be available for interest payments under the Loan***

In general, payments of interest on funds borrowed by a Ukrainian entity to a non-resident legal entity are subject to Ukrainian withholding tax at the rate of 15 per cent., absent reduction or elimination pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, the Company believes that, under the terms of the double taxation treaty between Ukraine and the United Kingdom (the "Double Tax Treaty"), as currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and applicable Ukrainian legislation are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Double Tax Treaty is or will continue to be available.

Specifically, in order for the exemption from withholding tax under the Double Tax Treaty to be applicable, the Lender must be the beneficial owner of the interest payments being received in the United Kingdom and subject to tax in respect of such interest payments in the United Kingdom. The exemption will only be available under the Double Tax Treaty if the Lender neither carries on business through a permanent establishment situated in Ukraine nor performs independent personal services from a fixed base in Ukraine. While the Company believes the Lender will be treated as the beneficial owner of the income in question, the notion of beneficial ownership is not well defined in Ukrainian tax law. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the interest payments being received in the United Kingdom. However, the Company believes that it is unlikely that the Ukrainian authorities will adopt this view.

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti-avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities take the position that one of the main purposes of selecting the Lender, a United Kingdom tax resident, for this transaction was to avail the Company of the tax benefits provided under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7). In such circumstances, there is a risk that payments of interest by the Company under the Loan would cease to have the benefit of the Double Tax Treaty.

***Payments under the Loan Agreement may be subject to Ukrainian withholding tax***

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax, the Company will, in certain circumstances specified in the Loan Agreement and subject to certain exceptions relating to the maintenance by the Lender of its residence in a qualifying jurisdiction, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Lender will not be less than the amount the Lender would have received in the absence of such withholding.

In the event that the Company is obliged to pay such additional amounts, the Company may prepay the Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from the Company) the Sub-Participation would be repaid and all outstanding Notes will be prepaid by the Issuer. While there is uncertainty as to whether the gross-up clause contained in the Loan Agreement is enforceable under Ukrainian law, a failure by the Company to pay additional amounts due under the Loan Agreement would constitute a default under the Loan Agreement.

If the Trustee enforces the security under the Trust Deed, the Trustee will be entitled to payments of principal and interest under the Loan Agreement. Consequently, payments under the Loan Agreement may then cease to have the benefit of the Double Tax Treaty and consequently may become subject to Ukrainian withholding tax.

***Ukrainian currency control regulations may impact the Company's ability to make payments to the Lender or the Trustee under the Loan Agreement***

The NBU is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation.

Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and practice. While at present the Loan Agreement is only subject to registration with the NBU, and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan Agreement, there can be no guarantee that such law and practice will remain unchanged during the term of the Loan.

While the Loan Agreement will be registered with the NBU, payments under the Loan Agreement to any entity other than the Lender would require registration with the NBU of the resulting change in the transaction or an additional licence from the NBU. The Company believes that the NBU would be inclined to view enforcement of security by the Trustee as a mere assignment of the Lender's claims to the Trustee and would be in the position to register the change provided that the Trustee is a bank or a financial institution. The registration of such an amendment would be effected by the NBU upon examination and determination of the terms of the respective assignment agreement. However, the NBU has broad discretion in evaluating and approving a registration of such amendments and could reject such registration as a result of, for example, insufficient documentation. As a result, there can be no assurance that such assignment of the Lender's claims by the Company to the Trustee would be successfully registered with the NBU, thus allowing the Company to make payments on the Loan in the event of an enforcement of security by the Trustee.

There is an NBU regulation that requires a review by the State agency monitoring the external markets of the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services) with a value in excess of €50,000 (or an equivalent in another currency), excluding payments made according to the registration certificate issued for registration of a loan from a non-resident. Unless a cross-border transaction relating to the non-resident's services is licensed by the NBU or is otherwise subject to an exemption, any such payment can be made only if the State agency determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with international market conditions. If the State agency for any reason refuses to make that determination, any such payment can be made only on the basis of specific permission from the NBU. If the State agency determines that the fees are excessive, or refuses to make that determination and the NBU does not grant the permission, the payment of fees cannot be made (unless such decision of the State agency or the NBU has been overruled by a court order). The Company believes that its payments of fees under the Loan Agreement will be exempt from this requirement as the Loan Agreement will be registered with the NBU.

***An interest rate cap may limit the Company's ability to make payments to the Lender or the Trustee under the Loan Agreement***

In June 2004 the board of the NBU passed a resolution restricting Ukrainian borrowers of loans granted by foreign lenders from making payments of interest, additional amounts, fees, default interest, penalties and other charges under loan agreements which, in aggregate, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "MIR") to the principal amount of the loan. This resolution came into effect on 15 August 2004. As at the date of this Prospectus, the MIR applicable to loans in foreign convertible currencies is 9.8 per cent. per annum for loans of less than one year, 10.0 per cent. per annum for loans of between one and three years and 11.0 per cent. per annum for loans of over three years. The NBU has the authority to review and modify the applicable MIR from time to time and may refuse to register amendments to the Loan Agreement (e.g., due to assignment to the Trustee) if the effective interest rate (including additional amounts, fees, default interest, penalties and other charges) on the Loan exceeds the then applicable MIR.

In the event of prepayment of the Loan, the NBU would require that the relevant MIR be applied to the aggregate amount of payments of interest, additional amounts, fees, default interest, penalties and other charges under the Loan Agreement and would not permit any such payment in aggregate to exceed the amount determined by applying the applicable MIR. While the NBU's regulations have not been tested in this regard, the NBU may apply the MIR for the period for which the Loan has been outstanding as at the date of prepayment rather than as at contractual maturity, which might result in the application of a lower MIR to the amounts payable. Moreover, because the NBU has the authority to regularly review and modify such MIR from time to time, a reduction in the MIR could further limit the ability of the Noteholders to collect interest, additional amounts, default interest or other charges payable in connection with a prepayment of the Notes.

***Foreign judgments may not be enforceable against the Company***

Courts in Ukraine will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party or by an "ad hoc" treaty providing for the enforcement of judgments on a reciprocal basis that is in effect between such country and Ukraine, and then only in accordance with the terms of such treaty or "ad hoc" arrangement. There is no such treaty in effect between Ukraine and the United Kingdom.

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

***There is no public market for the Notes***

There will not be an existing market for the Notes at the time they are issued. Application has been made to admit the Notes to trading on the regulated market of the London Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Company's results of operations or financial condition.

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

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS, eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in the past have adversely affected market prices in the world's securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

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

Ukraine's sovereign bonds are rated "BB- (stable outlook)" by S&P, "BB- (positive outlook)" by Fitch and "B1 (stable outlook)" by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in Ukraine's credit rating could materially adversely affect the market price of the Notes.

### USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.\$125,000,000, will be used by the Issuer for the purpose of funding its Sub-Participation in the Loan. The Company will receive the gross Loan proceeds in the amount of U.S.\$125,000,000 and will separately pay commissions and fees in connection with the offering of approximately U.S.\$1,125,000 and certain other expenses. The Company intends to use the proceeds of the Loan to refinance certain short-term indebtedness, finance capital expenditures carried out within the Company's strategic development programme and certain strategic acquisitions in Ukraine and other CIS countries and for general corporate purposes.

**EXCHANGE RATES**

The following table sets forth, for the periods indicated, the average and period-end official rates set by the NBU, in each case for the purchase of hryvnia, all expressed in hryvnia per U.S. dollar.

	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
	<i>(Ukrainian hryvnia per U.S. dollar)</i>			
2005 (to and including 1 July 2005)	5.31	5.05	5.20	5.06
2004 .....	5.33	5.31	5.32	5.31
2003 .....	5.33	5.33	5.33	5.33
2002 .....	5.33	5.30	5.33	5.33
2001 .....	5.43	5.27	5.37	5.30
2000 .....	5.60	5.22	5.44	5.43

The Company has translated certain financial data from hryvnia into U.S. dollars at the rate of UAH 5.3 to U.S.\$1.00 on 31 December 2004 and 31 December 2003, based on the official rate reported by the NBU on those dates (after rounding adjustments). No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The NBU's hryvnia/dollar exchange rate as reported on 27 July 2005 (after rounding adjustments), was UAH 5.1 to U.S.\$1.00.



### CAPITALISATION

The following table sets forth the Company's capitalisation at 31 December 2004 and as adjusted to reflect the Company's borrowing under the Loan Agreement (as if such borrowing had occurred at 31 December 2004). This information should be read in conjunction with "Use of Proceeds", "Financial Review" and the Financial Statements included elsewhere in this Prospectus.

	31 December 2004			
	Actual		As Adjusted	
	(UAH thousands)	(U.S.\$ thousands) <sup>(1)</sup>	(UAH thousands)	(U.S.\$ thousands) <sup>(1)</sup>
Current loans and borrowings <sup>(2)</sup>	79,818	15,046	79,818	15,046
Non-current loans and borrowings <sup>(3)</sup> . . . . .	10,000	1,885	673,125	126,885
<b>Shareholder's equity</b>				
Issued capital <sup>(4)</sup> . . . . .	325,503	61,358	325,503	61,358
Treasury shares . . . . .	(38,885)	(7,330)	(38,885)	(7,330)
Retained Earnings . . . . .	731,176	137,828	731,176	137,828
<b>Total shareholder's equity . . . .</b>	<u>1,017,794</u>	<u>191,856</u>	<u>1,017,794</u>	<u>191,856</u>
<b>Total capitalisation . . . . .</b>	<u>1,107,612</u>	<u>208,787</u>	<u>1,770,737</u>	<u>333,787</u>

(1) As at 31 December 2004, the NBU's hryvnia/dollar exchange rate was UAH 5.305 = U.S.\$1.00.

(2) Current loans and borrowings as at 31 December 2004 were comprised of six bank loans provided by domestic banks (both Ukrainian and foreign owned). These include one unsecured 8 per cent. loan of UAH 4.25 million provided by JSB Brokbusinessbank and five loan facilities secured by property pledges, the latter of which include two U.S. dollar floating rate loan facilities (for U.S.\$6 million provided by JSB ING Bank Ukraine and U.S.\$7 million provided by Citibank Ukraine at floating rates of LIBOR + 6 per cent. and LIBOR + 6.5 per cent., respectively), a 14 per cent. loan facility for U.S.\$0.055 million provided by JSB Brokbusinessbank and two hryvnia loan facilities provided by JSB Brokbusinessbank, one for UAH 0.307 million at 18 per cent. and the second for UAH 6 million at 20 per cent. See "Related Party Transactions — JSB Brokbusinessbank".

(3) Non-current loans and borrowings were comprised of UAH 10 million 18 per cent. unsecured domestic bonds due in 2007 issued by Stirol to LLC IK Stirolchiminvest in November 2004. See "Related Party Transactions — Share and Bond Sales". Stirol entered into a U.S.\$10 million loan agreement with the Black Sea Bank for Trade and Development on 21 October 2004, under which no funds were drawn as at 31 December 2004. However, the Company drew down the entire facility during the first three months of 2005.

(4) As at 31 December 2004, the Company's authorised and issued share capital comprised 27,125,280 ordinary shares with a nominal value of UAH 12 each. As at 1 June 2005, the Company held 104,568 of its own shares which it reacquired from shareholders in 2004. Under Ukrainian law, these shares have no voting rights as long as the Company holds them. The Company must sell these shares by 16 December 2005 or cancel them and reduce its share capital accordingly. On 30 April 2005, the General Meeting of Shareholders declared a dividend of UAH 97 million in respect of its 2004 net profit of 410.8 million (determined in accordance with Ukrainian National Accounting Standards) and to reinvest the remaining UAH 313.8 million of net profit to fund the development programme. See "Business — Strategy — Development Programme".

Save as disclosed above, there has been no material change in the Company's capitalisation since 31 December 2004.



### SELECTED FINANCIAL INFORMATION

The summary financial information for the Company set forth below should be read in conjunction with the 2004 Financial Statements included elsewhere in this Prospectus. The 2004 Financial Statements have been prepared in accordance with IFRS.

The summary financial information set forth below as at and for the years ended 31 December 2004 and 2003 has been extracted from the 2004 Financial Statements which are included elsewhere in this Prospectus. In the opinion of the management of the Company, these summarised financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby. The information should be read in conjunction with, and is qualified in its entirety by reference to, the 2004 Financial Statements. See also "Presentation of Certain Information — Financial Information".

The Ukrainian hryvnia is the measurement currency for the Financial Statements.

	<u>As at 31 December</u>	
	<u>2004</u>	<u>2003</u>
	<i>(UAH thousands)</i>	
<b>INCOME STATEMENT DATA</b>		
Revenues .....	1,881,080	1,325,477
Cost of revenues .....	<u>(1,173,807)</u>	<u>(879,222)</u>
<b>Gross profit</b> .....	707,273	446,255
Other operating income .....	3,695	13,388
Distribution costs .....	(171,644)	(143,825)
Administrative expenses .....	(40,725)	(33,349)
Other operating expenses .....	<u>(43,200)</u>	<u>(26,471)</u>
<b>Profit from operations</b> .....	455,399	255,998
Financial income .....	38,640	9,661
Financial expense .....	(18,674)	(3,415)
Income from associates .....	<u>1,910</u>	<u>—</u>
<b>Profit before tax and minority interest</b> .....	477,275	262,244
Income tax expense .....	<u>(108,932)</u>	<u>(92,231)</u>
<b>Profit before minority interest</b> .....	368,343	170,013
Minority interest .....	<u>(125)</u>	<u>(1,590)</u>
<b>Net profit</b> .....	<u><u>368,218</u></u>	<u><u>168,423</u></u>

	As at 31 December	
	2004	2003
	<i>(UAH thousands)</i>	
<b>BALANCE SHEET DATA</b>		
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment . . . . .	414,916	404,576
Prepayments for property, plant and equipment . . . . .	25,930	1,413
Intangible assets . . . . .	16,480	9,504
Investment in unconsolidated subsidiaries . . . . .	1,657	2,807
Term bank deposits . . . . .	51,197	—
Cash restricted in use . . . . .	5,660	—
Available-for-sale securities . . . . .	18,937	21,829
<b>Total non-current assets . . . . .</b>	<b>534,777</b>	<b>440,129</b>
<b>Current assets</b>		
Investment in associated bank not accounted for under the equity method . . . . .	63,020	—
Investment in unconsolidated subsidiary . . . . .	—	9,470
Inventories . . . . .	204,224	132,576
Trade and other receivables . . . . .	85,146	93,733
VAT receivable . . . . .	48,970	31,666
Term bank deposits . . . . .	344,076	191,553
Cash and cash equivalents . . . . .	52,457	6,973
<b>Total current assets . . . . .</b>	<b>797,893</b>	<b>465,971</b>
<b>Total assets . . . . .</b>	<b>1,332,670</b>	<b>906,100</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Loans and borrowings . . . . .	10,000	4,250
<b>Total non-current liabilities . . . . .</b>	<b>10,000</b>	<b>4,250</b>
<b>Current liabilities</b>		
Loans and borrowings . . . . .	79,818	32,225
Trade and other payables . . . . .	198,246	172,736
Income tax payable . . . . .	26,107	—
<b>Total current liabilities . . . . .</b>	<b>304,171</b>	<b>204,961</b>
<b>Total Liabilities . . . . .</b>	<b>314,171</b>	<b>209,211</b>
Minority interest . . . . .	705	11,113
<b>Shareholders' equity</b>		
Issued capital . . . . .	325,503	325,503
Treasury shares . . . . .	(38,885)	(7,685)
Retained earnings . . . . .	731,176	367,958
<b>Total shareholders' equity . . . . .</b>	<b>1,017,794</b>	<b>685,776</b>
<b>Total liabilities and shareholders' equity . . . . .</b>	<b>1,332,670</b>	<b>906,100</b>

## FINANCIAL REVIEW

*The following discussion should be read in conjunction with the 2004 Financial Statements included elsewhere in this Prospectus. Unless otherwise specified, the financial data set forth below has been extracted without material adjustment from the 2004 Financial Statements, which have been prepared in accordance with IFRS. See also "Presentation of Certain Information — Financial Information."*

*This discussion includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements". Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in "Risk Factors".*

### Overview

The principal business activities of the Company are the production and distribution of ammonia, urea, ammonium nitrate, inorganic acids and salts as well as polystyrenes. Stinol's non-core business activities include production of packaging materials, organic production and production of pharmaceuticals.

As at 31 December 2004, the Company had total assets of UAH 1,332.7 million compared to UAH 906.1 million as at 31 December 2003. For the year ended 31 December 2004, the Company achieved a net profit of UAH 368.2 million compared to a net profit of UAH 168.4 million for the year ended 31 December 2003.

The 2004 Financial Statements include the consolidated results of one of Stinol's subsidiaries, CJSC Stinol Pack ("Stinol Pack") as well as the proportionately consolidated results of SP LLC IBE-Stinol ("IBE-Stinol JV"), a joint venture with IBE Trade Corp. (U.S.A.) and Sydney 2000 Corp. (Belize). Total assets of the companies not included in the 2004 Financial Statements amount to less than 0.31 per cent. of the consolidated assets of the Group as at 31 December 2004. See "Business — Stinol's Subsidiaries, Associates and Joint Ventures".

KPMG qualified its independent auditors' reports on the 2004 Financial Statements because it was not able to observe the counting of physical inventories or determine if adjustments to the carrying amounts of inventories were necessary as of 31 December 2004 and 2003 and, as a result, whether costs of revenues, income tax expense and net profit for 2004 and 2003 needed adjusting. KPMG further qualified its auditors' report on the 2003 Financial Statements because the Company's significant subsidiaries and the 2003 Related Party Transactions were not disclosed in the 2003 Financial Statements. See "Risk Factors — Risks Relating to the Company — KPMG has qualified its independent auditors' reports on the Financial Statements".

### *Certain Factors Affecting Stinol's Results of Operations*

The results of Stinol's operations and their period to period comparability are affected by various external factors. Because Stinol's production, transport and sales operations are located in Ukraine, certain of these factors are attributable to the special characteristics of the country. Such factors include the political climate, the economy, including interest and taxation rates. In addition, Stinol is affected by general business and industry specific conditions.

### *Expansion in Production Capacity*

As part of an overall strategic development programme, the Company has invested in the improvement of its facilities to expand and maintain production capacity over the next three years. See "Business — Strategy — Development Programme".

### *Acquisitions and Disposals*

On 19 March 2004, Stinol sold its 63.4 per cent. share in its non-consolidated subsidiary CJSC Office to LLC IK Stinolchiminvest, Stinol's majority shareholder, as nominee, for UAH 9.47 million, in accordance with its general strategy of disposing of non-core assets. CJSC Office is a property management company, which maintains Stinol's representative offices in Kyiv and Yalta and also leases property to various related and unrelated entities. This sale is not expected to have a significant impact on the Group's financial results. See "Related Party Transactions — CJSC Office".

### *Economic Environment*

Ukraine has undergone significant political transformation since its independence in 1991. Concurrent with this transformation, Ukraine is slowly progressing from a centrally planned economy to a market economy. As a result, Stinol operates in an uncertain economic and political environment. Political factors, such as Ukraine's relations with its neighbours, in particular with Russia, and economic factors such as exchange rates, interest rates

and taxation, which are beyond Stinol's control, can have an impact on its results of operations. See "Risk Factors — Risks Relating to Ukraine".

### ***Interest Rates***

The Group does not hedge its interest rate exposure though its policy is to manage interest rate risk by using a mix of fixed rate and variable rate borrowings. The management of the Company does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt, management uses its judgement to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Because of its variable rate borrowings, the Group is potentially exposed to fluctuations in short-term interest rates, resulting in changing interest payments.

### ***Hedging Arrangements***

Stinol is exposed to foreign currency risk as a majority of its revenues are denominated in currencies other than Ukrainian hryvnia, mostly U.S. dollars and euro, whereas its expenses are primarily denominated in hryvnia. Existing Ukrainian legislation restricts Stinol from hedging its foreign currency risk. Therefore, Stinol does not take measures to reduce its foreign currency risk exposure save that it is diversifying its export revenues by transferring export contracts and settlements on the basis of such contracts into euro or Russian Roubles.

Stinol does not hedge its exposure to unexpected increases in natural gas prices.

### ***Cyclical***

The markets for the Company's principal products are cyclical, with prices and operating margins reflecting the balance between supply and demand at any specific moment. Sales of the Company's principal products are dependent on the agricultural cycle. However, the Company reduces its dependence on cyclical activity by selling its products to customers both in the northern and southern hemispheres, in one of which at any given time agricultural activity is at a relative peak.

The Company also maintains a certain balance with respect to non-core products. The height of demand for polymer products falls during warm seasons of the year, whereas the demand for pharmaceuticals is at its height during cold seasons.

Revenues from sales fluctuate as a result of cyclical activity generally in the range of two to 28 per cent. on average per quarter.

### ***Energy Prices***

Stinol obtains all of its natural gas requirements from Gas of Ukraine, a wholly owned subsidiary of Naftogaz, in accordance with annual framework agreements. Payments for deliveries are made monthly in arrears, based on the actual amount of gas supplied. Domestic natural gas supplies are subject to regulation by the National Commission on Regulation of the Power Industry in Ukraine ("NCRP"), a State regulatory body. See "Business — Price Regulation — Natural Gas".

## **Results of Operations for the Years ending 31 December 2004 and 2003**

### ***Revenues***

Revenues for the year ended 31 December 2004 increased by 41.9 per cent., or UAH 555.6 million, to UAH 1,881.1 million from UAH 1,325.5 million for the year ended 31 December 2003 primarily due to increases in demand for and global market prices of ammonia, urea and ammonium nitrate.

As a result, revenues for the production and distribution of ammonia increased by 45.2 per cent. to UAH 599.0 million in 2004 from UAH 412.4 million in 2003, of which UAH 13.2 million was due to an increase in the volume of sales and UAH 173.4 million was due to increases in global market prices of ammonia. In 2004, ammonia sales accounted for 31.9 per cent. of the Company's total sales by value.

Revenues from the production and distribution of urea increased by 30.6 per cent. to UAH 698.2 million in 2004 from UAH 534.8 million in 2003, of which UAH 12.3 million was due to an increase in the volume of sales and UAH 151.1 million was due to increases in global market prices of urea. In 2004, urea sales accounted for 37.1 per cent. of the Company's total sales by value.

Revenues from the production and distribution of ammonium nitrate increased by 104 per cent. to UAH 268.0 million in 2004 from UAH 131.4 million in 2003, of which UAH 65.5 million was due to increases in the volume of sales and UAH 71.1 million was due to increases in global market prices of ammonium nitrate. In 2004, ammonium nitrate sales accounted for 14.2 per cent. of the Company's total sales by value.

Revenues from the production and distribution of other inorganic products decreased by 13.4 per cent. to UAH 77.8 million in 2004 from UAH 89.8 million in 2003, largely due to a decrease in the volume of sales of urea ammonium mixture by UAH 3.9 million and sulphuric acid by UAH 8.9 million. This decrease was mitigated by a UAH 0.8 million increase in the volume of sales of other inorganic products including water resistant ammonium nitrate and nitrous oxide.

Revenues from the production and distribution of organic products increased by 92.9 per cent. to UAH 135.2 million in 2004 from UAH 70.1 million in 2003, of which UAH 32.7 million was due to increases in the volume of sales and UAH 32.4 million due to increases in sales prices.

Revenues from the production and distribution of pharmaceuticals increased by 19.4 per cent. to UAH 38.7 million in 2004 from UAH 32.4 million in 2003, largely due to an increase in the volume of sales by UAH 9.0 million, but were reduced by UAH 2.7 million due to decreases in sales prices.

Revenues from the production and distribution of packaging and other products derived from chemicals increased by 34.8 per cent. to UAH 46.5 million in 2004 from UAH 34.5 million in 2003, primarily due to increases in the volume of sales and sales prices.

Revenues from the production and distribution of other products decreased by 12 per cent. to UAH 17.6 million in 2004 from UAH 20 million in 2003, largely due to Stirol's transfer to its associated companies and non-consolidated subsidiaries of its provision of services to third parties.

#### *Financial Income (Expense)*

The following table gives certain information relating to net financial income (expense) for the years indicated:

	Year ended 31 December		Variation 2004/2003 (%)
	2004	2003	
	<i>(UAH thousands)</i>		
<b>Financial income</b>			
Interest income . . . . .	37,121	8,580	332.6
Dividend income . . . . .	1,314	394	233.5
Net foreign exchange gain . . . . .	205	687	(70.2)
<b>Total financial income</b> . . . . .	<u>38,640</u>	<u>9,661</u>	<u>299.9</u>
<b>Income from associates</b> . . . . .	1,910	—	—
<b>Financial expense</b>			
Interest expense . . . . .	(7,219)	(3,415)	111.4
Adjustment to fair value of promissory notes available-for-sale . . . . .	(4,900)	—	—
Impairment losses on unconsolidated subsidiaries and available-for-sale securities . . . . .	(4,337)	—	—
Impairment loss on investment in associated bank not accounted for under the equity method . . . . .	(2,218)	—	—
<b>Total financial expense</b> . . . . .	<u>(18,674)</u>	<u>(3,415)</u>	<u>446.8</u>
<b>Total net financial income (expense)</b> . . . . .	<u>21,876</u>	<u>6,246</u>	<u>250.2</u>

In 2004, net financial income increased by UAH 15.6 million or as compared to 2003, an increase of 250.2 per cent. Net financial income increased primarily due to a 332.6 per cent. increase of interest income resulting largely from a 106.4 per cent. increase in term bank deposits to UAH 395.3 million at the end of 2004 from UAH 191.6 million at the end of 2003.

There was also an increase in financial expense, including interest expense, resulting primarily from a 147.7 per cent. increase in short-term borrowings to UAH 79.8 million in 2004 from UAH 32.2 million in 2003. See “— Liquidity, Borrowings, Cash and Capital Expenditure — Borrowings”.

**Distribution Costs**

In 2004, distribution costs increased by UAH 27.8 million as compared to 2003, an increase of 19.3 per cent. primarily due to the increase of sales volumes generally. Additionally, railway transportation tariffs rose by 63 per cent. and port costs rose by 28 per cent. See “Business — Technology and Production Facilities — Production Costs”.

**Administrative Expenses**

The following table contains certain information relating to administrative expenses for the years indicated:

	<b>Year ended 31 December</b>		<b>Variation 2004/2003</b>
	<b>2004</b>	<b>2003</b>	
	<i>(UAH thousands)</i>		<i>(%)</i>
<b>Administrative expenses</b>			
Salary and related charges .....	16,078	13,252	21.3
Taxes .....	3,479	3,896	(10.7)
Energy .....	3,038	2,888	5.2
Consumables .....	2,067	1,486	39.1
Depreciation .....	3,971	3,351	18.5
Bank services .....	1,747	1,351	29.3
Transport and communication .....	3,101	689	350.0
Travelling expenses .....	2,561	2,703	(5.3)
Other .....	<u>4,683</u>	<u>3,733</u>	<u>25.4</u>
<b>Total administrative expenses</b> .....	<u>40,725</u>	<u>33,349</u>	<u>22.1</u>

In 2004, administrative expenses increased by UAH 7.4 million as compared to 2003, an increase of 22.1 per cent. Salaries increased in part in response to a rise in the statutory minimum wage. This also affected the salaries of employees of Ukrainian transportation and communication companies and resulted in higher transport and communication tariffs. Additionally, in 2004 Stirol opened new bank accounts and utilised new banking services, which incurred fees.

**Other Operating Expenses**

The following table contains certain information relating to other operating expenses for the years indicated:

	<b>Year ended 31 December</b>		<b>Variation 2004/2003</b>
	<b>2004</b>	<b>2003</b>	
	<i>(UAH thousands)</i>		<i>(%)</i>
<b>Other operating expenses</b>			
Impairment of property, plant and equipment .....	20,281	—	—
Loss on disposal of property, plant and equipment .....	1,706	9,043	(81.1)
Research costs .....	1,329	1,306	1.8
Sponsorship .....	4,652	3,991	16.6
Amortisation of goodwill .....	1,327	1,327	—
Provision for VAT refundable .....	5,360	285	1,780.7
Other .....	<u>8,545</u>	<u>10,519</u>	<u>(18.8)</u>
<b>Total other operating expenses</b> .....	<u>43,200</u>	<u>26,471</u>	<u>63.2</u>

In 2004, other operating expenses increased by UAH 16.7 million as compared to 2003, an increase of 63.2 per cent. This increase was due primarily to a recognition of impairment losses amounting to UAH 20.3 million, of which UAH 18.3 million related to property, plant and equipment used in the production of pharmaceuticals following indications that the economic performance of this property, plant and equipment was worse than expected largely due to market conditions for pharmaceutical products.

The provision for VAT refundable in 2004 increased significantly by UAH 5.1 million or 1,780.7 per cent. from the previous year because a significant portion of VAT refunds in 2003 were made by the State to the Company before 31 December 2003, thus decreasing budgetary indebtedness to the Company that year, whereas the VAT



refunds due from the State to the Company at the end of 2004 were actually made by 1 April 2005, resulting in the Company showing large VAT refunds due from the budget as of 31 December 2004.

### ***Ukrainian Preferential Income Tax Treatment***

The Company's income tax expense was UAH 108.9 million in 2004 as compared to UAH 92.2 million in 2003. The corporate income tax rate was lowered to 25 per cent. from 30 per cent. as of 1 January 2004 following a change in Ukrainian law. Prior to 31 March 2005 and throughout the period covered by this financial review, the Company enjoyed preferential tax treatment for some of its operations because it is located in a free economic zone, as authorised by local authorities. Profits derived from certain qualifying investment projects were exempt from Ukrainian corporate income tax for the first three years of their operation and the otherwise applicable regular 25 per cent. (30 per cent. in 2003) flat rate of corporate profits tax was reduced to 12.5 per cent. for the following three years of operation.

However, on 25 March 2005, the Verkhovna Rada (Parliament) of Ukraine annulled the preferential income tax treatment and Stirol is now subject to corporate income tax at a flat rate of 25 per cent. as of 31 March 2005. As provided statutorily, the Company has opted to apply the annulment retroactively from 1 January 2005 because it assessed its tax savings as minimal. See "Business — Taxation" and notes 24 and 29 to the 2004 Financial Statements for additional information concerning this preferential income tax treatment.

### **Liquidity, Borrowings, Cash and Capital Expenditure**

#### ***Liquidity***

The Company's liquidity needs arise principally from the need to finance its existing operations and the need to finance investment (capital expenditure). In the period covered by this financial review, the Company has been able to meet most of its liquidity needs out of operating cash flows and accumulated reserves. However, when it needed to expend large sums, such as to purchase natural gas, it was able to draw on two credit facilities of U.S.\$6 million and U.S.\$7 million, which have been completely drawn down.

#### ***Borrowings***

The Company's borrowings as at 31 December 2004 and 2003 are set out in the following table:

	Year ended 31 December		Variation 2004/2003
	2004	2003	
	<i>(UAH thousands)</i>		<i>(%)</i>
Current borrowings . . . . .	79,818	32,225	147.7
Non-current borrowings . . . . .	10,000	4,250	135.3
<b>Total borrowings . . . . .</b>	<b>89,818</b>	<b>36,475</b>	<b>146.3</b>

As of the date of this Prospectus, Stirol has several outstanding loans from both domestic and foreign lenders. Two loan facilities are provided by a domestic bank, JSB Brokbusinessbank. The first unsecured loan facility is in the amount of UAH 5 million, of which UAH 4.25 million has been disbursed. It matures on 21 October 2005, bears interest at 8 per cent. per annum and is provided to finance working capital. The second loan facility is in the amount of UAH 20 million, bears interest at 18 per cent. per annum and matures on 18 January 2006. This loan is secured by funds held on deposit with JSB Brokbusinessbank in the amount of UAH 25 million and is provided for the purpose of financing production costs, trading and other activities of Stirol. See "Related Party Transactions — JSB Brokbusinessbank".

A U.S.\$10 million loan facility was provided on 21 October 2004 by the Black Sea Bank for Trade and Development for a term of 60 months at a rate of LIBOR + 4.75 per cent. per annum. The loan proceeds were invested in the Company and applied towards the purchase and installation of condensation evaporators used in urea production, a computer management system for yeast production, a computerised medicine packaging line, a new granulated ammonium nitrate production line with an annual capacity of 200 tonnes, construction of and equipment for a lacquer production line, modernisation of the Urea-2 production facility and working capital. The loan is secured by mortgages of property and pledges of equipment, with a book value of UAH 5.418 million, and 86 per cent. of the authorised share capital of Stirol Pack.

Citibank Ukraine has provided a loan facility to the Company in an aggregate amount of U.S.\$7.5 million, which matures on 21 March 2006. It bears interest at LIBOR + 6 per cent. per annum. This loan is secured by the

Company's inventories of ammonia, urea and polystyrene as well as the Company's receivables under sale and purchase agreements with fertiliser trading companies. The loan was granted for the purpose of financing working capital requirements.

Two multi-currency facilities are provided by JSB ING Bank Ukraine, the Ukrainian subsidiary of ING Bank N.V., namely a U.S.\$10 million loan facility, bearing interest at LIBOR + 5.25 per cent. per annum for funds drawn in U.S. dollars or euro, and the interest rate of ING Bank Ukraine based on the Ukrainian Interbank offering rate for funds drawn in hryvnia, and a U.S.\$8 million facility for guarantees and stand-by letters of credit. The first facility matures on 30 September 2006 and is secured by items of property, plant and equipment including, among other things, liquid ammonia, water purification equipment, polymerisers, packaging equipment for medical production facilities and a filtration unit for a reverse osmosis system for the OAZ ammonia units and provides working capital. Under the second facility, a risk margin of 5.25 per cent. per annum of the amount of any outstanding guarantee or letter of credit is payable on a quarterly basis. This facility terminates on 31 December 2006, is secured by cash collateral in the amount of U.S.\$2 million and requires payment of a commitment fee of U.S.\$0.024 million.

Citibank Ukraine has issued a letter of credit for the Company in the amount of U.S.\$2.5 million, under which unreimbursed drawings bear interest at LIBOR + 6.5 per cent. per annum. Privatbank has also issued a letter of credit for the Company in the amount of U.S.\$1.575 million, under which unreimbursed drawings bear interest at 13 per cent. per annum. There are additional commitment fees. Both letters of credit are valid so long as the relevant parties perform under the underlying supply contracts.

In addition to these facilities, in November 2004, Stirol issued UAH 10 million 18 per cent. unsecured domestic bonds due 2007 to its shareholder, LLC IK Stirolchiminvest. Interest on these bonds is paid quarterly with the last interest payment date falling in December 2007.

### ***Cash Flow***

The following table summarises the statements of cash flows for the years ended 31 December 2004 and 2003.

	<u>2004</u>	<u>2003</u>
	<i>(UAH thousands)</i>	
Net cash flows from operating activities . . . . .	475,630	235,918
Net cash flows used in investing activities . . . . .	(424,784)	(265,712)
Net cash flows used in financing activities . . . . .	(5,362)	(18,779)
Net change in cash and cash equivalents . . . . .	45,484	(48,573)

Net cash provided by operating activities amounted to UAH 475.6 million in 2004 compared to UAH 235.9 million in 2003. The increase was due largely to an increase of profit before tax and minority interest of UAH 215.0 million. The increase of profit before tax and minority interest is mainly due to increases in sales volumes and global prices for nitrogen fertilisers.

Net cash used in investing activities amounted to UAH 424.8 million in 2004 compared to UAH 265.7 million in 2003. The increase was due to increased investments in production facilities and equipment, placements of bank term deposits and investments in securities of existing and newly established companies, including investments in an associated bank JSB Brokbusinessbank, the purchase of additional shares in Stirol Pack and the placement of bank term deposits.

Net cash flows used in financing activities amounted to UAH 5.4 million in 2004 compared to UAH 18.8 million in 2003. The decrease was primarily due to the repayment of loans and borrowings, including full repayment of a secured loan from the State Innovation Fund of Ukraine, and the Company's acquisition of its own shares, which was offset by increased proceeds from loans and borrowings as well as the sale of the Company's own shares.

### ***Capital Expenditure***

The main drivers of the Company's capital spending over the years 2004 and 2003 have been its production capacity expansion programme involving the procurement of new equipment and capital expenditures related to renovations and modernisation. The Company has financed this capital expenditure primarily out of its operating cashflow, although it has also relied on borrowing to assist it in financing the increased spending associated with its capacity expansion programme. In total, planned investment in the capacity expansion programme for the years 2004 to 2007 amounts to approximately U.S.\$139 million and is expected to be U.S.\$43 million in 2005, U.S.\$38 million in 2006 and U.S.\$24 million in 2007. See "Business — Strategy — Development Programme".

### *Cash Reserve Fund*

Stirol maintains a cash reserve fund comprised of cash and liquid securities (the "Fund"). The main purpose of the Fund is to enhance Stirol's ability to meet its financial obligations as and when due, irrespective of the business cycle. Amounts accumulated in the fund can only be placed on deposit with highly reputable domestic and international banks or invested in liquid securities. Investments in liquid securities are limited to 33 per cent. of the Fund.

The amount of the Fund is based on a predetermined formula. This formula requires the Company to maintain a cash (or near cash) reserve amounting to at least 30 per cent. of its average short-term liabilities, calculated on a quarterly basis. Short-term liabilities are defined as liabilities due within the next 12 months. The reserve requirement is applicable to all short-term liabilities, including short-term bank debt, long-term debt due within the next 12 months, issued promissory notes, trade creditors and amounts due to tax authorities. The amount to be maintained in the Fund is calculated within the 15 days following the end of the relevant quarter. The calculation is the responsibility of the Deputy Financial Director of the Company.

If the amount of cash and liquid securities in the Fund falls below 30 per cent. of Stirol's average short-term liabilities, the shortfall has to be replenished within 10 business days. If the amount of cash and liquid securities in the Fund exceeds 30 per cent. but is no more than 40 per cent. of Stirol's short-term liabilities, no action is taken. If the amount of cash and liquid securities in the Fund exceeds 40 per cent., the Management Board may decide to use the excess amount to finance capital expenditure, finance working capital needs but only to the extent that a certain part of the excess amount has been previously used to finance capital expenditure or prepay short- and long-term indebtedness.

## BUSINESS

### Overview

#### *History of the Company*

Stirol is a Ukrainian joint stock company whose core production facilities are located in Gorlovka, a coal mining centre approximately 50 km north-east of the city of Donetsk, Donetsk region. The enterprise now comprising Stirol was originally established as a State-owned company on 23 April 1933 when Gorlovka Nitrogenous Fertiliser Plant, Stirol's predecessor, commenced production of ammonia, which traditionally was made from coke oven gas, a by-product of the production of coke from coal. A8.2.2.2

During the 1960s, a decade of formation and development of organic chemistry in the former Soviet Union, Stirol's production capacities were expanded and a number of new facilities such as granulated ammonium nitrate and polystyrene plants were put into operation.

The late 1970s and early 1980s marked a period of extensive modernisation and further expansion of Stirol's operations during which new large-scale units for production of sulphuric acid, ammonia and urea were commissioned, production of mineral fertilisers doubled, output of ammonia trebled and the Company developed into the largest chemicals enterprise in Ukraine.

On 10 October 1995, Stirol was registered under Ukrainian law as a joint stock company by the Executive Committee of the Gorlovka City Council under registration No. 1932 for an unlimited duration. The Company was established as part of the national process of privatisation and its shares were initially distributed to the employees of the Company and the State of Ukraine. A9.4.1.2  
A9.4.1.3  
A9.4.1.4

During the 1990s, concurrently with a comprehensive modernisation programme of its production plants, Stirol launched a number of new business activities such as production of pharmaceuticals and packaging materials.

As at 1 July 2005, LLC IK Stirolchiminvest was the nominal holder of 82.13 per cent. of Company's shares, 10.74 per cent. of shares were held by the depository JSC Mezhtsestobnyj Fondovyj Soyuz and 5.56 per cent. were held by JSB ING Bank Ukraine, as nominee. The Principal Shareholder beneficially owns a controlling shareholding in the Company through LLC IK Stirolchiminvest's nominal holding. See "Principal Shareholders."

As at the date of this Prospectus, the Company's share capital comprises 27,125,280 fully paid ordinary shares, each with a nominal value of UAH 12 per share. The holder of the Company's share register is CJSC Reestr-Aktsioner, an independent licensed registrar.

#### *Principal Business Activities*

A9.5.1.1

Stirol is the leading producer of ammonia and its derivatives in Ukraine. Stirol's business is focused on the production and distribution of ammonia and two closely related products, urea and ammonium nitrate. Urea and ammonium nitrate are mainly used as fertilisers. Ammonia is the core raw material used in the production of urea and ammonium nitrate. Stirol processes approximately 60 per cent. of the ammonia it produces into urea and ammonium nitrate. The remainder is sold in its pure form and is subsequently used mainly in the production of more complex mineral fertilisers containing nitrogen and phosphorus. Stirol exports approximately 85 per cent. of its total production output by value.

In addition, Stirol has several non-core business activities, the most significant of which include organic products, pharmaceuticals, packaging and other products derived from chemicals.

The following table analyses Stinol's revenues broken down by its products by value and as a percentage of total revenues:

	2004		2003	
	<i>(UAH thousands, except percentages)</i>			
Urea . . . . .	698,205	37.1	534,763	40.3
Ammonia . . . . .	599,036	31.9	412,433	31.1
Ammonium nitrate . . . . .	267,975	14.2	131,401	10.0
Organic products . . . . .	135,201	7.2	70,148	5.3
Other inorganic products . . . . .	77,811	4.1	89,828	6.8
Packaging and other products derived from chemicals . . . . .	46,493	2.5	34,459	2.6
Pharmaceuticals . . . . .	38,716	2.1	32,396	2.4
Other . . . . .	17,643	0.9	20,049	1.5
<b>Total products . . . . .</b>	<b><u>1,881,080</u></b>	<b><u>100.0</u></b>	<b><u>1,325,477</u></b>	<b><u>100.0</u></b>

The following table analyses Stinol's production volumes broken down by its main products:

	2004	2003
	<i>(tonnes/year, except where indicated)</i>	
Pharmaceuticals <i>(units/year)</i> . . . . .	536,519,059	483,631,196
Ammonia . . . . .	1,260,713	1,300,151
Urea . . . . .	877,810	868,428
Ammonium nitrate . . . . .	522,564	335,006
Other inorganic products . . . . .	108,417	234,417
Organic products . . . . .	28,789	20,071

## Strategy

Stinol has the following strategic objectives:

**Strengthen its leading position among Ukrainian producers of nitrogen fertilisers.** Stinol intends to further strengthen its leading position among Ukrainian producers of nitrogen fertilisers by selective investments in its production facilities. In particular, by purchasing new equipment and investing in technology upgrades, the management aims to increase Stinol's ammonia production capacity by 171,600 tonnes per year and urea production capacity by 165,000 tonnes per year.

The Company's management is continuously reviewing investment opportunities in Ukraine, Russia and other eastern European countries, which could either directly increase Stinol's production capacity or prove complementary to the Company's core business processes (such as new methanol and melanine production facilities).

**Enhance its competitive position through continued improvements in its operational efficiency.** Stinol strives to enhance its competitive position through on-going upgrades and modernisation of the Company's facilities with a view to increasing the operating and energy efficiency and the output of its plants. In addition, in order to reduce its dependence on the external supply of electricity, Stinol is building two in-house combined cycle gas turbine electricity generation units, which will lead to significant cost savings.

The expected aggregate capacity of the new units is 50 megawatts. As Stinol's current consumption of electricity is 65 megawatts, its in-house units will provide 76.9 per cent. of Stinol's electricity needs.

**Increase the proportion of higher value-added products.** Stinol aims to increase further the proportion of higher value added products it produces at the expense of pure ammonia sales. Management believes that agricultural consumers are increasingly interested in solid fertiliser products because they are easier to apply, can be mixed with other crop nutrients and provide significant cost and labour savings. Higher value-added products generate higher margins than pure ammonia.

**Reduce dependence on global fertiliser markets.** In order to reduce the Company's exposure to fluctuations in global fertiliser markets, such fluctuations being largely caused by factors beyond the Company's control such as changes in the world price of natural gas or prevailing weather patterns, the Company's management has launched and intends to pursue a restricted number of business activities which are not directly related to the production of ammonia and its derivatives. Most notably, these include the production of organic products, pharmaceuticals, packaging and other products derived from chemicals.

### *Development Programme*

In order to implement these objectives, Stirol's management has prepared a strategic development programme for the period of 2004 to 2007, which was adopted by Company on 20 June 2004. The programme comprises a number of investments in Stirol's production facilities encompassing energy efficiency, safety and quality enhancements, incremental increases in production capacities and environmental projects. These investments will be applied to urea and related products (17.5 per cent.), energy saving technology (27.9 per cent.), environmental protection (3.1 per cent.), organic products (25.6 per cent.), Stirol Biotech (17.7 per cent.), Stirol Pack (3.3 per cent.) and acids, salts and other products (4.9 per cent.).

### **Main Products**

#### *Ammonia*

Stirol is Ukraine's largest producer of ammonia with an annual capacity of 1.4454 million tonnes. The Company converts approximately 60 per cent. of the ammonia it produces into higher value added products, which are easier to transport, store and apply than pure ammonia. In 2004, Stirol produced 1.26 million tonnes of ammonia, of which 756,000 tonnes were further processed within the Company into urea and ammonium nitrate and 504,000 tonnes were sold directly in the spot market. Unless further processed, ammonia produced by Stirol is transported through the TGO ammonia pipeline to the port of Odessa.

Anhydrous ammonia (known as "ammonia") is the simplest and least expensive form of the nitrogen fertilisers. Ammonia is produced when natural gas reacts with steam and air at high temperatures and pressures in the presence of catalysts. Ammonia production is thus highly dependent on a consistent and substantial supply of natural gas. Ammonia is the primary raw material used in the production of most other nitrogen fertilisers, including urea, ammonium nitrate and urea ammonium nitrate. Ammonia is also widely used in industrial applications. Ammonia produced by Stirol is a liquid product and has a nitrogen content of 82 per cent. by weight.

The Company exported 99.8 per cent. of its total ammonia sales in 2004 (503,207.815 tonnes or 39.9 per cent. of ammonia production) and sold the remaining 0.2 per cent. in Ukraine (1,219.165 tonnes, which is 0.1 per cent. of ammonia production in 2004). Stirol used the remaining 60.1 per cent. of its ammonia products to manufacture other products.

In 2004, ammonia sales accounted for 31.9 per cent. of the Company's total sales by value. Sales of ammonia in 2004 and 2003 were 504,426.98 tonnes and 488,726.71 tonnes, respectively. The total production of ammonia in 2004 and 2003 was 1,260,713 tonnes and 1,300,151 tonnes, respectively.

#### *Urea*

Stirol is Ukraine's largest producer of urea with an annual capacity of 1,023,000 tonnes.

Urea is produced by reacting ammonia and carbon dioxide. Stirol produces a granulated form of solid urea, generally for the fertiliser market. Urea has a nitrogen content of 46 per cent. by weight, the highest level for any solid nitrogen fertiliser. Urea is the most commonly used fertiliser in developing countries as it is available at comparatively low prices.

Stirol exports 99.4 per cent. of its urea production and sells the remaining 0.6 per cent. in Ukraine. Sales of urea in Ukraine in 2004 were 4,959.949 tonnes by volume and UAH 2,465.2 thousand by value.

In 2004, urea sales accounted for 37.1 per cent. of the Company's total sales by value. Sales of urea in 2004 and 2003 were 850,319.876 tonnes and 831,221.94 tonnes, respectively. The total production of urea in 2004 and 2003 was 877,810 tonnes and 868,428 tonnes, respectively.

#### *Ammonium Nitrate*

Ammonium nitrate is produced in solid form by Stirol, largely for fertiliser applications. The nitrogen content of ammonium nitrate is 34 per cent. by weight.

Ammonium nitrate is produced by combining nitric acid and ammonia in liquid form. The product of this process is then converted into solid form. It is used by Stirol to manufacture granulated ammonium nitrate, a mineral fertiliser.

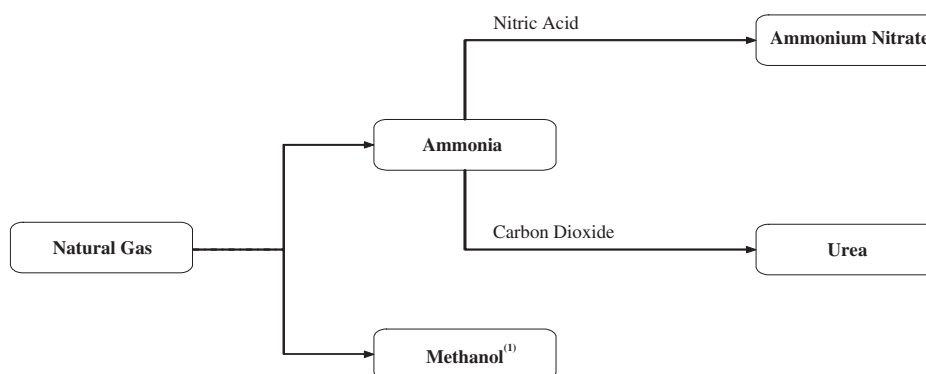


Stirol exports 68.3 per cent. of its ammonium nitrate sales and sells the remaining 31.7 per cent. in Ukraine. Sales of ammonium nitrate in Ukraine in 2004 were 148,670.013 tonnes by volume and UAH 73,007.7 thousand by value.

In 2004, ammonium nitrate sales accounted for 14.2 per cent. of the Company's total sales by value. Sales of ammonium nitrate in 2004 and 2003 were 468,979.093 tonnes and 312,939.40 tonnes, respectively. The total production of ammonium nitrate in 2004 and 2003 was 522,564 tonnes and 335,006 tonnes, respectively.

## Technology

An overview of Stirol's technological processes is set out below:



(1) Methanol production is currently in the planning stage. See “— Ammonia technology”.

### *Ammonia technology*

Originally, Stirol produced ammonia using coke oven gas generated locally. In 1983, following the development and availability of natural gas from Siberia, this technology was replaced by a different and more efficient technology, commonly used in western Europe, synthesizing ammonia from nitrogen and hydrogen catalytically, using processes developed by two German scientists, F. Haber and C. Bosch at the beginning of the 20<sup>th</sup> century. These processes revolutionised the production of nitrogen fertilisers, which has been largely dependent on ammonia synthesis ever since. This technology, which uses natural gas as the primary raw material, is currently applied by the majority of ammonia producers worldwide.

In the mid-1990s, Stirol implemented several new projects improving the ammonia productivity of the two United Ammonia Plant (“UAP”) units (OAZ 1B and OAZ 1V) from 450,000 to 468,600 tonnes per year. Between 1997 and 2000, the ammonia unit AM-76 was reconstructed, increasing its ammonia unit production capacity from 450,000 tonnes per year to 508,200 tonnes per year.

The Company is currently in negotiations for the reconstruction of its two UAP units OAZ 1B and OAZ 1V and its AM-76 ammonia unit in order to increase production capacity of each of the two UAP units to 528,000 tonnes per year per unit and of its AM-76 unit to 561,000 tonnes per year.

The Company plans to implement the production of methanol based on ammonia aggregates. The production capacity of these aggregates is expected to be 200,000 tonnes per year. The Company estimates that its consumption of methanol will constitute 30,000 to 50,000 tonnes per year. The main consumers of methanol are producers of mineral fertilisers, formaldehyde resins, companies that use biochemical processing and utilisation of solid wastes from organic production. Currently, there are no methanol producers in Ukraine. The largest global producers of methanol are Russia and Germany. By implementing the production of methanol, the Company is aiming to diversify its production, develop a new market niche and strengthen internal integration because producing methanol internally is cheaper than purchasing it externally.

The reaction pipes of initial reforming are a vital part of the ammonia production process. In 2005, their replacement will allow the Company to increase its production capacity.

Stirol now has a total ammonia production capacity of 1,445,400 tonnes per year, which amounts to a 0.8 per cent. share of the global ammonia production capacity. The Company intends to expand ammonia production capacity through renovation of its facilities to 1,617,000 tonnes per year by the end of 2007. See “— Strategy — Development Programme”.

As at 31 December 2004, 172 employees were engaged in ammonia production.

#### *Urea technology*

Stirol started urea production in 1979 following the construction of a production unit with a capacity of 495,000 tonnes per year. In 1993 urea output volume increased when another unit with a capacity of 330,000 tonnes per year was brought into operation. The urea production facilities were subsequently reconstructed and their aggregate capacity was increased from 825,000 tonnes per year to 1,023,000 tonnes per year.

At present, the Company is negotiating contracts with foreign engineering companies for the reconstruction and upgrading of its Urea-1 unit to improve the technology for obtaining granulated urea and of its Urea-2 unit to increase its capacity to 660,000 tonnes per year. The objective of such is to increase total urea production capacity to 1,188,000 tonnes per year.

As at 31 December 2004, 115 employees were engaged in urea production.

#### *Ammonium Nitrate technology*

The Company's ammonium nitrate plant has a production capacity of 710,000 tonnes per year.

In 2005, Stirol plans to begin production of porous nitrate and phosphorus-containing nitrate PN (34). Porous nitrate is uniquely suited for industrial uses. The phosphorus-containing nitrate is stable (not explosive) and therefore its sales are not restricted. Implementation of these new products will allow Stirol to diversify its product range because these products require more processing than granulated ammonium nitrate and therefore their prices are expected to be higher.

29.8 per cent. of the ammonium nitrate plant's production capacity is not utilised due to the limited financial resources of local agricultural customers. However, the Company sells excess production to local farmers because ammonium nitrate fertilisers are a cheaper alternative to other types of chemical fertiliser while still meeting their needs.

The product lines of mineral fertilisers containing ammonium nitrate are integrated and have their own nitric acid production workshops.

In 1994, the Company began producing a stable ammonium nitrate solution used as the main component (86-90 per cent.) of the Company's urea ammonium nitrate products, which are used as a fertiliser in grain production, primarily in North America.

As at 31 December 2004, 204 employees were engaged in ammonium nitrate production.

## Production

At present, Stirol owns and operates three ammonia production plants, two urea production plants and one ammonium nitrate production plant, as well as a number of complementary production units. Through regular investment, Stirol's production facilities maintain high standards in terms of capacity, energy consumption and quality of output. An overview of Stirol's production facilities is provided below:

	<u>Year of commissioning</u>	<u>Design annual capacity</u>	<u>Achievable annual capacity</u>	<u>Utilisation in 2004</u>	<u>Utilisation in 2003</u>
	<i>(thousand tonnes/year)</i>			<i>(%)</i>	
AM-76 .....	1984	450	508.2	79.81	86.58
OAZ 1B .....	1979	450	468.6	85.77	83.62
OAZ 1V .....	1979	450	468.6	96.71	67.58
<b>Ammonia total</b> .....		<b>1,350</b>	<b>1,445.4</b>	<b>87.22</b>	<b>79.45</b>
OZK Urea-1 .....	1979	450	528	86.31	82.65
OZK Urea-2 .....	1993	330	495	84.78	86.97
<b>Urea total</b> .....		<b>780</b>	<b>1,023</b>	<b>85.57</b>	<b>84.74</b>
<b>Ammonium nitrate</b> .....	1966	<b>198</b>	<b>710</b>	<b>70.21</b>	<b>45.19</b>
<b>Sulphuric acid and oleum</b> .....	1976	450	450	20.00	46.92
<b>Urea formaldehyde concentrate</b> .....	1979	6	6	75.40	83.80
<b>Water resistant ammonium nitrate</b> .....	1968	305	305	9.79	7.03
<b>Nitric acid</b> .....	1970	840	840	36.10	34.71
<b>Sodium nitrite</b> .....	1987	65	65	4.47	10.05
<b>Sodium nitrate</b> .....	1987	65	65	18.47	21.43
<b>Medicinal nitrous oxide (N<sub>2</sub>O)</b> .....	1968	1	4	70.00	53.10

All of Stirol's production facilities have the necessary certifications they require to carry out their production, including:

- A Certificate of Approval awarded by Bureau Veritas Quality International ("BVQI") to certify that the management system of Stirol has been audited and found to be in accordance with the requirements of the management system standard OHSAS 18001:1999. Its scope of supply is the manufacture of liquid ammonia, urea and pharmaceutical products (issued on 8 July 2003; valid until 8 July 2006);
- Certification awarded by BVQI to certify that the management system of Stirol has been audited and found to be in accordance with the International Organisations for Standardisation ("ISO") requirements of the management system standard ISO 14001:2004. Its scope of supply is the manufacture of liquid ammonia, urea and pharmaceutical products (issued on 2 January 2002, valid until 20 January 2008); and
- Certification awarded by BVQI to certify that the management system of Stirol has been audited and found to be in accordance with the requirements of the management system standard ISO 9001:2000. Its scope of supply is the production of polystyrenes (high-impact, expandable and general-purpose), sodium nitrite, sodium nitrate, ammonium nitrate, pharmaceutical liquid and solid preparations and medicinal nitrous oxide (issued on 6 September 2004, valid until 6 August 2007).

### *Ammonia Production Facilities*

According to data from the State Institute of Ammonia Production in Moscow, 38 large scale ammonia production units were built on the territory of the former Soviet Union between 1973 and 1988, with total annual capacity of 17,200,000 tonnes. Construction of ammonia production facilities in the former Soviet Union peaked in 1979 with 15 new units commissioned. There have been no additions to the production capacity of the former Soviet Union since 1988. Of these 38 large scale ammonia production facilities, 20 use technologies and equipment supplied and assembled by foreign companies, namely TEK (Japan), Creussot Loire Entreprises (France) and Chemica (United States), whereas 18 use Russian technology and two in Ukraine are no longer in operation.

Stirol's ammonia production facilities (two units supplied by Creussot Loire Entreprises and one aggregate supplied by Russian producers) are relatively modern, compared to the other ammonia production facilities in the CIS. Importantly, Stirol has continuously invested in its production facilities in order to increase their capacity and energy efficiency as well as enhance the quality of the production output. Investments in 2004 and 2003 were

U.S.\$6.4 million and U.S.\$4.2 million, respectively. As a result of these investments, Stirol has been able to increase the annual capacity of its ammonia production facilities from the original design capacity of 450,000 tonnes per year to 468,600 tonnes per year for each of OAZ 1B and OAZ 1V and to 508,200 tonnes for AM-76.

### ***Urea Production Facilities***

Stirol's first urea production unit was commissioned in 1979 and is based on technology supplied by Tecnimont, an Italian engineering company. Stirol's second urea production unit was commissioned in 1993 and is based on technology purchased from Stamicarbon, a Dutch engineering company. Currently, more than 50 per cent. of urea production facilities worldwide use Stamicarbon technology.

Similarly to its ammonia production facilities, Stirol has continuously invested in upgrades of its urea production plants with a view to increase their production capacity, energy efficiency and the quality of their production output. Investments in 2004 and 2003 were U.S.\$1.8 million and U.S.\$5.5 million, respectively. These investment projects have been carried out in cooperation with the leading international engineering companies active in the chemicals industry such as Tecnimont, Snamprogetti (Italy) and Urea Casale (Switzerland). As a result of these investments, Stirol has been able to increase the annual capacity of its first urea production plant (OZK Urea-1) from the original design capacity of 450,000 tonnes per year to 528,000 tonnes per year and its second urea production plant (OZK Urea-2) from 330,000 tonnes per year to 495,000 tonnes per year.

The Company produced 868,428 tonnes of urea in 2003, which represents, according to the International Fertiliser Industry Association (the "IFA"), approximately 0.8 per cent. of total global production and approximately 5.1 per cent. of total European urea production. The Company intends to expand its urea production capacity to 1,188,000 tonnes per year by the end of 2007 by reconstructing the Urea-1 Plant through the improvement of technological processes of obtaining granulated urea in fluidised layers and the Urea-2 Plant through the improvement of technological processes. The Company's management believes that this can be achieved within the next two years. As such, Stirol has entered into a number of contracts including a U.S.\$7.5 million contract with TEC (Japan) to install an urea granulation unit at OZK Urea-2. Two additional contracts were entered into with Urea Casale (Switzerland), one for U.S.\$15 million for the reconstruction of OZK Urea-2, increasing production capacity to 660,000 tonnes per year, and another for U.S.\$1.68 million for the production and replacement of a high pressure condenser, eventually increasing production capacity to 1,188,000 tonnes per year. A9.5.1.2

### ***Ammonium Nitrate Production Facilities***

The Company's granulated ammonium nitrate production facility was commissioned in three stages. The first stage was commissioned in March 1966 and had a production capacity of 198,000 tonnes per year. Additional stages in May 1967 and December 1970 resulted in total production capacity of 590,000 tonnes per year. The production facility was designed and developed by the Dniprodzerzhynskiy branch of the State Institute of Ammonia Production ("SIAP") and Pridniprovskiy Promstroiproekt. The ammonium nitrate product lines are integrated, having their own nitric acid production workshops. In 2005, the Company introduced an electronic automated system to manage the production process in the ammonium nitrate production facility.

Investments in 2004 and 2003 were U.S.\$1.3 million and U.S.\$1.25 million, respectively. The Company produced 335,000 tonnes of ammonium nitrate in 2003, which represents, according to the IFA, approximately 16.6 per cent. of total Ukrainian production, approximately 1.9 per cent. of total European production and approximately 1.1 per cent. of total global production.

### ***Production Costs***

#### ***Overview of Production Costs***

Natural gas is the single largest component in the cost structure of most producers of nitrogen fertilisers such as ammonia, urea and ammonium nitrate, typically representing approximately 71 per cent. of total production costs, followed by transportation and energy costs.

Stirolchemtrade, a specialist in-house purchasing and sales division of Stirol, is responsible for the procurement of raw materials for the Company.

An overview of Stirol's principal cost items in the production of ammonia for the years 2003-2004 is provided below:

	Unit	2004				2003			
		Volume	Unit cost	Total		Volume	Unit cost	Total	
			(U.S.\$)	(%)	(U.S.\$)		(%)		
<b>Main inputs</b>									
Natural gas	'000 m <sup>3</sup>	1.350	58.64	79.29	74	1.360	51.88	70.55	75
Transport of gas		1.350	4.57	6.17	6	1.360	4.60	6.26	7
Other				1.26	1			0.87	1
<b>Main inputs total</b>			<b>86.72</b>	<b>81</b>			<b>77.68</b>	<b>83</b>	
<b>Energy</b>									
Electricity	'000 kWh	0.105	29.05	3.05	3	0.111	26.13	2.90	3
Heat	Gcal	0.041	14.76	0.61	1	0.020	17.65	0.34	1
Other				5.63	5			3.95	4
<b>Energy total</b>			<b>9.29</b>	<b>9</b>			<b>7.19</b>	<b>8</b>	
Salaries				0.37	1			0.28	0
Other fixed costs <sup>(1)</sup>				10.77	9			8.94	9
<b>Total</b>			<b>107.15</b>	<b>100</b>			<b>94.09</b>	<b>100</b>	
By products				(1.26)				(2.22)	
<b>Unit production cost</b>	'000 m <sup>3</sup>		<b>105.89</b>				<b>91.87</b>		

(1) Includes depreciation and maintenance costs

The unit production cost of ammonia increased U.S.\$8.02 or 8.2 per cent. per 1,000 cubic metres in 2004 from 2003 mainly due to increases in the price of natural gas, which in 2004 had increased by U.S.\$6.76 or 13.0 per cent. per 1,000 cubic metres compared to 2003. The impact of increasing gas prices was partly mitigated by the improvement of the efficiency of Stirol's production process, which led to a decrease in the volume of natural gas consumed per tonne of ammonia produced from 1,360 cubic metres to 1,350 cubic metres. Natural gas transportation tariffs remained unchanged over the period, which resulted in a relative decrease in the natural gas transportation cost due to reduced natural gas consumption per tonne of ammonia.

An overview of Stirol's principal cost items in the production of urea for the years 2003-2004 is provided below:

	Unit	2004				2003			
		Volume	Unit cost	Total		Volume	Unit cost	Total	
			(U.S.\$)	(%)	(U.S.\$)		(%)		
<b>Main inputs</b>									
Ammonia	Tonnes	0.578	108.58	62.76	70	0.580	91.97	53.34	70
Other				0.91	1			0.71	1
<b>Main inputs total</b>			<b>63.67</b>	<b>71</b>			<b>54.05</b>	<b>71</b>	
<b>Energy</b>									
Electricity	'000 kWh	0.135	29.19	3.94	4	0.135	26.15	3.53	5
Heat	Gcal	1.171	13.61	15.94	18	1.167	12.24	14.28	19
Other				1.30	1			1.23	1
<b>Energy total</b>			<b>21.18</b>	<b>23</b>			<b>19.04</b>	<b>25</b>	
Salaries				0.27	1			0.26	1
Other fixed costs <sup>(1)</sup>				3.97	5			3.3	3
<b>Total</b>			<b>89.09</b>	<b>100</b>			<b>76.65</b>	<b>100</b>	
By products				(0.27)				(0.77)	
<b>Unit production cost</b>	Tonnes		<b>88.82</b>				<b>75.88</b>		

(1) Includes depreciation and maintenance costs

The main raw material required for the production of urea is ammonia and thus increases in ammonia production costs during the period from 2003 to 2004 adversely affected the unit production cost of urea over the same period. The increase in labour costs was attributable to increases in the Ukrainian statutory minimum wage,

mainly affecting the auxiliary, repair and maintenance personnel. As a result, the urea unit production cost grew by U.S.\$11.94 or 15.7 per cent. per tonne in 2004 from 2003.

An overview of Stinol's principal cost items in the production of ammonium nitrate for the years 2003-2004 is provided below:

	Unit	2004				2003			
		Volume	Unit cost	Total	Total	Volume	Unit cost	Total	
			(U.S.\$)	(%)			(U.S.\$)	(%)	
<b>Main inputs</b>									
Ammonia	Tonnes	0.214	107.29	22.96	31	0.214	90.93	19.46	28
Nitric acid	Tonnes	0.797	48.06	38.30	52	0.797	48.33	38.52	55
Other				1.40	2			0.95	1
<b>Main inputs total</b>				<b>62.66</b>	<b>85</b>			<b>58.93</b>	<b>84</b>
<b>Energy</b>									
Electricity	'000 kWh	0.035	29.14	1.02	1	0.041	26.34	1.08	2
Heat	Gcal	0.351	13.68	4.80	7	0.433	12.38	5.36	8
Other				1.71	2			2.02	3
<b>Energy total</b>				<b>7.53</b>	<b>10</b>			<b>8.46</b>	<b>13</b>
Salaries				0.32	1			0.43	0
Other fixed costs <sup>(1)</sup>				2.77	4			2.09	3
<b>Unit production cost</b>	Tonnes			<b>73.28</b>	<b>100</b>			<b>69.91</b>	<b>100</b>

(1) Includes depreciation and maintenance costs

The main raw materials required for the production of ammonium nitrate are ammonia and nitric acid. The unit production cost of ammonium nitrate increased primarily due to rising ammonia costs, which was partially off-set by moderate decreases in nitric acid and energy costs. As a result, the unit production cost of ammonium nitrate increased moderately by U.S.\$3.37 per tonne or 4.8 per cent. in 2004 from 2003.

#### Principal Production Costs

Production of Stinol's products involves natural gas and energy costs, staff, administrative and similar costs and transportation costs.

*Natural Gas.* Natural gas is supplied to Stinol by Gas of Ukraine, a wholly owned subsidiary of Naftogaz, responsible for marketing of natural gas to industrial and domestic customers in Ukraine. Naftogaz is the sole operator of the oil and gas transportation, distribution and storage network in Ukraine. Naftogaz is supplied with natural gas by the Russian Federation (via Gazprom), Turkmenistan and local Ukrainian suppliers.

Stinol enters into annual framework agreements with Gas of Ukraine specifying expected delivery volumes. Payments for deliveries are made monthly in arrears, based on the actual amount of natural gas supplied by Gas of Ukraine. Domestic natural gas prices are subject to regulation by the NCRP. See "— Price Regulation — Natural Gas".

Stinol, being one of the largest customers of Gas of Ukraine, has never had any disputes with its supplier nor has it experienced any interruptions in its natural gas supply. See "Risk Factors — Risks Relating to the Company — Sales and profitability may be adversely affected by disruption of the delivery and production of the Company's natural gas supplies or changes in the prices of natural gas and by reliance on one supplier of natural gas".

The NCRP sets maximum prices of natural gas for all categories of consumers including industrial consumers. Over the last two years, natural gas prices have risen to UAH 327.3 from UAH 276.00 per 1,000 cubic metres as at 31 December 2004 and 2003, respectively. Prior to May 2002, Stinol paid UAH 266.35 per 1,000 cubic metres of natural gas under a special tolling agreement involving Itera, a Russian supplier of natural gas, and international trading companies. Under this agreement, instead of cash payments, Stinol paid Itera for natural gas deliveries by ammonia and urea which were subsequently sold in the spot market by the trading companies.

Stinol expects natural gas prices to continue to moderately increase over the medium term. However, the Company also believes that the following factors will favourably impact on the pricing arrangements for and the stability of supply to the Ukrainian industrial producers:



- *Ukraine's role in the transit of Russian gas to Europe.* The Ukrainian gas transportation system operated by Naftogaz is the principal transit corridor for Russian natural gas to Europe. A majority of the gas transported by Naftogaz through Ukraine is owned by Gazprom. Relations between Naftogaz and Gazprom are regulated on the basis of inter-governmental agreements between the Russian Federation and Ukraine. Naftogaz and Gazprom have entered into a long-term contract for the transport of gas through Ukraine for the years 2003 to 2013. Gazprom currently pays for gas transport partially in cash and partially in natural gas. Naftogaz is prohibited from re-exporting the gas it receives from Gazprom as payments in-kind. In addition, an inter-governmental protocol between Ukraine and the Russian Federation also sets maximum annual export quotas for natural gas exported from Ukraine. This creates favourable supply dynamics for Ukrainian natural gas consumers, particularly large industrial enterprises. It is too early to predict whether any of the current or planned alternative natural gas pipeline projects, namely Yamal-Europe II, Blue Stream and North Trans-Gas Pipeline, might undermine Ukraine's current position as the main natural gas transit route to Europe.
- *Ukraine's economy and natural gas.* Ukraine's economy is dependent on natural gas which, according to Naftogaz, accounted for approximately 41-43 per cent. of the country's primary energy consumption in recent years. While Naftogaz's interest is to achieve higher price levels, rapid increases in the natural gas prices would have an adverse effect on the country's whole economy which is largely based on heavy industry. This is reflected by the fact that the price levels, though ultimately set by the NCRP, are subject to extensive negotiations which involve not only Naftogaz but also representatives from the Ukrainian industrial sector.

*Energy.* Stirol uses a significant amount of electricity and heat during the production process. Electricity is supplied to Stirol by Energo Market, a State-owned electricity distributor. Electricity tariffs are regulated by the NCRP. Electricity tariffs in Ukraine have risen to UAH 161.29 and UAH 153.28 per 1,000 kWh as at 31 December 2004 and 2003, respectively. Stirol is currently building two in-house combined cycle gas turbine electricity generation units with an aggregate capacity of 50 Megawatts, which is expected to be completed in 2005 with an estimated cost of U.S.\$8 million. As Stirol's current consumption of electricity is 65 Megawatts, this is expected to provide 76.9 per cent. of Stirol's total electricity needs. Stirol believes that this will lead to significant cost savings and reduce Stirol's dependence on external suppliers of electricity.

Stirol's heat requirements are fully satisfied by its own resources. A significant amount of heat is released during chemical processes within the plant. This heat is captured and subsequently used to meet a part of Stirol's heat needs. The remainder is covered from supplies provided by an in-house heating plant. This protects Stirol's exposure to potential increases in the price of heat.

*Staff, Administrative and Similar Costs.* Stirol's management considers low personnel and administrative costs to be one of the Company's competitive advantages. While Stirol strives to recruit and retain highly qualified personnel, it also appreciates the importance of keeping staff and administrative costs under control. The number of the Company's employees declined, both through redundancies and natural attrition, to an average of 2,581 in 2004 from an average of 3,273 in 2003. A number of employees were voluntarily transferred from Stirol's employment to its non-consolidated subsidiaries and affiliates during 2004.

*Transportation.* Transportation costs can significantly affect the competitiveness of fertiliser producers because transportation costs directly affect the price charged to end-customers. Stirol sells all of its products to trading companies on a "free on board" basis. As a result, Stirol does not bear any additional transportation, storage or insurance costs and risks other than those related to transport from Gorlovka to the ports from which these products are shipped. However, Stirol intends to gradually change its contractual delivery terms from a "free on board" basis to a "cost, insurance and freight" basis, which will incorporate insurance and freight costs into the prices of its products, in order to add value to and increase the competitiveness of its products by decreasing the responsibilities and risks of Stirol's customers. While the Company will incur additional insurance and freight costs as a result, these will be passed on to the trading companies through increases in the price of the Company's products, whose profitability, management of the Company believes, will ultimately increase as a result of the shift in delivery terms.

Stirol's final products are transported via the TGO ammonia pipeline (in the case of ammonia) or railway (in the case of urea and ammonium nitrate) and are primarily distributed by tankers mainly from the port of Odessa on the Black Sea. To a lesser extent, products are also shipped from three other ports, namely Kheresson (on the Black Sea) and Mariupol and Berdiansk (on the Azov Sea).

- *Ammonia Pipeline.* Stirol's core production facilities are connected to the TGO ammonia pipeline. Stirol transports virtually all ammonia that is not further processed into urea and ammonium nitrate via

this pipeline to Odessa where it is loaded into tankers and subsequently delivered to off-takers. The pipeline is operated by Ukrchimtransammiak, a State-owned company. The pipeline is also used by a number of Russian companies. Because ammonia has uniform characteristics (unlike, for instance, crude oil), it can be mixed with output supplied by other producers without any impact on the quality of the product.

Ammonia transportation tariffs are subject to regulation by the NCRP and are set on a predetermined formula, which is based on world prices. As a result, ammonia transportation tariffs tend to fluctuate in line with the fluctuations of ammonia spot prices in the world markets. Ammonia transportation tariffs in Ukraine remained level at UAH 10.68 per tonne per 100 km as at 31 December 2004 and 2003. Stirol makes monthly payments to Ukrchimtransammiak in arrears based on the actual amount of ammonia transported via the pipeline. Stirol has never experienced any disruption in the operation of the pipeline nor has it ever been denied access to this pipeline.

- *Railway Transport.* Stirol transports urea and ammonium nitrate to the port of Odessa by railway. Stirol owns and operates an extensive railway fleet comprising 1,200 carriages specifically designed for transportation of chemical products. Stirol pays Ukrzaliznytsya, the State-owned operator and administrator of the Ukrainian railway network, comprehensive railway transportation tariffs comprising an infrastructure access charge, locomotive rental charges and payments for formation of trains and transport of empty wagons from the ports back to Gorlovka. Railway transportation tariffs are approved by a special order of the Ukrainian government (based on specific proposals from the Ukrainian Ministry of Transport and Communication). Urea transportation costs in Ukraine have risen to UAH 63.10 and UAH 37.30 per tonne as at 31 December 2004 and 2003, respectively. While increases in railway transportation tariffs in the future are possible, the Company believes that any such increases will be moderate as the railway network represents an important means of transport for a substantial majority of Ukrainian industrial companies.

## Sales and Deliveries

### Sales

The sales function within Stirol is performed by Stirolchemtrade, a specialist in-house purchasing and sales division, which itself has three sub-divisions responsible for sales of ammonia, urea and ammonium nitrate, salts and acids and polystyrenes.

Due to the commodity-like nature of Stirol's principal products and easy access to transportation facilities (both railway and pipeline), the Company has not developed its own distribution network and does not plan to do so in the near future.

In 2004, Stirol sold a substantial majority of its ammonia, urea and ammonium nitrate to trading companies on a "free on board" basis at the ports of Odessa, Kheresson, Mariupol and Berdiansk. See "— Production Costs — Breakdown of Production Costs — Transportation".

Stirol minimises credit risk exposure to its trading counterparties by requiring a 100 per cent. advance down-payment for any shipment. The following table provides an overview of sales to the Group's principal trading partners during the last two years.

	2004		2003	
	(UAH)	(%)	(UAH)	(%)
Interprofit 2000, Hungary <sup>(1)</sup> .....	455,613,332	24.22	724,839,250	54.69
Transammonia, USA .....	—	—	24,474,551	1.85
Worldwide Chemicals, USA .....	—	—	20,608,818	1.55
Friston LLP, UK <sup>(1)</sup> .....	1,006,249,902	53.49	—	—
Max Agro, USA .....	—	—	115,775,912	8.73
IBE Trade Corp., USA <sup>(2)</sup> .....	44,881,112	2.39	175,676,551	13.25
<b>Principal trading partners total</b> .....	<b>1,506,744,347</b>	<b>80.10</b>	<b>1,061,375,083</b>	<b>80.07</b>
Other <sup>(3)</sup> .....	374,335,652	19.90	264,101,917	19.93
<b>Total</b> .....	<b>1,881,080,000</b>	<b>100.00</b>	<b>1,325,477,000</b>	<b>100.00</b>

(1) Interprofit 2000 and Friston LLP are related to the Company. See "Risk Factors — Risks Relating to the Company — Stirol's sales are primarily made through two related parties" and "Related Party Transactions — Relationship with Trading Companies".

- (2) IBE Trade Corp. participates in a joint venture, IBE-Stirol, with the Company. See “— Stirol’s Subsidiaries, Associates and Joint Ventures”.
- (3) Other trading partners include related parties (other than Interprofit 2000 and Friston LLP) which accounted for 8.27 per cent. of sales.

### *Deliveries and Sales Destinations*

Stirol monitors world fertiliser markets, using various tools such as daily market updates or expert estimates of short to medium-term trends, which are provided by international consultancies.

Stirol owns and operates on-site storage facilities with an aggregate capacity of 22,000 tonnes of ammonia. As Stirol normally only utilises approximately 80-90 per cent. of its allocated capacity in the TGO ammonia pipeline, it can request Ukrchimtransammiak to increase transportation volumes temporarily. Both of the foregoing factors allow Stirol to adjust flexibly and refine its output of final products in accordance with prevailing conditions in world markets.

Stirol is able to ascertain the final destination of its exported products from its trading partners as such destination is determined prior to Stirol’s export products being loaded onto ships at Odessa, Kheresson, Mariupol and Berdiansk.

An overview of deliveries of Stirol’s ammonia by region is provided below.

	<u>2004</u>	<u>2003</u>
	(%)	
USA .....	28.3	25.0
Turkey .....	20.7	19.9
India .....	17.2	1.3
EU .....	12.8	20.4
Middle East .....	9.8	7.2
Africa .....	8.3	23.1
Other .....	<u>2.9</u>	<u>3.1</u>
<b>Total</b> .....	<b><u>100.0</u></b>	<b><u>100.0</u></b>

Stirol’s deliveries are primarily driven by supply and demand imbalances in the global fertiliser market and resultant fluctuations in the spot prices. High natural gas prices in the United States over the last three years, which forced a number of U.S. producers to temporarily idle their production facilities, was the main factor driving deliveries of Stirol’s products over the period, as disruptions of the U.S. domestic supply were largely replaced by imports sourced from developing countries, including Ukraine. The European demand for ammonia continued to decline, despite a reduction in an import tax applicable to the products coming from CIS countries. The unstable geo-political situation during 2004 in the Middle East resulted in a marked increase in deliveries of Stirol’s ammonia to India.

An overview of deliveries of Stirol’s urea by region is provided below.

	<u>2004</u>	<u>2003</u>
	(%)	
Latin America .....	39.2	56.0
Turkey .....	19.6	6.1
Africa .....	16.2	15.5
Asia .....	12.8	12.2
Middle East .....	11.6	2.8
Europe .....	<u>0.6</u>	<u>7.4</u>
<b>Total</b> .....	<b><u>100.0</u></b>	<b><u>100.0</u></b>

There was a substantial increase in urea sales to Latin America in 2003, mainly to Brazil which had been experiencing a shortage of urea due to operational problems in the urea plants of Petrobras and as a result had to increase its imports by 60 per cent. compared to 2002, though urea supply stabilised in 2004. Increased gas prices in the United States further contributed to a reduction of urea production across North America. The global urea market has also been affected by the general increase in prices in the former Soviet Union, Asia and the Middle East. While price increases from 2000 to 2002 were mainly the result of increases in the costs of raw materials, the 2003 price increases were mainly caused by increases in net demand, predominantly from Latin America, Turkey and the Middle East. Some of the increases in producers’ profit margins were reduced by increases in the

cost of freight. The most significant event of 2003, however, was the emergence of China as a urea producer, as it introduced import restrictions and increased its exports. These factors resulted in the low level of Stirol's deliveries to Asia (12.8 per cent. in 2004 and 12.2 per cent. in 2003) as well as an increase of sales to Turkey to 19.6 per cent. in 2004 from 6.1 per cent. in 2003. Deliveries to the Middle East (including Syria, Israel, Iran and Libya) have substantially increased since 2003.

An overview of deliveries of Stirol's ammonium nitrate by region is provided below.

	<u>2004</u>	<u>2003</u>
	(%)	
Turkey .....	30.9	30.8
Asia .....	20.2	4.7
Africa .....	18.8	5.1
Middle East .....	15.5	6.4
Latin America .....	14.6	50.8
Other .....	—	2.3
<b>Total</b> .....	<b><u>100.0</u></b>	<b><u>100.0</u></b>

Typically, there is a positive correlation between demand for ammonium nitrate and world prices of urea, with higher prices of urea resulting in increasing demand for ammonium nitrate. Historically, a substantial amount of Stirol's ammonium nitrate production has been supplied to markets in Asia, mainly China. However, in November 2002, China introduced a new law on explosives, which effectively banned imports of this product into the country. Brazil and the Philippines followed suit in 2003, which led to a sharp decrease in deliveries of Stirol's products into Latin America. In response to these measures, Stirol sought and obtained a special certificate confirming that the Company's ammonium nitrate products adhere to strict international standards. As a result, Stirol continues to be able to pursue opportunities in Brazil although no deliveries are currently made to China and the Philippines. Deliveries to Africa (including 8.9 per cent. to Morocco) and the Middle East (including 14.6 per cent. to Syria) have substantially increased since 2003.

## Markets

### *Ammonia*

Between 1995 and 2003, world demand for ammonia used in nitrogen fertilisers increased on average by 20 per cent. and for ammonia used for industrial purposes world demand increased on average by 15 per cent. according to the IFA.

The IFA forecasts that world ammonia production capacity will increase by 9 per cent., reaching 172,400,000 tonnes in 2008. The IFA also anticipates that 75 per cent. of this growth in production capacity will be intended for domestic markets and the remaining 25 per cent. for export markets. The growth in world ammonia production capacity is expected to be at the rate of 3,500,000 tonnes per year between 2005 and 2008.

Global market prices for ammonia are volatile primarily because ammonia is used as a fertiliser in agriculture, an industry subject to varying weather and climate conditions. Other factors which cause volatility in the price of ammonia, are the production volumes, external trade and effective prices for ammonia. The price range for ammonia over the last decade has been U.S.\$60-U.S.\$270 per metric tonne on a "free-on-board" basis. The most important factor influencing the price of ammonia is the price for natural gas, which has fluctuated.

### *Urea*

According to the IFA, world demand for urea in 2008 may exceed 124,000,000 tonnes. Current market conditions are difficult due to a surplus of supply over demand. However, this surplus is expected to be reduced if the use of urea in production technologies of pure fuel (fuel with a low content of sulphur) expands in the United States and western and central Europe.

### *Ammonium Nitrate*

According to the IFA, global demand for ammonium nitrate is expected to remain at current levels in the medium term. Much of the global demand for ammonium nitrate is from foreign markets. The Company exported 68.3 per cent. of the ammonium nitrate it produced in 2004.

## Competition

### *Stirol's Position in the Ukrainian Fertiliser Market*

Even though Stirol supplies fertilisers to the Ukrainian domestic market (the Company's management estimates that Stirol has a 25 per cent. approximate market share in its main products), Stirol does not currently compete with other Ukrainian chemical fertiliser producers because the majority of the Company's production of fertilisers is exported.

Unlike other Ukrainian fertiliser producers, with the exception of the Odessa Port Plant located in the immediate vicinity of the port of Odessa, Stirol is connected to the TGO ammonia pipeline. This gives Stirol a significant competitive advantage in comparison to other Ukrainian fertiliser producers. Stirol's proximity to this pipeline is indicated below:



Rather than competing with Ukrainian producers, Stirol competes against major Chinese, Indian and Middle Eastern fertiliser producers. These producers have access to cheap natural gas and also a comparative geographical advantage in relation to major Asian markets. Stirol's closest competitor geographically is located in Russia.

### *Ammonia*

According to the IFA, the Company's main European competitors in ammonia production are enterprises in the Russian Federation with total aggregate production capacity of 13,396,000 tonnes per year. Stirol's major Russian competitors are OJSC Nevinnomyssky Azot (Nevinnomyssk), JSC Azot (Novomoskovsk), OJSC Azot (Kemerovo), OJSC Azot (Berezniki), OJSC Akron and OJSC Togliattiazot.

### *Urea*

According to the IFA, the Company's main competitors in urea production are enterprises in the Russian Federation with aggregate production capacity of 5,496,000 tonnes per year, in China with an aggregate production capacity of 40,309,000 per year and in Saudi Arabia with an aggregate production capacity of 2,615,000 tonnes per year.

Fertiliser producers in the Middle East have the advantage of low transport and raw material costs and can therefore deliver products at low prices. However, these producers cannot satisfy the needs of the entire global market, which is also supplied by Russian and Ukrainian exporters.

Factors contributing to the Company's favourable competitive position in the urea market include its location in a region with a well-developed transport infrastructure and its relative proximity to the ports of Odessa, Kheresson, Mariupol and Berdiansk.



### *Ammonium Nitrate*

The Company's ammonium nitrate sales in the domestic market are mainly limited within the geographical borders of the region near Donetsk towards Kharkiv in the North, Dnipropetrovsk and Zaporizhzhya in the West and Crimea in the South-East, as long-distance supplies increase the product's final cost to agricultural producers due to an increased transport expense.

According to the IFA, the Company's main European competitors in ammonium nitrate production are enterprises in the Russian Federation, namely OJSC Nevinnomyssky Azot (Nevinnomyssk), Novomoskovsk JSC Azot (Novomoskovsk), OJSC Azot (Kemerovo), OJSC Azot (Berezniki), OJSC Akron and OJSC Togliattiazot, with an aggregate production capacity of 6,784,000 tonnes per year.

Factors contributing to the Company's favourable competitive position in the ammonium nitrate market include its location in a region with a strongly developed transport infrastructure and its relative proximity to the ports of Odessa, Kheresson, Mariupol and Berdiansk.

### **Non-Core Products**

In order to diversify from its traditional basic chemicals and fertilisers business, Stirol launched a number of initiatives during the 1990s, most notably production of polystyrenes and pharmaceuticals. The management of the Company believes that development of these businesses will reduce Stirol's dependence on the performance of its inherently volatile core business, which is subject to factors beyond the Company's control, such as the world price of natural gas and weather conditions.

### *Organic Products (Polystyrenes)*

Organic production at Stirol comprises three main products: expandable polystyrenes, high impact polystyrenes and general purpose (suspension) polystyrenes.

Expandable polystyrenes are used as insulation materials in the construction industry as well as for packaging (part of the production is supplied to Stirol Pack).

High impact polystyrenes are used in the manufacturing of consumer electronics (such as televisions) and white goods (such as refrigerators).

General purpose polystyrenes are used in the manufacturing of commonly used items such as audio or compact disc boxes, disposable plates and other items.

### *Production*

The total production of organic products in 2004 and 2003 was 28,789 tonnes and 20,071 tonnes, respectively. The Company's polystyrene production line has a capacity of 56,500 tonnes per year. The Company intends to upgrade this facility so as to increase production capacity to 80,500 tonnes per year by 2006.

As at 31 December 2004, 117 employees worked in polystyrene production.

### *Raw Materials*

The main raw material for polystyrene production is styrene-monomer, which Stirol purchases from Russian and Austrian producers, namely JSC Nizhnekamskneftekhim (Russia), JSC Salavatnefteorgsintez (Russia), LLC Gasexport (Russia) and Citco Waren-Handelsgesellschaft m.b.h. (Austria).

### *Sales and Customers*

In 2004, sales of organic products accounted for 7.2 per cent. of the Company's total sales by value. Total sales of organic products in 2004 and 2003 were 26,944.77 and 19,371.22 tonnes, respectively.

Products are sold primarily to producers of a variety of technical products and consumer goods (such as sheets, internal components of refrigerators, electro-technical and radio-technical goods). In addition, polystyrene is used in food packaging, technical packaging, production of insulation boards and construction.

### *Markets and Competition*

Stirol has a monopoly on polystyrene production in Ukraine. The Company's main polystyrene competitors are JSC Salavatnefteorgsintez (Russia) with production capacity of 51,000 tonnes per year, JSC Nizhnekamskneftekhim (Russia) with production capacity of 50,000 tonnes per year.



Currently, the use of polystyrene goods is relatively low in Ukraine and CIS countries, compared to western Europe.

### *Other Inorganic Products*

Stirol's other inorganic products principally include sulphuric acid, sodium nitrate and sodium nitrite. These are used in the production of mineral fertilisers, chemical fibres, mineral pigments, dyes and in other industrial applications.

#### *Production*

Sulphuric acid is used in mineral fertiliser production, organic dyes, chemical fibres, metal etching in non-ferrous metallurgy, production of molasses, glucose, alcohol, acids, mineral pigments and dyes and for other industrial purposes.

Sodium nitrite is used in the production of azonic colours, in construction as a freeze-resistant agent in concrete, in car construction for thermal tempering components and in galvanization as an agent preventing atmospheric corrosion.

Sodium nitrate is used in the chemical, glass, metallurgical, pipe and other industries and can also be used as a fertiliser.

The total production of other inorganic products in 2004 and 2003 was 108,417 tonnes and 234,417 tonnes, respectively.

As at 31 December 2004, 105 employees worked in the production of other inorganic products.

#### *Operations and Technology*

The Company's other inorganic products line has a production capacity of 65,000 tonnes per year (for sodium nitrate), 65,000 tonnes per year (for sodium nitrite) and 120,000 tonnes per year (for sulphuric acid). In 2005, the Company intends to introduce microprocessor technology (a system for process management) at the plant, which is expected to enable it to increase its capacity utilisation.

#### *Raw Materials*

The main raw materials required for the production of other inorganic products are sulphur, nitric acid and caustic soda.

#### *Sales and Customers*

In 2004, other inorganic products accounted for 4.1 per cent. of the Company's sales by value. The other inorganic products produced by Stirol are sold primarily as raw materials to the producers of chemical, chemical-recovery, energy, metallurgical, automobile, pharmaceutical, textile and food products.

The geographical breakdown of other inorganic products sales by volume in 2004 was as follows: 15.1 per cent. to western Europe (principally Germany and Italy), 70.1 per cent. to central and eastern Europe (principally Russia and Ukraine) and 14.8 per cent. to other countries (Kazakhstan, Uzbekistan and others).

In 2004, the five largest consumers accounted for 40.6 per cent. of the Company's annual sales of other inorganic products by volume, while the ten largest customers accounted for 56.3 per cent.

#### *Markets and Competition*

According to the Statistical Office of the European Communities ("Eurostat"), demand for sodium nitrite may grow by 2.5 per cent. in 2005 but significant growth of demand is not expected in the near future. Demand for inorganic acid is expected to remain stable. Much of the demand for salts is in foreign markets. The main demand for inorganic acids is in the domestic market of Ukraine.

The Company's current production capacity of other inorganic products is as follows: sulphuric acid — 120,000 tonnes per year (supplying 40-50 per cent. of the Ukrainian market), sodium nitrate — 65,000 tonnes per year (supplying 75 per cent. of the Ukrainian market) and sodium nitrite — 65,000 tonnes per year (supplying nearly 100 per cent. of the Ukrainian market).

The management of the Company estimates that the Company has a 1 per cent. market share in western Europe.

According to Eurostat, the Company's major European competitors in the inorganic products business are enterprises in Germany.

### *Pharmaceuticals*

#### *Production*

As part of the Company's strategy to diversify its operations, pharmaceutical production was launched in 1996 to provide quality medical products to the Ukrainian market at moderate prices. It initially offered three products: vitamin C, aspirin and paracetamol (both in tablet and capsule form). In 1998, Stirol's pharmaceuticals production facility obtained a good manufacturing practice ("GMP") international quality standards certificate from the National Institute for Pharmacy of Hungary.

Currently, Stirol manufactures approximately 50 different drugs, most of which are generic drugs where the original patents have expired. The designed annual production capacity of Stirol's pharmaceutical production facility is 950 million pills and capsules. Pharmaceutical products are sold domestically and exported to most CIS countries, including Russia, Kazakhstan, Belarus and Azerbaijan.

"Stirolbiopharm", an associated company of Stirol, carries out research and development of pharmaceutical products.

The total volume of pharmaceuticals produced in 2004 and 2003 was 536,519,059 units and 483,631,196, respectively.

As at 31 December 2004, 280 employees were engaged in pharmaceuticals production.

#### *Operations and Technology*

The pharmaceuticals facility has a production capacity of 950 million pills and capsules per year. The production unit for liquid medical agents has a capacity of 16 million tubes and ampoules per year. The facility operates on the basis of two production shifts of 12 hours each.

#### *Raw Materials.*

The main raw materials required for the production of pharmaceuticals are sodium ascorbate, ascorbic acid, acetylsalicylic acid, granulated paracetamol, capsular paracetamol, aspartame, piperphenazon, calcium gluconate and loratadine. These raw materials are mainly imported from different suppliers depending on the type of raw material, such as IVAX-CR a.s. (Czech Republic), Vaishali Pharmaceuticals (China), Helm AG (Germany), Rohm (Germany), Rhodia Inc. (USA), Roche Vitaminis Europe (Switzerland), Holland Sweet (The Netherlands), Associated Drug Company (India), Lucaps (Croatia) and Avebe Glucona (The Netherlands).

#### *Sales and Customers*

In 2004, pharmaceuticals accounted for 2.1 per cent. of the Company's revenues. Sales of pharmaceuticals by volume in 2004 and 2003 were 552,100,378 units and 401,304,434 units, respectively.

94.5 per cent. of the pharmaceuticals produced by Stirol in 2004 was sold in the domestic market. In 2004, 1.9 per cent. of the Company's pharmaceutical products were exported to eastern Europe (principally Latvia and Lithuania), and 3.6 per cent. to the rest of the world (principally Kazakhstan and Russia).

#### *Markets and Competition*

The Company intends to expand its current pharmaceuticals capacity from 950 million to 1,100 million tablets and capsules per year by 2007, as it is currently producing at full capacity as of April 2005. The Company believes that its medical products manufactured and sold under the "Stirolbiopharm" trademark have recognizable brand names amongst the professional medical community and consumers and have stable sales volumes in Ukraine and most former Soviet republics, including Russia, Moldova, Kazakhstan, Belarus, Turkmenistan, Azerbaijan, Georgia and Latvia.

The Company's main competitors in the pharmaceutical business are the domestic producers Darnitsa, Pharmak and the Borschahovsky chemical-pharmaceutical plant.

*Packaging and Other Products Derived from Chemicals*

Stirol also has a number of other domestic business activities that are not related to its core businesses and account for a relatively small proportion in its production and sales. Such activities include the production of packaging materials that, in aggregate, accounted for 2.5 per cent. of Stirol's revenues in 2004.

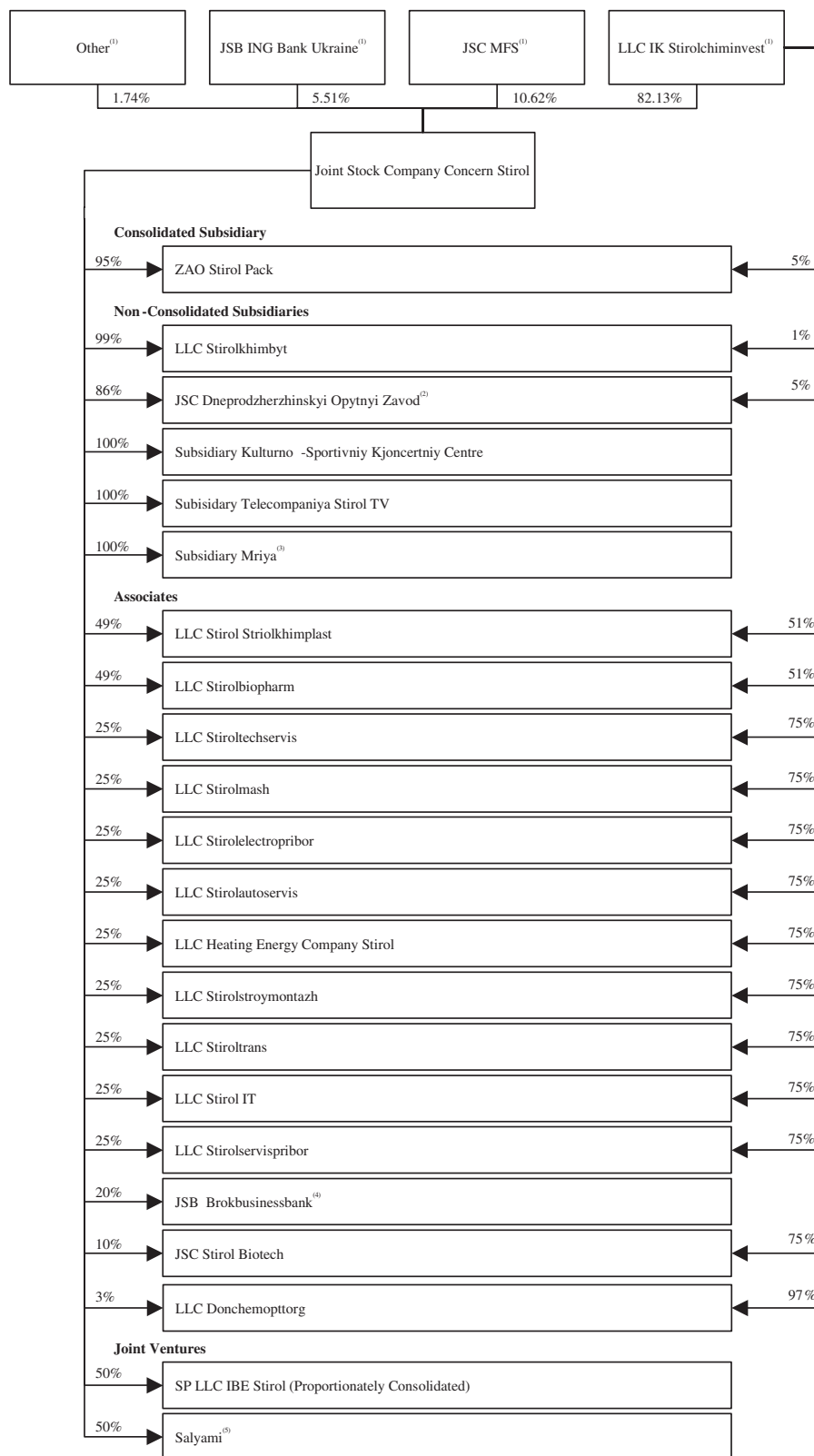
Since 1994, through its subsidiary Stirol Pack, Stirol has produced various packaging materials used in catering and food distribution, such as disposable plates, boxes and packaging films, and in the construction industry, such as foamed polystyrene boards, polystyrene and polypropylene strips, polyethylene, foamed polystyrene and foam-rubber goods. In 2004, revenues from packaging and other products derived from chemicals were UAH 46.5 million.

As at 31 December 2004, Stirol Pack had 173 employees.

### Stirol's Subsidiaries, Associates and Joint Ventures

The chart below shows the organisational structure of the Group as at 31 December 2004:

A9.6.1



(1) See "Principal Shareholders"

(2) As of 1 July 2005, Stirol's stake was increased to 92.7 per cent. and LLC IK Stirolchiminvest's stake was reduced to 0 per cent.

(3) Liquidated in June 2005.

(4) Stirol's stake was reduced to 0 per cent. in April 2005.

(5) Stirol's stake was increased to 100 per cent. in March 2005.

Stirol conducts its principal businesses itself. In addition, Stirol has a number of subsidiaries and associates which provide various supporting services to the main production units, such as LLC Stirol IT (information technology) or LLC TEC Stirol (heat supplies). While several of the subsidiaries and associates use Stirol's name or trademark, most revenues are generated by the Group.

As of 31 December 2004, Stirol owned 95 per cent. of the share capital of Stirol Pack, an increase from its 66 per cent. ownership as of 31 December 2003. Stirol Pack produces and sells consumer packaging goods used in catering, food distribution and construction. Stirol created Stirol Pack on 19 July 2001 and the 2004 Financial Statements include the consolidated results of Stirol Pack. As of 1 June 2005, the issued share capital of Stirol Pack was UAH 24,109,477.81, comprised of 2,410,947,781 fully paid up ordinary shares. In 2005, Stirol Pack distributed dividends of UAH 1.19 million to Stirol and UAH 0.63 million to LLC IK Stirolchiminvest and reinvested UAH 1.13 million in its production development. In 2004, Stirol Pack declared dividends of UAH 0.97 million to Stirol and UAH 0.50 million to LLC IK Stirolchiminvest and reinvested UAH 0.77 million in its production development. See “— Non-Core Products — Packaging and Other Products Derived from Chemicals”.

Stirol also participates in a joint venture, IBE-Stirol, with a U.S. company, IBE Trade Corp., and a Belize company, Sydney 2000 Corp. IBE-Stirol produces, sells and markets ammonium nitrate in Ukraine and abroad. IBE-Stirol was established in 1995 as a 50:50 joint venture between Stirol and IBE Trade Corp. In 2004, IBE Trade Corp. sold a 30 per cent. stake in IBE-Stirol to a third party, Sydney 2000 Corp., thereby reducing its stake to 20 per cent. The 2004 Financial Statements include the proportionately consolidated results of IBE-Stirol. As of 31 December 2004, its total annual sales amounted to UAH 13,005,800 and its issued share capital was UAH 9,586,400. In 2004, IBE-Stirol distributed dividends totalling UAH 63,000. See “Related Party Transactions — Relationship with Trading Companies”.

The Company's affiliates and non-consolidated subsidiaries are each described in the table below. The registered offices of a majority of the Company's affiliates and non-consolidated subsidiaries are 10 Gorlivskoyi Dyviziyni Street, Gorlivka, Donetsk 84610, Ukraine (other than as noted below).

<u>Subsidiary/Associate/Joint Venture</u>	<u>Total annual sales</u>	<u>Issued Share Capital</u>	<u>Dividends distributed to Stirol</u>	<u>Activities</u>
<i>(As at 31 December 2004 in UAH thousands<sup>(1)</sup>)</i>				
Subsidiary Kulturno-Sportivniy Koncertniy Centre <sup>(2)</sup> . . . . .	663.7	511.7	—	Social activities and sports.
Subsidiary Telecompaniya Stirol TV <sup>(2)</sup> . . . . .	141.1	233.2	—	Media, broadcasting and television programs.
Subsidiary Mriya . . . . .	—	93	—	Trade of food products. Mriya was liquidated in June 2005.
LLC Stirolkhimbyt . . . . .	4,735.1	150	—	Manufacture and sale of varnish- paint products (for example, enamels, materials for concrete and metal surfaces for protection from the effect of industrial activities, paints, undercoat acrylic mixtures, final filler, building adhesive and water- dispersive interior and façade paints).
LLC Dneprodzherzhinskyi Opytnyi Zavod <sup>(3)</sup> . . . . .	1,353.5	254	—	Science and scientific services.
LLC Stirolkhimplast . . . . .	895.4	20.5	—	Production of polymer goods and semi-finished products.

<u>Subsidiary/Associate/Joint Venture</u>	<u>Total annual sales</u>	<u>Issued Share Capital</u>	<u>Dividends distributed to Stirol</u>	<u>Activities</u>
	<i>(As at 31 December 2004 in UAH thousands<sup>(1)</sup>)</i>			
LLC Stirolbiopharm . . . . .	109.4	20.5	—	Research and development of pharmaceuticals in tablets and capsules, liquid sterile medicines in syringe-tubes and tube-droppers, veterinary products, medicinal nitrous oxide (N <sub>2</sub> O), CO <sub>2</sub> , O <sub>2</sub> , and (non-radioactive) isotope O <sub>18</sub> .
LLC Stiroltechservis . . . . .	13,800.9	20.5	7.2	Assembly of internal engineering networks, systems, devices and measuring instruments. Assembly, repairs, diagnostics and servicing of dynamic equipment, static equipment, hoisting devices and hydraulic systems.
LLC Stirolmash . . . . .	22,217.2	18.5	64.8	Metallurgy and metal processing, production of machines and equipment.
LLC Stiroelectropribor . . . . .	7,466.6	18.5	31.7	Repair assembly and installation of engines, generators and transformers, electrical and control facilities, other electric equipment and household appliances.
LLC Stirolautoservis . . . . .	13,436.3	18.5	34.2	Transportation of passengers and goods by automobile transport.
LLC TEC Stirol . . . . .	21,402.1	18.5	12.5	Water steam and hot water supply, water purification and distribution and removal, utilisation and sanitisation of waste.
LLC Stirolstroyontaj . . . . .	50,283.4	18.5	12.5	Construction activities, assembly of structures and external engineering networks and systems, assembly of internal engineering networks, systems, devices and measuring instruments.
LLC Stiroltrans . . . . .	2,163.4	18.5	3.7	Transportation of goods via railways.
LLC Stirol IT . . . . .	3,331.9	20.5	6.2	Software development and implementation, repair and sale of computer hardware, cartridge refilling and recovery, repair of office hardware, dial-up internet networking services, website creation and hosting and electronic advertisement creation.
LLC Stirolservispribor . . . . .	2,595.7	20.5	2.6	Repair, assembly and installation of control-measuring equipment.
JSB Brokbusinessbank . . . . .	447,914	250,007	640	Wholesale and retail banking.



<u>Subsidiary/Associate/Joint Venture</u>	<u>Total annual sales</u>	<u>Issued Share Capital</u>	<u>Dividends distributed to Stirol</u>	<u>Activities</u>
	<i>(As at 31 December 2004 in UAH thousands<sup>(1)</sup>)</i>			
JSC Stirol Biotech <sup>(4)</sup> . . . . .	61,606	3,417.6	—	Production and realization of lysine-protein fodder additive, fodder concentrates and mixed fodders. Production of nutritive agents.
LLC Donchemoptorg . . . . .	48,812.9	657.5	30.0	Wholesale and retail trading of mineral fertilisers, agricultural production and catering services.
Salyami <sup>(5)</sup> . . . . .	150	5,176.7	—	Production, processing and sale of meat, including sausages and other food and agricultural products. Provision of catering services in bars and cafes. Organisation of deliveries, trade and sales through food stores owned by it or through third parties.

(1) Determined in accordance with Ukrainian National Accounting Standards.

(2) Registered office located at 74 Dimitrova Blvd., Gorlovka, Donetsk region, Ukraine.

(3) Registered office located at 1A Gorobtay Street, Dneprodzerzhinsk, Dnepropetrovsk region, Ukraine.

(4) Registered office located at 127 Kievskaya Street, Obukhiv, Kiev region, Ukraine.

(5) Registered office located at Novolugansk Village, Artemivske district, Donetsk region, Ukraine. Salyami was established in 1996 as a limited liability company by Stirol and the Ukrainian Collective Agricultural Enterprise Pervomaiskoye whose stake in Salyami constituted 50.4 per cent. In March 2005, Stirol completed the purchase of the remaining stake in Salyami from JSC Vostokselkhozprodukt, the legal successor to Collective Agricultural Enterprise Pervomaiskoye. Stirol currently holds a 100% stake in Salyami.

## Employees

While Stirol strives to recruit and retain highly qualified personnel it also appreciates the importance of keeping staff and administrative costs under control. Management is continuously reviewing options which would increase the efficiency of Stirol's operations.

The average number of persons employed by the Company, Stirol Pack and IBE-Stirol JV as at 31 December 2004 and 2003 was as follows:

	<u>As at 31 December</u>	
	<u>2004</u>	<u>2003</u>
Stirol . . . . .	2,305	3,273
Stirol Pack . . . . .	269	232
IBE-Stirol JV . . . . .	<u>7</u>	<u>7</u>
<b>Consolidated employee numbers</b> . . . . .	<u><u>2,581</u></u>	<u><u>3,512</u></u>

As at 31 December 2004, 1,696 of these employees were located at the Company's head office. Annual employee turnover has not on average exceeded 1 per cent. during 2004 and 2003.

In 2004, the Company altered its organisational structure to create a number of subsidiaries and associates, which provide support services to the Company and third parties. The number of employees has gradually declined, through redundancies, natural attrition and the voluntary transfer of employees from Stirol to non-consolidated subsidiaries and associates in 2004. The Company compensates the subsidiaries and associates for the services they provide to it, in an amount sufficient to cover their expenses, including employee salaries.

The Company operates a two-tier remuneration policy scheme, whereby overall compensation is based on both working time as well as results (efficiency and quality of production) achieved by individual employees. Salaries are paid to the Company's employees according to standards and safeguards stipulated by Ukrainian employment

legislation and consist of a fixed wage combined with an element of performance related pay. Performance related pay is established in the form of a percentage of the fixed wage to which the employee is entitled depending on qualifications and the type of work performed. The amount of such performance related pay is established in the collective labour agreement concluded between the Company's management and the Trade Union of Workers of the Chemical and Petro-Chemical Industry of Ukraine (the "Trade Union"). In addition, the Management Board may increase the monthly salary of an individual employee by up to 30 per cent. depending on his or her performance results.

Stirol actively promotes further professional development of its employees. Specialists that receive second graduate degrees are paid an additional 25 per cent. of their fixed wage, and the attainment of a scientific degree or academic rank entitles them to an additional one-off compensation payment of 50 to 100 per cent. of their monthly salary. The Company's maintenance personnel are entitled to a salary increase ranging from 12 to 24 per cent. depending on qualifications. For highly qualified specialists, the Company provides accommodation in Company flats, which after five years of service can be transferred to them free of charge.

95.6 per cent. of Stirol's employees are unionised and belong to the Trade Union, which was established in 1933. The Company believes that it generally has good relations with its employees and the Trade Union. The Trade Union is represented by a trade union committee, whose representatives attend meetings of the Management Board. All of the Company's employees are covered by collective bargaining agreements, which deal principally with conditions of employment, wages, promotions, pension schemes, certain benefit programmes, procedures for hiring and dismissing employees and procedures for settling labour disputes and severance pay. Stirol has never experienced any material form of industrial action and no material disputes with employees have occurred to date.

### **Research and Development**

Stirol has consistently invested in its research and development capabilities and in acquiring new technologies. The Company places strong emphasis on research and development. In 2004, the Company's estimated cost savings as a result of research and development activities were UAH 10.79 million, including UAH 8.78 million from technical innovations and UAH 2.01 million from improvements in its operating methods.

The Company has its own scientific and research centre, which carries out and controls all of its research and development activities for an annual running cost of approximately UAH 5 million. In 2004, the Company spent UAH 5.7 million on its scientific and research centre, of which UAH 4.52 million (79.3 per cent.) was spent on employees' wages, UAH 0.12 million (2.0 per cent.) on health and safety, UAH 0.34 million (6.0 per cent.) on sample materials for tests and experiments, UAH 0.21 million (3.7 per cent.) on equipment maintenance and the remaining 0.51 million (9 per cent.) on other expenses. As of 31 December 2004, 180 employees worked in this centre.

## Intellectual Property

The following table sets out the most important registered and pending patents of the Company effective in Ukraine. Registration numbers starting with the letter “P” are pending applications which have yet to be registered.

<u>Patent reg. no.</u>	<u>Content/name of the patent</u>	<u>Date of application/grant of protection and valid through</u>
20040705765 . . . .	Method of Profound Water Demineralization	Valid through 13 July 2024
20040706181 . . . .	Method of Partial Water Demineralization	Valid through 26 July 2024
20040806656 . . . .	Water Clarification Method	Valid through 10 August 2024
54347A . . . . .	Controlling System for Steam Turbine Automatic Regulation	Valid through 19 November 2008
55993A . . . . .	Method for Determination of a Weight Fraction of Calcium Sulfate and Calcium Nitrate in Reinforced Ammonium Nitrate with Dolomite and Sulfate Makeweight	Valid through 13 August 2008
39380A . . . . .	Method for Extraction of Sodium Nitrite and Absorber for Running the Process	Valid through 26 June 2006
36099A . . . . .	Method for Determination of a Weight Fraction of Calcium Nitrate and Calcium Carbonate in Ammonium Nitrate Limestone	Valid through 2 November 2005
P 20040402966 . .	Method of Production of Porous Ammonium Nitrate	Priority date — 21 April 2004
P 20041008203 . .	Polystyrene Production Method	Priority date — 11 October 2004
P a 200500654 . .	Foaming Polystyrene Production Method	Priority date — 25 January 2005

Stirol currently holds a total of 381 patents, trademarks and copyright registrations including 269 patents and similar documents protecting rights to inventions (114 patents effective in Ukraine, 104 patents effective in Russia and 51 author’s certificates that were issued during the Soviet period but are still effective in Ukraine), nine documents protecting useful patterns (three patents effective in Ukraine and five certificates and one patent effective in Russia), 15 registrations protecting industrial designs (12 patents effective in Ukraine and three author’s certificates that were issued during the Soviet period and are still effective in Ukraine); 86 trademarks (83 effective in Ukraine and three effective in Russia) and two copyright registrations (both effective in Ukraine)

Of the above 381 patents, trademarks and copyright registrations, 60 (30 patents and 30 trademarks) are used in the Company’s day-to-day operations, whereas the remaining 321 are not used on a daily basis but have commercial value. In addition, there are 21 applications (17 for inventions, one for a useful patterns, one for an industrial design and two for a trademark) still pending.

The Company relies on commercial confidentiality to protect a number of other industrial designs and processes which are not protected by patents, trademarks and copyright.

## Insurance

The insurance industry in Ukraine is currently developing and many forms of insurance protection common in other countries are not yet generally available or economically feasible. As a result, Stirol does not have any comprehensive insurance coverage for all of its premises and equipment, business interruptions or environmental damage arising from Stirol’s operations, save for premises and equipment which are pledged as security with respect to certain of the Company’s borrowings. In addition, Stirol does not have insurance protection against third party liability arising from accidents on Company property or relating to Company operations or products. See “Risk Factors — Risks Relating to the Company — Stirol could be subject to liabilities that are not covered by insurance, which could adversely affect its operations and financial condition”.

## Litigation

The Company is not aware of any pending or threatened litigation, arbitration or similar proceedings which would have a material impact on the financial condition, results of operation or cash flows of the Company.

## **Taxation**

The Ukrainian tax system is complex and open to wide and sometimes conflicting interpretations. Tax declarations are subject to reviews and investigations by a number of authorities. Since Stinol is an export orientated enterprise, the tax authorities perform regular reviews of its tax position. These reviews, which are conducted by State, regional and municipal tax authorities, are performed at least once per year and typically entail an extensive on-site inspection. Ukrainian tax authorities have reviewed all of Stinol's tax declarations for the years 2001 to 2004 without any objections or negative findings being made or identified.

Between 2000 and 2004, Stinol initiated a number of court proceedings as plaintiff against the Ukrainian tax authorities whereby the Company challenged the late reimbursement of VAT related to its exports. In all of these cases, the relevant courts ruled in Stinol's favour and ordered the tax authorities to reimburse the VAT claimed. The tax authorities did not appeal against these decisions and made the payments to Stinol as required.

On 25 March 2005, the Verkhovna Rada (Parliament) of Ukraine adopted a law which cancelled the preferential tax treatment which Stinol and certain other companies previously enjoyed, whereby profits derived from certain qualifying investment projects were exempt from Ukrainian corporate income tax for the first three years of the operation of such projects and for the following three years, the otherwise applicable standard 25 per cent. flat rate of corporate profits tax was reduced to 12.5 per cent. As of 31 March 2005, Stinol has been subject to corporate income tax at a flat rate of 25 per cent. As permitted under relevant legislation, the Company has opted to apply the annulment retroactively from 1 January 2005 because it assessed its tax savings as minimal. See notes 24 and 29 to the 2004 Financial Statements for additional information concerning this preferential income tax treatment.

## **Industrial Safety**

In July 2003, the Company was the first enterprise in Ukraine to receive certification that its labour conditions and health protection systems were in compliance with the international standard OHSAS 18001.

## **Quality**

The Company is committed to ensuring that its quality management systems conform with the requirements of international standard ISO 9001, which sets a standard for management and review of production process.

In January 1995, Stinol's quality management systems in its high impact polystyrene, expandable polystyrene and ammonium nitrate facilities were certified as compliant with the international standard ISO 9002, an emerging global standard for product and process quality. The certificate was issued by Lloyd's Register Quality Assurance ("Lloyd's Register") and Stinol was the first company in Ukraine to receive such a certificate.

In 1997 the Company's quality system was extended to its new pharmaceuticals production line and was certified to comply with international standard ISO 9002 by Lloyd's Register.

In 1998, the scope of the original ISO 9002 certification was extended by Lloyd's Register to include the production of solid drugs and nitrate and nitrite salts. In 2001, the quality management systems were re-assessed and the scope of the ISO 9002 certification was further expanded.

Since 1998, Stinol's pharmaceuticals production has been certified by the National Institute for Pharmacy of Hungary as compliant with the International Rules of GMP, a necessary pre-requisite for the sale of pharmaceutical products in world markets.

Production of inorganic acids and salts was certified to comply with international standard ISO 9001 by BVQI in 2004.

Currently, ISO 9002 certification by Lloyd's Register covers 17 production facilities which manufacture aspirin, paracetamol, vitamin C, medicinal nitrous oxide, water with isotope O-18 (for medical purposes), high-impact and expandable polystyrenes, granulated ammonium nitrate, sodium nitrite, sodium nitrate, liquid nitrogen dioxide, Spectrum concentrate, polymeric enamel PS 149/160, enamel PF 115, Aquagel water-dispersion dye, polymeric varnish PS, Kompositclass adhesive and urea.

## **Environmental Regulation**

### **General**

State laws (principally Ukraine's 1991 law on environmental protection) and other regulations contain provisions for the control and protection of the environment in Ukraine. These laws and regulations govern, among other

things, the use of natural resources, ecological safety standards including atmospheric emissions, the treatment of industrial effluents, the use, handling and disposal of waste and the control of water resources and health and safety of workers. In addition, environmental protection legislation in Ukraine provides that industrial enterprises are liable for damage caused by the contamination of the environment and deterioration of natural resources as a result of their activities. Stinol's production facilities are subject to environmental monitoring and regulation with respect to air quality control, air emissions and the use, disposal and storage of hazardous materials.

### ***Environmental Compliance***

Stinol holds a number of environmental licences and permits, including a licence for the production of highly hazardous chemicals (liquid ammonia, sodium nitrite and nitric-acid sodium), a licence for the production of agricultural chemicals (ammonium nitrate and urea) and permits for air emission control and waste disposal. Licences are issued for a three-year period and are subject to renewal upon expiry while air emission permits are issued for a five-year period and waste disposal permits are renewable annually. Stinol has all the licences and permits required for its current operations.

Stinol is subject to monitoring by the Ministry of Environmental Protection of Ukraine (the "Ministry of the Environment") (through its regional agency, the State Management of Ecology and Environmental Resources in the Donetsk Oblast), which conducts regular and random inspections of the Company with respect to environmental compliance.

In addition to the above, Stinol has adopted its own system of environmental standards and controls. Management considers that it has an effective internal environmental management and monitoring system.

### ***Environmental Expenses***

At present, Ukrainian industrial enterprises, whose activities have an adverse impact on the environment, are required to make quarterly payments, so called environmental contamination collections ("ECCs"), to the local government authorities. ECCs are payable for release of pollutants into air, discharge of wastewater into the environment and waste disposal. Provided the discharge of pollutants remains within the statutory limits set by the Ministry of Environment, each polluter pays an amount determined by the quantity of the pollutant released multiplied by a specific collection rate (as set by the Ministry of Environment). The amount due is then further adjusted depending on the region in which the enterprise is located. ECCs payable for discharge within the statutory limits are tax deductible. In the years 2004 and 2003, Stinol made ECC payments of UAH 358 thousand and UAH 297 thousand, respectively.

The Company's management believes that other than as stated above, the Company has no significant expenses arising from environmental damage caused by Stinol's activities.

### **Regulation of Pharmaceutical Production**

Ukrainian legislation requires the licensing of the production and sale of medicines and development, production, preparation, storage, transportation, acquisition, transfer, import, export, sale and utilisation of narcotic psychotropic agents and precursors. Stinol holds licences for the production and sale of pharmaceuticals as well as a licence for storage, export, transportation and sale of precursors. The licences are issued for a term of three years by the State Department for Control over the Quality, Safety and Production of Medicines and Medical Products of the Ministry of Healthcare ("the State Agency of Medicines and Medical Products"). In order to procure the licence Stinol has to comply with certain technological standards and requirements set by the State Committee of Ukraine on Medical and Microbiological Industry.

In addition, all medicines are subject to State registration by the Ministry of Healthcare based upon the results of expert examination by its State Pharmacological Centre and the State Agency of Medicines and Medical Products. Upon State registration, the Ministry of Healthcare issues registration certificates for a term of five years, during of which an applicant is liable for the quality of registered medicines. Stinol's pharmaceutical production is subject to regular and random inspections by the regional department of the State Agency of Medicines and Medical Products, which is charged with broad statutory powers, *inter alia*, to carry out site inspections and product analyses, impose fines or suspend production in case of breaches of regulations.

Management believes that Stinol is in compliance with all regulatory requirements applicable to pharmaceuticals production.



## **Other Product Regulations**

Stirol's core products are subject to numerous standards and technical requirements developed by the Ministry of Industrial Policy of Ukraine. In addition, the production of ammonia, urea and ammonia nitrates are subject to State licensing as highly hazardous substances and agrochemicals, respectively, which is carried out by the Ministry. Licences are granted upon satisfaction of the requirements of the respective licensing terms approved by the Ministry and the State Committee of Regulatory Policy and Entrepreneurship of Ukraine. Failure to comply either with the licensing terms or other technical standards or rules may serve as a ground for suspending the activity of the Company as a whole or in some specific area of production. There has been no such regulatory action in the past. The Company's management believes that Stirol is in compliance with all applicable standards and regulations.

## **Price Regulation**

Stirol's day-to-day business activities are affected by a number of regulatory bodies and various legislative acts, most notably in the area of price regulation. The impact of these regulations on Stirol is discussed below.

### ***Ammonia, Urea and Ammonium Nitrate***

Prices of ammonia, urea and ammonium nitrate are subject to regulation by the Ministry of Economy. The Ministry of Economy sets minimum prices for ammonia and urea which are binding on all Ukrainian producers. The Ministry of Economy does not set minimum prices for ammonium nitrate but issues recommendations which are generally followed by producers. For Stirol, these prices represent the minimum prices at which it can sell its products to trading companies.

The minimum prices for ammonia and urea and recommended prices for ammonium nitrate are based on findings presented to the Ministry of Economy by the State Information and Analytical Centre for Monitoring of Commodity Prices ("Derzovnezhinform"), a special State committee. Derzovnezhinform holds regular meetings with representatives of Ukrainian fertiliser producers where it presents its views as to the minimum price levels it will recommend to the Ministry of Economy. The price levels recommended by Derzovnezhinform generally reflect changes in world fertiliser markets and are set at a slight discount to the world market prices.

The meetings between Derzovnezhinform and the fertiliser producers take place at least once a month. It is possible to hold an ad-hoc meeting upon the request of the fertiliser producers in case of significant price movements in the world markets. This flexibility is particularly important should world prices drop below the minimum levels set by the Ministry of Economy. Because the minimum price levels are typically set below world market prices, this has only happened on a limited number of occasions in the past. However, in all of these instances, Derzovnezhinform has demonstrated a willingness to respond to producers' requests and provided the Ministry of Economy with a new recommendation, which subsequently became binding on all producers, at short notice.

Revisions in minimum prices do not apply retroactively to transactions contracted in the past. This is particularly relevant to Stirol, which usually requires advance (up to two month) down-payments for its products from trading companies. As a result, when the actual deliveries take place, they are carried out at the price originally agreed with the trader rather than the then current minimum price set by the Ministry of Economy (if different). The contracted price must comply with the minimum price level requirement applicable at the date on which the parties entered into the contract.

### ***Natural Gas***

Domestic prices for natural gas sales and tariffs for natural gas transportation are subject to regulation by the NCRP. The NCRP sets maximum prices for natural gas sold domestically by Gas of Ukraine to both large industrial customers as well as domestic households. There is no clear formula used to determine natural gas prices for Gas of Ukraine's customers. Even though the NCRP has the ultimate authority in setting natural gas prices, particular price levels are subject to extensive negotiations involving Naftogaz, the country's largest natural gas consumers and the NCRP. While it is legally possible for Stirol to buy natural gas from a supplier other than Gas of Ukraine, in practice no other supplier can provide the same continuity and quality of supply as Gas of Ukraine.

Natural gas transportation tariffs are also set by the NCRP and payable by Stirol to Ukrtransgaz, a State-owned company.



### *Transportation of Ammonia*

The TGO ammonia pipeline, where it runs on Ukrainian territory, is operated by Ukrchimtransammiak, a State owned company, which reflects the strategic importance of the pipeline. The pipeline has a maximum capacity of 340 tonnes of ammonia per hour, of which 120 tonnes per hour is allocated to Stirol and 220 tonnes per hour is allocated to a number of Russian producers which pool their production output in Togliatti where it enters the pipeline. The capacity allocation is governed by a tri-party framework agreement involving the governments of Ukraine, the Russian Federation and Ukrchimtransammiak. Actual allocations to individual producers are agreed annually.

The producers can at any time make any unused portion of their allocated capacity available to other producers which do not have direct access to the TGO pipeline. As Stirol normally utilises approximately 80-90 per cent. of its capacity allocation, the Company from time to time, at its full discretion, sub-allocates part of its capacity to Severodonetsk Azot, another Ukrainian ammonia producer. In this case, Stirol charges Severodonetsk Azot for storage of its ammonia on the Company's premises and for pumping this ammonia into the pipeline.

Producers transporting their ammonia via the TGO pipeline pay transportation tariffs to Ukrchimtransammiak. These tariffs are expressed in Ukrainian hryvnia per one tonne of ammonia transported for 100 km and are subject to regulation by the NCRP. The actual tariff levels depend on the minimum prices of ammonia set by the Ministry of Economy and, therefore, fluctuate in line with developments in world markets. An overview of the formula for tariffs per 100 km is provided in the table below. This formula has not changed over the last three years.

<u>Range level of indicative prices of ammonia</u> (U.S.\$/tonne)	<u>Tariff per 100km, exclusive of VAT</u> (UAH)
≤ 79 .....	4.00
80 – 94 .....	4.72
95 – 109 .....	5.58
110 – 129 .....	6.60
130 – 169 .....	7.78
170 – 200 .....	8.52
> 200 .....	8.90

### *Railway Transportation Tariffs*

Railway transportation tariffs are proposed by the Ministry of Transport and approved by a special order of the Cabinet of Ministers of Ukraine. Railway transportation tariffs are payable to Ukrzaliznitsa, the State-owned operator and administrator of the Ukrainian railway network, and comprise an infrastructure access charge, locomotive rental charges and, payments for formation of trains as well as for transport of empty wagons from the ports back to Gorlovka.

### *Electricity*

Electricity throughout Ukraine is distributed by a number of regional distribution companies. These regional distribution companies supply electricity and provide related services to their customers at regulated tariffs. Electricity tariffs are subject to regulation by the NCRP, which sets minimum tariffs for both industrial and household customers.

## MANAGEMENT

### Overview

A9.1

The Company's current Charter was approved by a General Meeting of Shareholders held on 11 September 2004 and was registered with the State registrar on 16 September 2004. The Company's governing bodies are the General Meeting of Shareholders, the Management Board and the Supervisory Board.

### General Meeting of Shareholders

The authority of a General Meeting of the Company's Shareholders includes, among other matters:

- approving amendments to the Company's Charter and its share capital;
- appointing and dismissing the Chairman and the members of the Management Board;
- appointing and dismissing members of the Supervisory Board;
- appointing and dismissing members of the Audit Committee;
- approving the annual financial statements of the Company and its subsidiaries and approving reports of external auditors;
- approving regulations governing the Supervisory Board and the audit committee of the Company;
- approving profit distribution and dividends; and
- terminating the business operations of the Company.

The powers listed above lie within the exclusive scope of authority of the General Meeting of Shareholders and may not be delegated to the other governing bodies of the Company.

### Management Board

The Management Board is an executive body of the Company and is responsible for the day-to-day management of the Company. It is accountable to the General Meeting of Shareholders and to the Supervisory Board of the Company. The Management Board organises and manages the operations of the Company. This includes monitoring the implementation of resolutions approved by the General Meeting of Shareholders and the Supervisory Board.

Under the Company's Charter, the Chairman is elected at a General Meeting of Shareholders for a maximum term of seven years. The Chairman may nominate other members of the Management Board, whose nominations have to be approved at a General Meeting of Shareholders. Otherwise, the members of the Management Board are elected by a General Meeting of Shareholders which can either set the minimum and maximum number of members or elect specific members without regard to a set number of members. There is no maximum term for members of the Management Board, though they can be removed by a vote at a General Meeting of Shareholders initiated at the motion of the Chairman.

The powers of the Management Board include, among other things:

- determining the main areas of the Company's operations;
- organising and holding regular and extraordinary meetings of shareholders of the Company;
- approving strategic and business plans and budgets;
- approving current operating plans and facilitating their performance;
- adopting decisions on obtaining loans in foreign and national currencies in amounts exceeding the equivalent of U.S.\$5 million;
- approving rules, procedures and internal documentation of the Company relating to business operations of the Company;
- establishing, re-organising and liquidating subsidiaries, operating units and representative offices of the Company and approving their charters and regulations;
- determining the terms and conditions of staff remuneration for the Company and its subsidiaries (with the exception of the members of the Management Board);

- appointing external auditors upon the request of shareholders who own at least ten per cent. of the Company's shares;
- appointing and removing the President of the Company upon the proposal of the Chairman of the Management Board;
- developing and approving the organisational structure and internal labour regulations, job instructions and salaries for the employees of the Company;
- organising the maintenance of the Company's accounts and reports; and
- submitting quarterly and annual financial statements of the Company for approval by a General Meeting of Shareholders.

The Company's Management Board currently consists of the eight members listed below. All of the individual members of the Management Board, other than Dr. Nikolay A. Yankovskiy, are employees of the Company. The business address for all of the Board members is 10 Gorlivskoyi Dyviziyyi Street, Gorlivka, Donetsk 84610, Ukraine.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Nikolay Andreevich Yankovskiy . . . . .	60	Chairman	1998
Mikhail Andreevich Yankovskiy . . . . .	56	Deputy Chairman; Vice President of Biopharmaceutical Operations	2003
Alexander Vasilyevich Belousov . . . . .	52	First Deputy Chairman	1995
Valeriy Nikolayevich Verevkin . . . . .	46	President	2003
Alexander Nikolayevich Salov . . . . .	41	Chief Financial Officer	2003
Alexey Nikolayevich Garmasch . . . . .	64	Director of Health, Safety and Environmental Issues	1995
Sergey Nikolayevich Pavlyuchuk . . . . .	34	First Vice President; Director of Technology	2003
Igor Vasiliyevich Chobitko . . . . .	38	Vice President for Sales and Marketing; Director of Stinolchemtrade	2003

*Dr. Nikolay Andreevich Yankovskiy* (Chairman of the Management Board) holds a Ph.D. in economics from the Donetsk State University of Management and is a professor of Management at the Donetsk University Department of Modern Technologies. Previously, he was the General Director of the Denprodzerzhinkiy Production Enterprise Azot and Deputy Director for Capital Construction at the Pervomaisk Machine Building Plant. He started working at Stinol as Deputy Chief Engineer and prior to becoming the Chairman held the position of the President. He has been a People's Deputy (member of the Parliament) of Ukraine since 1998 and was awarded the title of the Hero of Ukraine for significant accomplishments in the development of the chemical industry in Ukraine and the manufacture of competitive domestic products. Dr. Yankovskiy joined the Company in 1987 and was appointed to his current position as Chairman of the Management Board in 1998. Dr. Yankovskiy beneficially owns a controlling shareholding in Stinol's outstanding common shares, through the nominal holding of LLC IK Stinolchiminvest. See "Risk Factors — Risks Relating to the Company — Stinol is subject to the control of its principal shareholder, whose interests may differ from the interests of the Noteholders".

A9.9.2

Applicable Ukrainian legislation prohibits a People's Deputy from being an officer of a Ukrainian company, including the chairman of its management or supervisory boards. While such prohibition has generally not been enforced in practice, there can be no guarantee that such practice will remain unchanged during the term of the Notes. See "Risk Factors — Risks Relating to the Company — Ukrainian law prohibits a member of the Verkhovna Rada (Parliament) from acting as Chairman of a Management or Supervisory Board".

*Mikhail Andreevich Yankovskiy* (Vice President of Logistics and Trade, Deputy Chairman of the Management Board) holds a degree in economics from the Odessa Institute of National Economy. Prior to joining the Company he was the Manager of the Pervomaisk regional branch of Bank Ukraine. He started working at Stinol as Director of the Kyiv representative office of Stinolbiopharm and prior to becoming the Vice President of Logistics and Trade occupied the position of Vice President of Biopharmaceutical Operations. Mr. Yankovskiy joined the Company in 1999 and was appointed to his current position in 2005. Mr. Yankovskiy has been a member of the Management Board since 2003 and is the brother of the Chairman of the Management Board.

*Alexander Vasilyevich Belousov* (First Deputy Chairman of the Management Board) holds a degree in mechanical engineering from the Donetsk Polytechnic Institute and in economics from the Kyiv State Economics University.

Prior to joining the Company he worked as a mechanical engineer at the October State-owned farm in the Zaporizhska region. He started working at Stirol as Foreman of the Expandable Polystyrene Shop and prior to becoming the First Deputy Chairman of the Management Board occupied the position of the Company's President. He has been a Member of the Donetsk Regional Council since 2002. Mr. Belousov joined the Company in 1979 and was appointed to his current position as First Deputy Chairman of the Management Board in 2004. Mr. Belousov has been a member of the Management Board since 1995.

*Valeriy Nikolayevich Verevkin* (President) holds a degree in electric engineering from the Novochoerkassk Polytechnic Institute. He started working at Stirol as a maintenance electrician and prior to becoming the President, he was the Company's Personnel Director. He has been a Member of the Gorlovka City Council since 2002. Mr. Verevkin joined the Company in 1995 and was appointed to his current position as President in 2004.

*Alexander Nikolayevich Salov* (Chief Financial Officer) holds a degree in mining engineering from the Moscow Mining Institute and in economics from the Donetsk State University. Prior to joining Stirol he worked as Chief Accountant of Dardi LLC. Mr. Salov joined the Company in 1995 as the Head of the Department of Promissory Notes Circulation and Marginal Transactions and was appointed to his current position as Chief Financial Officer in 2002.

*Alexey Nikolayevich Garmasch* (Director of Health, Safety and Environmental Issues) holds a secondary technical degree in mechanics from the Solvyanskiy Chemical and Mechanical Secondary School. He started working at Stirol as a senior foreman of the nitric and electrodynamic plant and prior to being appointed to his current position he was Chief of Stirol's Stirolchemstroi construction division. He has been a Member of the Gorlovka City Council since 2002. Mr. Garmasch joined the Company in 1962 and was appointed to his current position as Director for Health, Safety and Environmental Issues in 2003. Mr. Garmasch has been a member of the Management Board since 1995.

*Sergey Nikolayevich Pavlyuchuk* (First Vice President, Director of Technology) holds a degree in the maintenance of electrical telecommunication devices from the Poltava Highest Military Communications School. He began working at Stirol as a metalworker at the urea plant and prior to being appointed to his current position occupied the position of Deputy Technical Director for Repair and Improvement of Production. Mr. Pavlyuchuk joined the Company in 1992 and was appointed to his current positions as First Vice President and Director of Technology in 2004.

*Igor Vasiliyevich Chobitko* (Vice President of Sales and Marketing and Director of Stirolchemtrade) holds a degree in economics from the Donetsk Academy of Economy and Trade. He started working for the Company as a trading broker and prior to being appointed to his current position, Mr. Chobitko worked as Chief of Stirolchemtrade's Department of Chemical Exports. Mr. Chobitko joined the Company in 1997 and was appointed to his current positions as Vice President for Sales and Marketing and Director of Stirolchemtrade in 2003.

### **Supervisory Board**

The Supervisory Board is not directly involved in the day-to-day management of the Company but plays a significant role in monitoring the business of the Company. The Supervisory Board also represents the interests of the shareholders of the Company between General Meetings of Shareholders.

The responsibilities of the Supervisory Board include, among other matters:

- monitoring the implementation of resolutions of General Meetings of Shareholders and generally supervising the actions of the Management Board;
- approving the purchase by the Company of its own shares;
- interacting with State authorities to protect the interests of the Company's shareholders;
- determining the terms and conditions of work and remuneration of the Chairman of the Management Board; and
- adopting decisions on holding the members of management bodies responsible for property accountability.

Under the Company's Charter, the members of the Supervisory Board are elected by the General Meeting of Shareholders. All of the individual members of the Supervisory Board are employees of the Company. The business address for all the Supervisory Board members is 10 Gorlivskoyi Dyviziyyi Street, Gorlivka, Donetsk 84610, Ukraine. The Company's Supervisory Board currently consists of the five members listed below.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Yuriy Nikolayevich Rudenskiy . . . . .	52	Chairman	1995
Nikolay Alexandrovich Markov . . . . .	44	First Deputy Director of Stinolchemtrade	2003
Leonid Egorovich Mizyak . . . . .	60	General Director of Stinol Pack	2003
Yuriy Mikhailovich Zakabluk . . . . .	48	Assistant to Director for HR Issues at LCC Stinoltechservis	2003
Oleg Yuriyevich Shuplik . . . . .	49	Head of the Laboratory for Reduction of Costs in Styrene Production	2003

*Yuriy Nikolayevich Rudenskiy* (Chairman of the Supervisory Board) holds a secondary technical degree in metallurgy from the Enakievskiy Metallurgical College. He started working at the Company as a distillation operator in the styrene workshop. Prior to being appointed as the Chairman of the Supervisory Board he worked as Chairman of Stinol's predecessor during its privatisation process. Mr. Rudenskiy joined the Company in 1974 and was appointed to his current position at the Company in 1995.

*Nikolay Alexandrovich Markov* holds a degree in economics from the Kyiv State Economics University. Mr. Markov joined the Company in 1986, as a senior foreman of the electricity supply workshop and has been in his current position as First Deputy Director of Stinolchemtrade since 2003. Prior to being appointed to his current position he worked as a department head in Stinolchemtrade. Mr. Markov has been a member of the Supervisory Board since 2003.

*Leonid Egorovich Mizyak* holds a degree in chemistry from the Dnepropetrovsk Chemical and Technological Institute. Mr. Mizyak joined the Company in 1967 as a control panel operator in the prepolymerisation workshop and prior to being appointed to his current position worked as Board Chairman of JV Huntsmann-Stinol, the predecessor to Stinol Pack. Mr. Mizyak has been in his current position as General Director of Stinol Pack since 2001. Mr. Mizyak has been a member of the Supervisory Board since 2003.

*Yuriy Mikhailovich Zakabluk* holds a secondary degree certification as electrician from Zuevskiy Energy Secondary School and a higher degree in economics from the Kharkiv Institute of Sociology and Economics. Prior to joining Stinol he worked as a senior foreman of the boiler room and heating system of the Olchansk mine (in the Yakut Autonomous Republic of the former Soviet Union). Mr. Zakabluk joined the Company in 1989 as the Head of Maintenance and Repair Services and prior to being appointed to his current position worked as Head of the Personnel Policy Division of Stinol's Human Resources Department. Mr. Zakabluk has been in his current position as Assistant to the Director for Human Resources Issues at the Company's affiliate LLC Stinoltechservis since 2004. Mr. Zakabluk has been a member of the Supervisory Board since 2003.

*Oleg Yuriyevich Shuplik* holds a degree in plastics chemical technology of from the Dnepropetrovsk Chemical and Technological Institute. Mr. Shuplik joined the Company in 1978 as a control panel operator in the distillation workshop and has been in his current position as Head of the Laboratory for Reduction of Costs in Styrene Production since 2004. Prior to being appointed to his current position Mr. Shuplik worked as Deputy Director for New Technologies and Engineering of Organic Products. Mr. Shuplik has been a member of the Supervisory Board since 2003.

### **Audit Committee**

The Audit Committee controls the financial and commercial operation of the Management Board, conducts regular and irregular audits of the Company, appoints external auditors and reports to the General Meeting of Shareholders and the Supervisory Board. As such the Audit Committee is empowered to verify, among other matters:

- the accuracy of the Company's annual financial statements;
- conformity of accounting, tax and statistical reports to the respective regulatory documents;
- timeliness and accurateness of all accounting records;
- the timely settlement of accounts by the Company;
- utilisation of reserves and other funds of the Company;



- proper calculation and payment of dividends; and
- the financial status of the Company, its solvency, liquidity and borrowings.

Under the Company's Charter, the Audit Committee consists of the four members listed below who are elected by the shareholders at the General Meeting of Shareholders. All of the individual members of the Audit Committee, except for Ms. Mishina who is employed by LLC Stiroltechservis, are currently employees of the Company. The business address for all of the Audit Committee members is 10 Gorlivskoyi Dyviziyyi Street, Gorlivka, Donetsk 84610, Ukraine.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>
Valentina Ivanovna Padchenko . . . . .	63	Head of Property and Corporate Rights Division	2003
Natalia Vladimirovna Mishina . . . . .	49	Engineer of Manpower Planning and Labour Quality Control of the 1 <sup>st</sup> category	2003
Vyacheslav Alekseevich Savonin . . . . .	59	Senior Operator of the Remote Control Centre of the Unified Ammonia Plant Chemical Production	2003
Aleksander Viktorovich Saratov . . . . .	35	Chief Accountant	2003

*Valentina Ivanovna Padchenko* holds a degree in economy and organisation of the chemical industry from Kharkiv Engineering and Chemical Institute. She began working at Stirol as a trainee in the steam and boiler room workshop. Prior to being appointed as the Head of Property and Corporate Rights Division she held the position of the Leading Expert of Property Rights at the Company's Finance Division. Mrs. Padchenko joined the Company in 1958 and was appointed to her current position at the Company in 2003.

*Natalia Vladimirovna Mishina* holds a degree in economics (organisation of chemical industry management) from the Leningrad (St. Petersburg) Institute of Engineering and Economy. Ms. Mishina joined Stirol in 1981 as Engineer of the Scientific and Research Sector and Senior Engineer of the Work Organisation and Payroll Department. In March 2004, Ms. Mishina was transferred to Stirol's associated company LLC Stiroltechservis as Engineer of Manpower Planning and Labour Quality Control of the 1<sup>st</sup> category.

*Vyacheslav Alekseevich Savonin* holds a secondary degree in chemical production from the Slovyansk Technical School. He began working at the Company as a machine operator in the Polystyrene Workshop of the Nitric and Electrodynamic Plant in 1965. Prior to being appointed to his current position in 1994, Mr. Savonin worked as Senior Operator of Ammonia Production Plant OAZ 1B.

*Aleksander Viktorovich Saratov* holds a degree in mining engineering from the Donetsk Polytechnic Institute and in economics (accounting and audit) from the Donetsk State University and is of Chief Accountant in the Company. Prior to joining Stirol, Mr. Saratov worked as Deputy Chief Accountant of an automobile and transport enterprise in Gorlovka. He joined the Company in 1995 as an accountant and prior to being appointed to his current position in 2005 worked as Chief Financial Officer of LLC IK Stirolchinvest.

### **Compensation of Management**

The total remuneration, including honoraria and wages, of the Management Board, excluding the Chairman who does not receive remuneration for his services, was UAH 0.644 million in 2004 and UAH 0.393 million in 2003.

The amount of remuneration paid to members of the Management and Supervisory Boards is determined by the General Meeting of Shareholders of the Company, which has delegated this power to the Management Board.

### **Employee Shares**

As of 31 December 2004, 123 employees held 94,257 shares in the Company, or 0.35 per cent. of the total share capital.



## RELATED PARTY TRANSACTIONS

For the purposes of the Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

### Relationship with Trading Companies

UAH 1.6 billion or 85 per cent. of the Company's total revenues in 2004 and UAH 0.8 billion or 58.4 per cent. of the Company's total revenues in 2003 were from the sale of goods and services to related parties. Of these sales in 2004, over 90 per cent. were made through Friston LLP in the United Kingdom, which beneficially owns a 9.99 per cent. holding in Stirol through LLC IK Stirolchinvest as nominal holder and is beneficially owned by the Principal Shareholder, and Interprofit 2000 in Hungary, of which a close family member of the Principal Shareholder is a director.

Although these trading companies are related to the Company, the Company believes that transactions with these parties were conducted on an arm's length basis, at market rates and in compliance with Ukrainian law (including minimum recommended and mandatory prices). Agreements with all trading companies, including Friston LLP and Interprofit 2000, are generally for three-month terms at fixed market spot rates at the time of the contract and require immediate payment. See "Risk Factors — Risks Relating to the Company — Stirol's sales are primarily made through two related parties".

At present, the global network of mineral fertiliser distribution is quite developed and includes about twenty large trading companies.

### Share and Bond Sales

Receivables from and advances paid to related parties as of 31 December 2004 totalled UAH 49.82 million, an increase of 94.9 per cent. from 2003 primarily due to the accounts receivable accrued as a result of the Company's sales of its treasury shares.

In 2004, the Company reacquired 432,675 outstanding shares (1.6 per cent. of the authorised share capital) from its beneficial shareholders and in October of that year, the Company sold 2,441,275 of its treasury shares (9 per cent. of its authorised share capital) to its beneficial shareholders. These shares were sold in accordance with current Ukrainian legislation requiring the Company to sell its treasury shares within a year from the date it reacquired them or to cancel these shares and decrease its share capital accordingly. The majority of these shares (1,749,904 shares or 6.5 per cent. of the Company's authorized share capital) was sold to Friston LLP (see "— Relationship with Trading Companies"), raising Friston LLP's beneficial holding in Stirol, through LLC IK Stirolchinvest as nominal holder, to 9.99 per cent. as of 1 June 2005. The remaining shares were sold to Stephen Business Ltd. of the British Virgin Islands (614,789 shares or 2.2 per cent. of the authorised share capital) and Ruffin Investments Ltd. of Belize (76,582 shares or 0.3 per cent. of the authorised share capital)

In November 2004, Stirol issued UAH 10 million in aggregate principal amount of 18 per cent. unsecured bonds due 2007 all of which were placed with LLC IK Stirolchinvest. Interest is paid on a quarterly basis with the last interest payment in December 2007.

The Company also purchased 400,000 of its shares (1.47 per cent. of its authorised share capital) in November 2004 from its non-consolidated subsidiary CJSC Office and Donchemoptorg at a price of UAH 2.8 million. See "— CJSC Office".

### JSB Brokbusinessbank

As of 31 December 2004, the Company had borrowed several loans from JSB Brokbusinessbank, a large private Ukrainian bank whose Supervisory Council Chairman is Dr. Yankovskiy, the Company's Management Board Chairman and principal shareholder, as follows: (i) UAH 0.307 million under an 18 per cent. secured hryvnia loan facility created on 3 March 2004 in the amount of UAH 0.7 million, which matured on 2 March 2005; (ii) UAH 4.25 million under an 8 per cent. unsecured hryvnia loan facility created on 21 October 2002 in the amount of UAH 5 million, which will mature on 21 October 2005; (iii) UAH 6 million in aggregate under two 20 per cent. secured loan facilities, created on 2 and 3 December 2004 in the amounts of UAH 5 million each, which matured on 10 January 2005; and (iv) U.S.\$0.055 million under a 14 per cent. secured U.S. dollar loan facility created on 8 April 2004 in the amount of U.S.\$0.75 million, which matured on 7 April 2005. The Company also had term bank deposits of UAH 305.42 million with JSB Brokbusinessbank. See "Financial

Review — Liquidity, Borrowings, Cash and Capital Expenditure — Borrowings” and “Risk Factors — Risks Relating to the Company — Ukrainian law prohibits a member of the Verkhovnya Rada (Parliament) from acting as Chairman of a Management or Supervisory Board”.

In addition, in December 2004, the Company sold 10 per cent. of its authorised share capital to JSB Brokbusinessbank through the depository JSC Mezhhregionalnyj Fondovyj Soyuz for UAH 55.02 million.

The Company also owned shares in JSB Brokbusinessbank but in 2005, JSB Brokbusinessbank repurchased 5 million of its own shares from the Company for UAH 63.02 million.

The Company’s management originally decided to enter into this series of transactions with JSB Brokbusinessbank to explore the future possibility of creating a horizontally integrated industrial and financial institution. However, these plans are unlikely to develop further in the near future.

### **CJSC Office**

In accordance with the Company’s general strategy of disposing of non-core assets, it sold its 63.4 per cent. holding in CJSC Office to LLC IK Stirochiminvest, a nominee shareholder in Stiro, for UAH 9.47 million, an amount equal to its cost, on 19 March 2004. CJSC Office is a property management company, which maintains Stiro’s representative offices in Kyiv and Yalta and also leases property to various related and unrelated entities. This sale did not have a significant impact on the Group’s financial results.

### **Other Related Party Transactions**

Purchases of goods and services from related parties for the year ended 31 December 2004 were UAH 197.04 million, an increase of 255.9 per cent. from 2003. The increase is due to a general increase in sales and the volume of production.

The Company had investments in unconsolidated subsidiaries, available-for-sale securities (in Stiro Biotech) and other equity investments as of 31 December 2004 totalling UAH 11.3 million, a decrease of 41.1 per cent. from 2003, which is primarily due to the sale of the Company’s shares in JSB Brokbusinessbank. See “— JSB Brokbusinessbank”.

Trade and other payables to related parties as of 31 December 2004 were UAH 56.74 million, a decrease of 50.48 per cent. from 2003. This decrease is due to the reduction in 2004 of the average time the Company takes to fill a product order placed by trading companies.

### PRINCIPAL SHAREHOLDERS

As of 1 July 2005, the Company's authorised, issued and fully paid share capital was UAH 325,503,360, comprised of 27,125,280 ordinary registered shares with a nominal value of UAH 12 each.

The following table lists the Company's shareholders of record, as indicated on its share register, as of 1 July 2005, that held 1 per cent. or more of its outstanding ordinary and preferred shares. A9.10.1

	<u>Number of ordinary registered shares held</u>	<u>% of total ordinary registered share capital</u>
LLC IK Stirolchinvest for its own account and as nominee .....	22,278,815	82.13
JSC Mezhregionalnyj Fondovyj Soyuz, as depository .....	2,913,056	10.74
JSB ING Bank Ukraine, as nominee .....	1,506,816	5.56
Other entities and individuals .....	<u>426,593</u>	<u>1.57</u>
<b>Total</b> .....	<u><u>27,125,280</u></u>	<u><u>100.00</u></u>

As of 1 July 2005, 82.13 per cent. of Stirol's issued shares were held by LLC IK Stirolchinvest, for its own account and as nominee. 76.82 per cent. of Stirol's share capital held by LLC IK Stirolchinvest as nominee is beneficially owned by Dr. Nikolay A. Yankovskiy, the Chairman of Stirol's management board, including approximately 10 per cent. held as nominee for each of Gwenda Trading Corp., Friston LLP, Ruffin Investment Limited, Stephen Business Limited and Baldigo Investment Corp. Approximately 5 per cent. of the remaining shares held by LLC IK Stirolchinvest as nominee is beneficially owned by IBE Trade Corp. and the balance of less than 1 per cent. is held for various individuals. See "Risk Factors — Risks Relating to the Company — Stirol is subject to the control of its principal shareholder, whose interests may differ from the interests of the Noteholders" and "Business — Overview".

As of such date, the remaining shares in Stirol were held by JSC Mezhregionalnyj Fondovyj Soyuz, as depository (including 10 per cent. on behalf of JSB Brokbusinessbank) and JSB ING Bank Ukraine, as nominee (including 5.21 per cent. on behalf of The Bank of New York).

## THE ISSUER

### General

UkrChem Capital B.V. was incorporated as a private company with limited liability (a *besloten vennootschap met beperkte aansprakelijkheid*, or B.V.) under and subject to, the laws of The Netherlands on 20 May 2005 for an unlimited duration. It is registered in the Commercial Register under number 34226807. A7.4.2  
A7.4.3  
A7.4.4  
A7.4.5

The Issuer is wholly-owned by Stichting UkrChem Capital, incorporated on 20 May 2005 under, and subject to, the laws of The Netherlands. A7.7.1

The objects of the Issuer, as set forth in Article 3 of its Articles of Association, are to invest and place funds acquired by the Company in, *inter alia*, interests in loans, bonds, debt instruments, shares, warrants and other similar securities, as well as in other financial derivatives, to purchase bonds, loans and other debt related instruments, to sell or otherwise dispose of the whole or any part of its property, to lend and to raise funds, including (but not limited to) the making of loans and the issuance of bonds and other debt related instruments, to grant security over its own assets by way of mortgage, charge, pledge, lien, standard security or other, to limit financial risks and risks in respect of fluctuations in interest rates by, *inter alia*, entering into derivative agreements such as option agreements or swap agreements, to enter into other agreements in connection with the aforementioned and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense. A7.4.1

The registered office of the Issuer is at Teleportboulevard 140, 1043 EJ Amsterdam, The Netherlands and its telephone number is +31 20 540 5800. A7.4.5

The issue of the Notes and the entering into by the Issuer of the Sub-Participation Agreement were duly authorised by a resolution of the board of directors of the Issuer dated 15 July 2005.

### Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as at the date of this Prospectus, as adjusted to give effect to the issue of the Notes: A7.4.6

	(U.S.\$)
<b>Shareholder's Equity</b>	
Capital Stock of €18,000 .....	21,717 <sup>1</sup>
<b>Indebtedness</b>	
U.S.\$125,000,000 7.875 per cent. Loan Participation Notes due 2008 .....	125,000,000
Total Indebtedness .....	<u>125,000,000</u>
<b>Total Capitalisation and Indebtedness</b> .....	<u><u>125,021,717</u></u>

<sup>1</sup> Converted at current exchange rates.

### Business

So long as any of the Notes remain outstanding, the Issuer will be subject to the restrictions set out in the Conditions and the Trust Deed under which it has agreed to conduct no business other than in connection with the issue and servicing of the Notes and the entry into and performance of the Sub-Participation Agreement. A7.5.1

### Corporate Administration

ING Management (Nederland) B.V., a private company with limited liability incorporated under the laws of The Netherlands has been appointed as the managing director of the Issuer and is responsible for the management and administration of the Issuer. The managing director of the Issuer has its corporate seat in Amsterdam, The Netherlands and its place of business is at Teleportboulevard 140, 1043 EJ Amsterdam, The Netherlands. A7.6.1

### Directors

The director of the Issuer is ING Management (Nederland) B.V. which may engage in other activities and have other interests which may conflict with the interests of the Issuer.

The sole director of ING Management (Nederland) B.V. is H. Schölvinc, whose business address is the registered address of ING Management (Nederland) B.V.

### Financial Statements

The Issuer currently does not publish financial statements.

A7.2.1

A7.8.1

### THE LENDER

Moscow Narodny Bank Limited (“Moscow Narodny”) was founded in London in 1919. Moscow Narodny is an English bank majority owned by the Central Bank of the Russian Federation. It has significant business relationships with customers both in and outside Russia. Moscow Narodny is an authorised person under the FSMA and is regulated pursuant to the FSMA by the Financial Services Authority. Moscow Narodny’s head office is located in the United Kingdom at 81 King William Street, London EC4N 7BG. Moscow Narodny has a branch in Singapore and representative offices in Moscow and Beijing.

Neither Moscow Narodny nor any of its affiliates is an affiliate of the Company.

The authorised and issued share capital of Moscow Narodny is £144,269,653.26 divided into 540,335,780 fully paid Ordinary Shares of 26.7 pence each.

The members of the Board of Directors of Moscow Narodny are:

Chairman and CEO .....	I. Souvorov
Executive Directors .....	E. Grevtsev, M. Hopkins, S. Clark, V. Sokolov
Non-executive Directors .....	I. Lomakin, S. Ovesitchik, J. Hayward, D. Charters, G. Casey <sup>(1)</sup>

(1) Subject to approval by the Financial Services Authority.

The address of each director and the Chairman is the registered office of Moscow Narodny.

Since Moscow Narodny’s sole obligation in respect of the Notes is to make certain payments to the Issuer, pursuant to the Sub-Participation Agreement, as and when payments on the Loan are received by Moscow Narodny from the Company pursuant to the Loan Agreement, financial information in relation to Moscow Narodny is not included in this Prospectus.

## THE LOAN AGREEMENT

The following is the text of the Loan Agreement which has been entered into between the Lender and the Company: A8.2.2.13

**THIS AGREEMENT** is made on 28 July 2005

### BETWEEN:

- (1) **JOINT STOCK COMPANY CONCERN STIROL**, an open joint stock company incorporated under the laws of Ukraine, located at 10 Gorlivskoyi Dyviziyyi, Gorlivka, Donetsk 84610, Ukraine, as borrower (the "**Borrower**"), represented by Mr. Alexander Salov acting on the basis of the Borrower's Charter; and
- (2) **MOSCOW NARODNY BANK LIMITED**, a legal entity incorporated under the laws of England and Wales, of 81 King William Street, London EC4N 7BG, United Kingdom, as lender (the "**Lender**").

### WHEREAS:

The Lender has at the request of the Borrower agreed to make available to the Borrower a credit facility in the amount of U.S.\$125,000,000 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

## 1. DEFINITIONS AND INTERPRETATION

### 1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Additional Amounts**" has the meaning set forth in Clause 8.1 (*Additional Amounts*);

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any Person described in clause (a) above;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the paying agency agreement relating to the Funding Instruments dated 4 August 2005;

"**Applicable Market Price**" in relation to the Borrower's sales of ammonia, urea or ammonium nitrate during any particular calendar month, or such shorter, or the shortest, period as is covered by the relevant quotes, means the mid-point of the range of spot prices for "free on board" or, as applicable, "carriage and freight" delivery or, as the case may be, shipment of the relevant product at the Yuzhny port in Odessa, Ukraine as quoted in the FMB Weekly Fertiliser Report (or such other publication as may be approved by the Trustee or as may be determined from such other industry source as the Trustee may approve) as being applicable to sales of the relevant product for delivery at such port or shipment from it during that period, as applicable.

"**Auditors**" means KPMG Ukraine Ltd. or any internationally recognised firm of accountants approved by the Lender, such approval not to be unreasonably withheld or delayed;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 hereto and, in the case of the Lender, a Person who is a duly authorised officer of the Lender, at the relevant time;

"**Borrowing Date**" means 4 August 2005 or if different, the date on which the Funding Instruments are issued and the subscription monies therefor are paid under the Subscription Agreement;

"**Capital Adequacy Requirement**" means a request or requirement relating to the maintenance of capital, including one which makes any change to, or is based on any alteration in, the interpretation of the International Convergence of Capital Measurement and Capital Standards (a paper prepared by the Basle Committee on Banking Regulations and Supervision dated July 1988, and amended in November 1991) or



which implements any of the matters set out in the third consultative paper entitled "The New Basel Capital Accord" produced by the Basel Committee on Banking Supervision dated April 2003 (or the first consultative paper entitled "A New Capital Adequacy Framework" dated June 1999 or the second consultative paper dated January 2001) or which increases the amounts of capital required thereunder (other than a request or requirement made by way of implementation of the International Convergence of Capital Measurement and Capital Standards in the manner in which it is being implemented at the date hereof);

**"Capital Stock"** means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

**"Cessation of Regulation Event"** means the Ministry of Economy and European Integration of Ukraine ceasing to set minimum prices for the sale of ammonia and urea by Ukrainian producers and/or ceasing to issue recommendations as to the minimum price for the sale of ammonium nitrate by Ukrainian producers;

**"Change of Control"** means the Principal Shareholder (as defined in the Prospectus) ceasing to own directly or indirectly (whether through the current intermediary shareholders (OAO MFS, ING Bank N.V. and OOO IK Stirolochinvest) or any other future intermediary shareholders) at least 50.1 per cent. of the Capital Stock of the Borrower and 50.1 per cent. of the Voting Stock of the Borrower;

**"Change of Law"** means any of: (a) the enactment or introduction of any new law; (b) the variation, amendment or repeal of an existing or new law; (c) any ruling on or interpretation or application by a competent authority of any existing or new law; and (d) the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency; which, in each case, occurs after the date hereof. For this purpose the term "law" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions to comply in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law);

**"Corporate Restructuring"** means, the announcement or occurrence of any amalgamation, merger, division, spin-off, transformation or other reorganisation or restructuring under applicable Ukrainian legislation, or any other reorganisation or restructuring under the laws of any other relevant jurisdiction;

**"Double Tax Treaty"** means the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, signed on 10 February 1993 and in force from 11 August 1993;

**"Environment"** means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);
- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or
- (c) land (including land under water);

**"Environmental Claim"** means any administrative, regulatory or judicial action, suit, demand, demand letter, claim, notice of non-compliance or violation, investigation, proceeding, consent order or consent agreement relating to any Environmental Law or Environmental Licence;

“**Environmental Law**” means all laws and regulations of any relevant jurisdiction which:

- (a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;
- (b) provide remedies or compensation for harm or damage to the Environment; and
- (c) relate to Hazardous Substances or health or safety matters;

“**Environmental Licence**” means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law;

“**Event of Default**” means any of those circumstances described as such in Clause 14 (*Events of Default*);

“**Fair Market Value**” of a transaction means the value that would be obtained in an arms'-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A Report of the Auditors of the Borrower of the Fair Market Value of a transaction may be relied upon by the Trustee and/or the Lender without further enquiry or evidence and, if relied upon by the Trustee and/or the Lender, shall be conclusive and binding on all parties;

“**Fees Letter**” means any letter agreement between, *inter alios*, the Borrower and the Joint Lead Managers setting out the fees, expenses and certain other amounts payable by the Borrower in connection with the Funding Documents;

“**Finance Lease**” means any lease required to be treated as a finance lease in accordance with IFRS;

“**Funding Documents**” means (a) this Agreement, the Trust Deed, the Subscription Agreement, the Agency Agreement, the Sub-Participation Agreement and the Fees Letters; (b) any other document entered into in connection with or related to this Agreement, the Loan and/or the Funding Instruments; and (c) any other document entered into by the Funding Entity;

“**Funding Entity**” means the issuer of the Funding Instruments;

“**Funding Instruments**” means the U.S.\$125,000,000 7.875 per cent. Loan Participation Notes due 2008 proposed to be issued pursuant to the Funding Documents on or about 4 August 2005 for the purpose of funding the Loan by way of the Sub-Participation Agreement;

“**Group**” means the Borrower and its Subsidiaries, from time to time, taken as a whole;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Hazardous Substance**” means any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person;

“**IFRS**” means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

“**IFRS Fiscal Period**” means any fiscal period for which the Borrower has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors;

“**incur**” means issue, assume, guarantee, incur or otherwise become liable for, *provided that* any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred or issued by the other Person or such

Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary;

“**Indebtedness**” means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above, *provided that*, for the avoidance of doubt, such term shall not include any indebtedness owed to the State budget, local budget and non-budgetary funds on account of taxes which are not overdue;

“**Indemnity Amounts**” has the meaning set out in Clause 8.3 (*Indemnity Amounts*);

“**Independent Appraiser**” means an investment banking firm or third party appraiser of international standing selected by the Borrower, *provided that* such firm or third party appraiser is not an Affiliate of the Borrower;

“**Interest Payment Date**” means 19 February and 19 August in each year in which the Loan remains outstanding or if any such day is not a Business Day, the next succeeding Business Day, commencing on 19 February 2006, with the last Interest Payment Date falling on the Repayment Date;

“**Interest Period**” means any of those periods mentioned in Clause 4 (*Interest Periods*);

“**Joint Lead Managers**” means ING Bank N.V., London Branch and Moscow Narodny Bank Limited;

“**Lender Account**” means the account in the name of the Lender at The Bank of New York, London, account number 5455898400;

“**Loan**” means the loan made (or to be made) by the Lender hereunder in an amount of U.S.\$125,000,000 or, as the context may require, the amount thereof from time to time outstanding;

“**Material Adverse Effect**” means a material adverse change in, or material adverse effect on, (a) the business, prospects, financial condition or results of operations of the Borrower and/or the Group, (b) the Borrower’s ability to perform its obligations under this Agreement, or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

“**Material Subsidiary**” means, at any given time, any Subsidiary of the Borrower: (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least five per cent. of the total assets or, as the case may be, total revenues of the Borrower and its Subsidiaries and for these purposes (i) the total assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the total assets and gross revenues of the Borrower and its Subsidiaries shall be determined by reference to the Borrower’s then most recent audited consolidated financial statements (or, if none, then its most recent consolidated management accounts), in each case prepared in accordance with IFRS; or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower and which Subsidiary was immediately before the transfer a Material Subsidiary of the Borrower. A certificate by two members of the Management Board of the Borrower that, in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors that in their opinion a Subsidiary of the Borrower is or is not or was or was not at any particular time a Material Subsidiary of the Borrower shall, in the absence of manifest error, be conclusive and binding on all parties;

“**NBU**” means the National Bank of Ukraine;

“**Officers’ Certificate**” means a certificate signed on behalf of the Borrower by two members of the Management Board of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower and in the form set out in Schedule 2 hereto;

“**Permitted Security Interests**” means:

- (a) Security Interests in existence on the date of this Agreement;

- (b) Security Interests arising in the ordinary course of the Borrower's business;
- (c) Security Interests granted in favour of the Borrower by any of its Subsidiaries;
- (d) Security Interests on assets or property acquired (or deemed to be acquired) under a Finance Lease, or claims arising from the use or loss of or damage to such assets or property, *provided that* any such Security Interest secures only Indebtedness under such Finance Lease;
- (e) Security Interests on the assets or property of a Person existing at the time that such Person is merged into or consolidated with the Borrower or becomes a Subsidiary of the Borrower, *provided that* such Security Interests: (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any other assets or property of the Borrower or any Subsidiary of the Borrower (other than those of the Person acquired and its Subsidiaries (if any));
- (f) Security Interests already existing on assets or property acquired or to be acquired by the Borrower or a Subsidiary of the Borrower, *provided that* such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);
- (g) Security Interests granted upon or with regard to any assets or property hereafter acquired by any member of the Group to secure the purchase price of such assets or property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such assets or property and transactional expenses related to such acquisition or the repair or refurbishment of such assets or property, *provided that* the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such assets or property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition, repair or refurbishment of such assets or property;
- (h) any Security Interests arising by operation of law;
- (i) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (h), (inclusive) *provided that* the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed U.S.\$5,000,000 (or its equivalent in other currencies) in aggregate while any amount of the Loan remains outstanding hereunder; and
- (j) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided that* the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any assets or property not previously subject to such Security Interest;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

“**Potential Event of Default**” means any event which may become (with the passage of time, the giving of notice, the making of a determination and/or the fulfilment of any other requirement under this Agreement) an Event of Default;

“**Principal Paying Agent**” means the party designated from time to time as principal paying agent under the Funding Documents;

“**Put Event**” means the occurrence of (a) a Change of Control resulting in a Rating Downgrade; or (b) a Cessation of Regulation Event;

“**Put Event Payment Date**” means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Redemption Notice on which any part of the Loan is to be prepaid in accordance with Clause 7.3 (*Prepayment upon a Put Event*), which date shall be the fifteenth Business Day immediately following the last day of the Put Period;

“**Put Period**” means the period of 30 days after notice is given by the Trustee to the holders of the Funding Instruments in accordance with Condition 14 (*Notices*) of the Funding Instruments of the occurrence of a Put Event;

“**Put Redemption Notice**” means, in respect of a Put Event, a notice given by or on behalf of the Lender (after receipt by the Trustee and the Lender of written confirmation from the Principal Paying Agent of

the Put Redemption Amount) to the Borrower specifying (i) the aggregate principal amount of Funding Instruments which are to be redeemed (the **"Put Redemption Amount"**) as a result of the relevant Put Event; and (ii) the Put Event Payment Date;

**"Qualifying Jurisdiction"** means any jurisdiction which has a double taxation treaty with Ukraine under which the payment of interest by Ukrainian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Ukrainian tax;

**"Rate of Interest"** means 7.875 per cent. per annum;

**"Rating Agency"** means Moody's Investors Service (**"Moody's"**) and its successors or Fitch Ratings (**"Fitch"**) and its successors;

**"Rating Downgrade"** means:

- (a) the withdrawal (by Moody's or, as the case may be, Fitch) of any of the long-term foreign currency debt or short-term foreign currency debt ratings of the Borrower or the Funding Instruments; or
- (b) the reduction (by Moody's or, as the case may be, Fitch) by two rating sub-categories of any of the long term foreign currency debt or short-term foreign currency debt ratings of the Funding Instruments from B3 (Moody's) or B (Fitch) (or their respective equivalents for the time being, meaning the rating symbol which Moody's or, as the case may be, Fitch may use from time to time to denote the same rating sub-category),

*provided that* in relation to (b) above:

- (i) any Rating Downgrade stated by the relevant Rating Agency to result solely from the withdrawal or reduction of the rating of any debt of Ukraine shall not be taken into account when determining whether or not a Put Event has occurred; and
- (ii) if, prior to the announcement of a Change of Control, any rating of the Borrower or the Funding Instruments has been reduced by one or more rating sub-categories and the reduction is stated by the relevant Rating Agency to result solely from the withdrawal or reduction of the rating of any debt of Ukraine, then, for the purposes of determining whether or not a Put Event has occurred, the ratings of the Borrower and the Funding Instruments in existence at the time of the announcement of such Change of Control shall be substituted, if different, for the ratings set out in (b) above;

**"Relevant Event"** has the meaning given thereto in the Funding Instruments;

**"Repayment Date"** means 19 August 2008 or, if such day is not a Business Day, the next succeeding Business Day;

**"Reserved Rights"** has the meaning given thereto in the Trust Deed;

**"Same-Day Funds"** means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

**"Security Interest"** means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

**"Stock Exchange"** means the London Stock Exchange;

**"Subscription Agreement"** means the subscription agreement relating to the Funding Instruments dated 28 July 2005;

**"Subsidiary"** of a Person means another Person of which more than half the issued share capital is beneficially owned, directly or indirectly, by that first-named Person and whose results are included in the consolidated financial statements of the first-named Person;

**"Sub-Participation Agreement"** means the sub-participation agreement relating to the Funding Instruments dated 28 July 2005;



“**Tax**” means any tax, levy, duty, impost or other charge or withholding of a similar nature, no matter where arising (including interest and penalties thereon and additions thereto) and no matter how levied or determined;

“**Taxing Authority**” has the meaning set out in Clause 8.1 (*Additional Amounts*);

“**Trust Deed**” means the trust deed relating to the Funding Instruments dated 4 August 2005;

“**Trustee**” means the party designated from time to time as trustee under the Trust Deed;

“**Ukraine**” means Ukraine and any province or political sub-division thereof;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland; and

“**Voting Stock**” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

## 1.2 Interpretation

Any reference in this Agreement to:

the “**Borrower**” or the “**Lender**” includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

a “**Business Day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York and London;

“**control**” when used with respect to any Person means the power to direct the management and policies of such Person or to control the composition of such Person’s board or board of directors, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms “controlling” and “controlled” have meanings correlative to the foregoing;

the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is hryvnia and the second currency is U.S. dollars (or *vice versa*), by the NBU at 3.00pm (Kiev time) on such date for the purchase of the first currency with the second currency;

a “**month**” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month, *provided that*, where any such period would otherwise end on a day which is not a business day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day and if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to “months” shall be construed accordingly);

the “**rights**” of the Lender, shall be read, following execution of the Trust Deed, as references to rights of the Trustee, except for those rights of the Lender which are Reserved Rights; and

“**VAT**” means value added tax, including any similar tax which may be imposed in place thereof from time to time.

## 1.3 Currency References

“**U.S.\$**” and “**U.S. dollars**” denote the lawful currency of the United States of America and “**hryvnia**” denotes the lawful currency of Ukraine.

## 1.4 Legislation

Any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.



## 1.5 Headings

Clause and Schedule headings are for ease of reference only and shall not affect the construction of this Agreement.

## 1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to any Funding Document or any other agreement or document shall be construed as a reference to such Funding Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

## 1.7 Singular and Plural

Words denoting the singular shall include the plural and *vice versa*.

## 1.8 Clauses and Schedules

Any reference in this Agreement to a Clause, a sub-clause or a Schedule is, unless otherwise stated, to a clause or sub-clause hereof or a schedule hereto.

## 2. THE LOAN

### 2.1 Grant of the Credit Facility

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term credit facility in the amount of U.S.\$125,000,000 and the Borrower hereby agrees to borrow such amount from the Lender on the Borrowing Date, subject as provided herein.

### 2.2 Purpose and Application

The Loan is intended to be used by the Borrower to finance capital expenditures carried out within the Borrower's strategic development programme, certain strategic acquisitions in Ukraine and other CIS countries and general corporate purposes and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

## 3. AVAILABILITY OF THE LOAN

### 3.1 Draw-down

Subject to the terms and conditions set out herein, the Loan will be available by way of a single draw-down which will be made by the Lender to the Borrower on the Borrowing Date by payment of the proceeds of the Loan to the Borrower's account with ING Bank, Ukraine, swift code INGUAUK, account number 400920379, if:

- (a) the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 hereto (*Conditions Precedent Documents*) and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;
- (b) the Funding Entity has received the full amount of the monies for the Funding Instruments and the Funding Entity has funded the Lender as provided in the Funding Documents and the Lender has confirmed receipt of such monies;
- (c) (i) no event has occurred or circumstance has arisen which would constitute an Event of Default or a Potential Event of Default; (ii) the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true on the Borrowing Date with respect to the facts and circumstances then subsisting and (iii) the Borrower is in full compliance with all its obligations under this Agreement; and
- (d) the Lender has received all amounts due to it under the Fees Letter as contemplated by Clause 3.2 (*Payment of Fees*) below.

### 3.2 **Payment of Fees**

The Borrower hereby agrees that it shall pay, in Same-Day Funds, to the parties specified in the Fees Letter all amounts required to be paid by the Borrower thereunder by 2.30 p.m. (London time) on the Business Day preceding the Borrowing Date.

## 4. **INTEREST PERIODS**

Except as provided below, the Borrower will pay interest semi-annually in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Calculation of Interest*)). Interest shall accrue on the Loan from and including the Borrowing Date. Each period beginning on (and including) the Borrowing Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date or the Repayment Date is herein called an “**Interest Period**”. Subject as provided in Clause 5.2 (*Calculation of Interest*), interest on the Loan will cease to accrue on the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before and after any judgment) at the Rate of Interest up to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made. Interest in respect of the first Interest Period only shall accrue from and including the Borrowing Date to but excluding the first Interest Payment Date and shall be calculated in accordance with the provisions of Clause 5.2 (*Calculation of Interest*).

## 5. **PAYMENT AND CALCULATION OF INTEREST**

### 5.1 **Payments of Interest**

The Borrower shall pay interest semi-annually in arrear in respect of each Interest Period calculated in accordance with Clause 5.2 (*Calculation of Interest*) on the Business Day falling one Business Day prior to the Interest Payment Date on which such Interest Period ends.

### 5.2 **Calculation of Interest**

The amount of interest payable in respect of the Loan for any Interest Period (other than the first Interest Period) shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of the Loan for any period (including, for the avoidance of doubt, the first Interest Period) other than an Interest Period shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

### 5.3 **Assumption when Calculating Interest**

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the last day of the relevant Interest Period is the same as the amount of the Loan outstanding on the day of the calculation.

## 6. **REPAYMENT**

Except as otherwise provided herein, not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan together with, to the extent not already paid in accordance with Clause 5.1 (*Payments of Interest*), all interest payable in respect of the last Interest Period (calculated to the Repayment Date) and all other amounts payable hereunder (calculated as aforesaid).

## 7. **PREPAYMENT**

### 7.1 **Prepayment for Tax Reasons and Change in Circumstances**

If, as a result of the application of or any amendment to or change (including a change in the application or interpretation thereof) in the Double Tax Treaty (or in the double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) or the laws or regulations of the United Kingdom, The Netherlands or Ukraine (or any Qualifying

Jurisdiction where the Lender or any successor thereto is resident for tax purposes) or of any political sub-division thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay Additional Amounts in respect of Tax as provided in Clause 8.1 (*Additional Amounts*) or if (for whatever reason) the Borrower is required to pay Indemnity Amounts as provided in Clause 8.3 (*Indemnity Amounts*) or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*) or if, after a Relevant Event, the Borrower is or would be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 (*Additional Amounts*) as a result of such payments being made to any person other than the Lender to whom the benefit of the Double Tax Treaty is unavailable and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' written notice to the Lender and the Trustee specifying the date of payment and including an Officers' Certificate to the effect that the Borrower would be required to pay such Additional Amounts, Indemnity Amounts or additional amounts, supported (where the certification relates to tax matters) by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction, prepay the Loan in whole (but not in part) together with any Additional Amounts then payable under Clause 8.1 (*Additional Amounts*), Indemnity Amounts payable under Clause 8.3 (*Indemnity Amounts*), additional amounts payable pursuant to Clause 10 (*Changes in Circumstances*) and accrued interest (for the period to but excluding the date of repayment). Any such notice of prepayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such prepayment on such date. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts, Indemnity Amounts or additional amounts, as the case may be.

## 7.2 Prepayment for Illegality

If, at any time, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Funding Entity or, as the case may be, the Lender to make, fund or allow all or part of the Funding Instruments or the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then the Lender shall, promptly upon it becoming aware of the same, shall deliver to the Borrower a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

- (a) if the Loan has not been made, the Lender shall not thereafter be obliged to make the Loan; and
- (b) if the Loan is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law or on such earlier day as the Borrower elects (as notified in writing, to the Lender and the Trustee not less than 30 days prior to the date of repayment), repay the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest (for the period to but excluding the date of repayment) thereon and all other amounts owing to the Lender hereunder.

## 7.3 Prepayment upon a Put Event

- (a) Promptly, and in any event within five calendar days after a Put Event, the Borrower shall deliver to the Lender, the Principal Paying Agent and the Trustee a written notice substantially in the form of Schedule 4 (*Form of Put Event Notice*) (the "**Put Event Notice**") hereto signed on behalf of the Borrower by two members of the Management Board of the Borrower, which notice shall be irrevocable, stating:
  - (i) that a Put Event has occurred; and
  - (ii) the circumstances and relevant facts giving rise to such Put Event.
- (b) Whether or not a Put Event Notice has been given by the Borrower as contemplated in Clause 7.3(a) above the Borrower shall, on the Put Event Payment Date, prepay the Loan, together with accrued interest (if any) on such principal amount to the extent and in an amount that the Lender is required to pay the holders of the Funding Instruments as a result thereof as set out in the Put Redemption Notice from the Lender to the Borrower.

#### 7.4 **Costs of Prepayment**

The Borrower shall, not later than 10.00 a.m. (New York City time) one Business Day prior to the date of prepayment, pay all accrued interest (calculated up to (but excluding) the date of prepayment) and all other amounts owing or payable to the Lender hereunder. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

#### 7.5 **No Other Repayments and No Reborrowing**

The Borrower shall not repay the whole or any part of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may be reborrowed.

#### 7.6 **Purchase of Funding Instruments**

The Borrower or any of its Subsidiaries may purchase Funding Instruments at any time. Any such Funding Instruments so purchased may be delivered by the Borrower to the Lender (for onward delivery to the Funding Entity) for cancellation (*provided that*, in the case of delivery of Funding Instruments for cancellation, the aggregate principal amount of such Funding Instruments is not less than U.S.\$1,000,000) and, against such surrender and cancellation, the Lender shall credit the Borrower with the prepayment of an amount of the Loan equal to the principal amount of such surrendered and cancelled Funding Instruments, together with accrued interest (if any) on such amount of the Loan.

### 8. **TAXES**

#### 8.1 **Additional Amounts**

- (a) All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim, free and clear of and without deduction for or on account of any present or future Tax imposed by any taxing authority of or in, or having authority to tax in, Ukraine or any country or state from or through which the Borrower makes payment hereunder (each a "**Taxing Authority**"), unless the Borrower is required by applicable law to make such payment subject to the deduction or withholding of Tax. In the event that the Borrower is required to make any such payment subject to deduction or withholding of Tax, then the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives a net amount in U.S. dollars which, following the relevant deduction or withholding on account of Tax, shall be not less than the full amount which it would have received had the payment not been subject to deduction or withholding on account of Tax and shall promptly deliver to the Lender evidence satisfactory to the Lender of such deduction or withholding of Tax and the accounting therefor to the relevant Taxing Authority.
- (b) At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obliged to pay Additional Amounts with respect to such payment, then the Borrower will deliver to the Lender an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

The foregoing provisions shall apply, modified as necessary, to any Tax imposed or levied by any Taxing Authority in any jurisdiction in which any successor obligor to the Borrower is organised.

#### 8.2 **Double Tax Treaty Relief**

The Lender and the Borrower shall make reasonable and timely efforts to co-operate and assist each other in obtaining relief, in so far as such relief is available, under the Double Tax Treaty from withholding of Ukrainian Tax. In particular, the Borrower and Lender will inform each other, in a reasonable and timely manner, on the status of the procedures and the steps necessary to be taken in this regard. The Borrower shall assist the Lender in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Ukrainian Taxes. If the Lender pays any amount in respect of Ukrainian Taxes, penalties or interest, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.

### 8.3 Indemnity Amounts

Without prejudice to or duplication of the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

- (a) it is obliged to make any deduction or withholding for or on account of any Tax (other than Tax assessed on the Lender by reference to its overall net income) from any payment which the Lender or the Funding Entity is obliged to make under or in respect of any Funding Document, then the Borrower shall pay to the Lender five Business Days prior to the date on which payment is due under this Agreement such additional amounts as are equal to the additional payments which the Lender would be required to make under the terms of any Funding Document (assuming in each case that an equivalent amount has been received from the Borrower) in order that the net amount received by each relevant recipient party under any Funding Document is equal to the amount which such party would have received had no such withholding or deduction been required to be made; and/or
- (b) it is required to pay any Tax imposed by any Taxing Authority (other than Tax assessed on the Lender by reference to its overall net income) in relation to this Agreement or any other Funding Document (or any sum received under or in connection with any of the foregoing) or if any liability in respect of any Tax is at any time asserted, imposed, levied or assessed against the Lender, then the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a written demand made by the Lender, indemnify the Lender in relation to such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith,

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deduction of Tax with respect to the Loan, which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

### 8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Indemnity Amounts*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

### 8.5 Tax Credits and Tax Refunds

- (a) If a payment is made under Clause 8.1 (*Additional Amounts*) or 8.3 (*Indemnity Amounts*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted a credit against, a relief or remission for or a repayment of, any Tax, then, if and to the extent that the Lender, in its reasonable opinion determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding, liability, expense, loss or payment giving rise to such payment by the Borrower, then the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its reasonable opinion, have concluded to be attributable to such deduction, withholding or payment, *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of any such credit, relief, remission or repayment until the Lender is, in its reasonable opinion, satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and *further provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its reasonable opinion that to do so would leave it, after the payment, in a worse after-Tax position than it would have been in had the payment not been required under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*). Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 or Clause 8.7 (*Delivery of Forms*) shall interfere with the right of the Lender to



arrange its Tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

- (b) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the Taxing Authority, (i) Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) and an Additional Amount is paid by the Borrower to the Lender in respect of such deduction or withholding; and (ii) following the deduction or withholding and the payment of any applicable Additional Amounts, the Borrower applies on behalf of the Lender (but under the supervision of the Lender) to the Taxing Authority for a Tax refund and such Tax refund is credited by the Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such Tax refund and promptly transfer the entire amount of the Tax refund (to an account specified by the Borrower), if and to the extent that the Lender determines in its reasonable opinion that to do so will leave it, after the payment (and after it has deducted all of its related costs and expenses from the relevant amount), in no worse an after-Tax position than it would have been in had there been no failure to obtain relief from such withholding or deduction.

#### 8.6 Tax Position of the Lender

The Lender represents that (a) it is a bank which at the date hereof is resident in a jurisdiction which has a double tax treaty with Ukraine under which the payment of interest by Ukrainian borrowers is able to be made without deduction or withholding of Ukrainian Tax (upon completion of any necessary formalities required in relation thereto) being the United Kingdom; (b) it does not have a permanent establishment in Ukraine; and (c) it does not have any current intentions to effect, during the term of the Loan, any corporate action or re-organisation or change of taxing jurisdiction that would result in the Lender ceasing to qualify as a resident of the United Kingdom under Article 4 of the Double Tax Treaty.

#### 8.7 Delivery of Forms

- (a) The Lender shall use its best efforts, within 30 days of the request of the Borrower, (to the extent it is able to do so under applicable law) to deliver to the Borrower such duly completed certificate issued by the competent taxing authority in the United Kingdom or other Qualifying Jurisdiction confirming that the Lender is a tax resident in the United Kingdom or other Qualifying Jurisdiction and such other information or forms as may be required (pursuant to the relevant procedures in connection with the obtaining of relief from deduction or withholding of Ukrainian Tax or Ukrainian Tax refunds in respect thereof) to be duly completed and delivered by the Lender with the assistance of the Borrower to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian Tax or, as the case may be, to apply to obtain a Ukrainian Tax refund, if a relief from deduction or withholding of Ukrainian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.7 (*Delivery of Forms*) shall be duly signed by the Lender and the Lender shall use its reasonable endeavours to procure the stamping or approval thereof by the competent tax authority in the United Kingdom or other Qualifying Jurisdiction thereof and the requisite apostil thereof.
- (b) If a relief from deduction or withholding of Ukrainian Tax under this Clause 8 (*Taxes*) has not been obtained and further to an application of the Borrower to the relevant Ukrainian Taxing Authority, the Ukrainian Tax Authority makes a tax refund to the Borrower, then, if and to the extent that the Borrower has failed to make payment of additional amounts in relation to the payments under this Agreement from which no such relief as aforesaid was obtained, the Borrower shall promptly transfer to the Lender an amount in U.S. dollars equivalent to such refund in satisfaction of such defaulted payment obligation. The Borrower shall pay all costs (including, but not limited to, currency conversion costs) associated with such transfer.
- (c) If a relief from deduction or withholding of Ukrainian Tax or a Ukrainian Tax refund under this Clause 8.7 has not been obtained and further to an application of the Borrower (if applicable on the Lender's behalf) to the Ukrainian Taxing Authority, the Ukrainian Taxing Authority requests the Lender's hryvnia bank account details, the Lender shall (subject to it being satisfied that any such action is not adverse to its interests) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained; and



- (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account.
- (d) The Lender shall use its reasonable endeavours to execute such acknowledgements of payments and other instruments as may be reasonably required by the Borrower to enable it to receive allowable Tax deductions and otherwise comply with tax laws with respect to any payments to be made by the Borrower under this Agreement.

## 9. TAX RECEIPTS

### 9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding on account of Tax from any sum payable by it hereunder (or after any such notification there is any change in the rates at which, or the manner in which, such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender in writing and provide full details of such deduction or withholding.

### 9.2 Evidence of Payment of Tax

- (a) The Borrower will use its reasonable endeavours to provide the Lender with tax receipts evidencing the payment of Taxes deducted or withheld by it from each Tax Authority imposing such Taxes. The Borrower will furnish to Lender, as soon as practicable but in any event within 60 calendar days after the date that payment of any Taxes so deducted or withheld is due pursuant to applicable law, original tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, certain other evidence of such payments by the Borrower reasonably acceptable to the Lender.
- (b) The Lender will use its reasonable endeavours to provide the Borrower with tax receipts evidencing the payment of any Taxes deducted or withheld by it from each Tax Authority imposing such Taxes. The Lender will furnish to the Borrower, as soon as practicable, but in any event within 60 calendar days after the date that payment of any Taxes so deducted or withheld is due pursuant to applicable law, certified copies of Tax receipts evidencing such payment by the Lender or, if such receipts are not obtainable, other evidence of such payments by the Lender reasonably acceptable to the Borrower.

## 10. CHANGES IN CIRCUMSTANCES

### 10.1 Increased Costs

If, by reason of (i) any Change of Law; and/or (ii) compliance by the Lender with any Capital Adequacy Requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes):

- (a) the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations (including its obligation to make the Loan) under this Agreement;
- (b) the Lender becomes liable to make any additional payment on account of Tax or otherwise on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder, except in relation to any income or corporation Taxes of the Lender or where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Indemnity Amounts*); or
- (c) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then the Borrower shall, from time to time, within 30 days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such cost or liability *provided that* the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender and *provided further that* the amount of such increase, cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

## 10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

## 10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.3 (*Indemnity Amounts*) or this Clause 10, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above-mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to avoid or mitigate the effects of such circumstances, *provided that* the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might cause it to breach any provisions of any of the Funding Documents.

## 11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes and gives the representations, warranties and undertakings set out in Clause 11.1 (*Incorporation, Capacity and Authorisation*) to Clause 11.17 (*Environmental Matters*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

### 11.1 Incorporation, Capacity and Authorisation

(a) The Borrower and each of its Subsidiaries is validly existing under the laws of Ukraine, is not in liquidation, insolvency or receivership, has full power, capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; (b) the Borrower has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein; and (c) the Borrower has taken all necessary corporate action to duly approve, authorise and execute this Agreement.

### 11.2 Approvals

Except for the NBU certificate of registration of this Agreement, all actions or things required to be taken, fulfilled or done by the laws or regulations of Ukraine (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or Agency), and all registrations, filings or notarisations required by the laws or regulations of Ukraine, in order to ensure (a) that the Borrower is able to own its assets and carry on its business as currently conducted; (b) the due execution, delivery and performance by the Borrower of this Agreement; (c) the compliance by the Borrower with all the provisions of this Agreement; and (d) the validity of and enforceability against the Borrower of this Agreement, have been obtained, fulfilled or done and are (and will, on the Borrowing Date, be) in full force and effect.

### 11.3 *Pari Passu* Obligations

The claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all of its other unsecured and unsubordinated creditors, save those whose claims are preferred by mandatory provisions of applicable law.

### 11.4 No Withholding Tax

Under the laws of Ukraine in force at the date of this Agreement, in accordance with the terms of the Double Tax Treaty, and subject to the due satisfaction by the payee of certain conditions set forth therein and of certain requirements of applicable Ukrainian legislation, payments of principal and interest by the

Borrower to the Lender under this Agreement and all payments by the Borrower under the Fees Letter may be made without deduction or withholding of Ukrainian Tax.

#### 11.5 **Governing Law**

In any proceedings (whether arbitration or otherwise) taken in Ukraine in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine, after compliance with the applicable procedural rules in Ukraine.

#### 11.6 **Validity and Admissibility in Evidence**

Except for the registration of this Agreement with the NBU, all acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

#### 11.7 **Valid and Binding Obligations**

Upon registration of this Agreement with the NBU, the obligations expressed to be assumed by the Borrower in this Agreement will be legal, valid and binding, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and, subject to general principles of equity, enforceable against it in accordance with their terms.

#### 11.8 **No Stamp Taxes**

Under the laws of Ukraine in force at the date of this Agreement it is not necessary that any Ukrainian stamp, registration or transfer tax, stamp duty or similar levy be paid on or in relation to this Agreement, except the NBU registration fee, which the Borrower undertakes to pay before the Borrowing Date.

#### 11.9 **No Default**

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default and no such event will occur upon or as a result of the making of the Loan.

#### 11.10 **No Material Proceedings**

There are no lawsuits, litigations or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder; (b) adversely affect the right and power of the Borrower to enter into this Agreement; or (c) have a Material Adverse Effect.

#### 11.11 **No Material Adverse Change**

Since 31 December, 2004 there has been no material adverse change, nor any development involving a prospective material adverse change, in the business, prospects, properties, financial condition or results of operations of the Borrower and/or the Group.

#### 11.12 **Insurance Policies**

The Borrower's insurance policies cover those of its properties which are of an insurable nature against loss or damage to the extent that property of a similar character is usually so insured by corporations in the a similar industry and the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

#### 11.13 **Financial Statements**

The Borrower's consolidated audited financial statements for the two IFRS Fiscal Periods ended 31 December 2003 and 31 December 2004 were prepared in accordance with IFRS consistently applied and present (in conjunction with the notes thereto) in accordance with IFRS, the financial condition of the Group and the financial results of the operations of the Group for the periods for which they were prepared.

#### 11.14 No Undisclosed Material Assets or Liabilities

Except as described therein, neither the Borrower nor any other member of the Group had, as at the date as on which the audit report of the Auditors on the consolidated financial statements of the Borrower for each of the years ended 31 December 2004 and 2003 was issued, any material assets or liabilities (contingent or otherwise) which were not disclosed or adequately reserved against in accordance with IFRS in the consolidated audited financial statements of the Borrower for the years ended 31 December 2004 and 2003 nor were there at that date any unrealised or anticipated losses of the Borrower, any Subsidiary or the Group arising from commitments entered into by any of them which were not disclosed or reserved against in the consolidated audited financial statements of the Borrower for each of the years ended 31 December 2004 and 2003.

#### 11.15 Execution of Agreement

The Borrower's execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

- (a) violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any government, governmental body or court in Ukraine binding upon the Borrower or any of its Subsidiaries; or
- (b) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, trust deed, mortgage or other contract, agreement or instrument to which the Borrower or any of its Subsidiaries is a party or by which it, or any of its or its Subsidiaries' properties or assets, is bound which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform or comply with its obligations under this Agreement; or
- (c) give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or any of its Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Subsidiaries which, in any case, could reasonably be expected to have a Material Adverse Effect on the Borrower's ability to perform or comply with its obligations under this Agreement; or
- (d) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders.

#### 11.16 Compliance with Ukrainian Laws

Neither the entry into nor the performance by the Borrower of its obligations under this Agreement will violate any laws or regulations of Ukraine or any directives of governmental authorities therein having the force of law or, so far as the Borrower is aware, any other law or regulation affecting it and, except where failure to be so in compliance would not have a Material Adverse Effect, the Borrower and each of its Subsidiaries is in compliance in all respects with all applicable provisions of the laws and regulations of Ukraine;

#### 11.17 Environmental Matters

Save to the extent that it would not have a Material Adverse Effect,

- (a) the Borrower has complied with all Environmental Laws to which it is or may be subject, obtained all Environmental Licences required in connection with its business and complied with the terms and conditions of those Environmental Licences;
- (b) there is no Environmental Claim pending or threatened against it, and to the best of the Borrower's knowledge and belief there are no past or present acts, omissions, events or circumstances which, in each case, are reasonably likely to form the basis of any Environmental Claim against it; and
- (c) to the best of the Borrower's knowledge and belief after due and careful consideration and enquiry, no property currently or previously owned, leased, occupied or controlled by it is contaminated with any Hazardous Substance and no discharge, release, leaching, migration or escape of any Hazardous Substance into the Environment has occurred or is occurring on, under or from such property.

### 11.18 Repetition

Each of the representations and warranties contained in this Clause 11 shall be deemed to be repeated (with reference to the facts and circumstances then subsisting) by the Borrower on the Borrowing Date.

## 12. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender and the Trustee (in sufficient copies as may reasonably be required by the Lender and/or the Trustee) all such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Funding Instruments may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Funding Instruments.

## 13. COVENANTS

The covenants in this Clause 13 remain in force from the date of this Agreement for so long as the Loan or any part of it is or may be outstanding.

### 13.1 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement. In particular and without prejudice to the foregoing, the Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement (the “**Relevant Payments**”), *provided that*, in the event that the Borrower is prevented from paying such amounts by virtue of any requirement of the NBU or any other equivalent or similar authority, the Borrower undertakes that it will promptly obtain and maintain in full force and effect any necessary licences or other authorisations to enable it to make the Relevant Payments and shall, as soon as practicable thereafter, make all Relevant Payments under this Agreement.

### 13.2 Notification of Default

The Borrower shall promptly upon it becoming aware of the same inform the Lender and the Trustee of the occurrence of any Event of Default or Potential Event of Default and, within 10 days of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

### 13.3 Claims *Pari Passu*

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

### 13.4 Negative Pledge

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless the Loan is secured equally and rateably with such other Indebtedness or Guarantee of Indebtedness or otherwise as approved by the Lender and the Trustee.

### 13.5 Mergers

The Borrower shall not, and shall ensure that none of its Subsidiaries will, without the prior written consent of the Trustee, enter into any Corporate Restructuring, if any such Corporate Restructuring would result in a Material Adverse Effect *provided that* the Borrower may in any single or series of related transactions, directly or indirectly, consolidate or merge with or into, or convey, transfer, lease or otherwise dispose of, all or substantially all of the Borrower's properties or assets (determined on a



consolidated basis) to any Subsidiary of the Borrower where the resulting, surviving or transferring Person (the “**Successor Entity**”), shall be the Borrower or, if not the Borrower shall be a Person organised and existing under the laws of Ukraine and such Successor Entity, if not the Borrower, shall expressly assume, by an agreement supplemental to this Agreement in form and substance satisfactory to the Lender, executed and delivered to the Lender, the due and punctual payment of the principal and interest under this Agreement and the performance and observance of every covenant of the Borrower under this Agreement, and *provided further that* such consolidation, merger, conveyance, transfer, lease or disposal does not result in a default under the terms of this Agreement.

### 13.6 Disposals

- (a) Without prejudice to the provisions of Clause 13.7 (*Transactions with Affiliates*), the Borrower shall not, and shall ensure that none of its Subsidiaries will, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets unless: (i) each such transaction is on an arms'-length basis for Fair Market Value; (ii) each such transaction is approved by a decision adopted by the Management Board of the Borrower; (iii) 75 per cent. of the consideration for each such transaction is paid in cash or cash equivalents; and (iv) the Borrower reinvests all the consideration received in cash or cash equivalents for each such transaction into its business or uses all the consideration so received to repay its Indebtedness (other than subordinated Indebtedness), in both cases within 360 days of receipt of the relevant consideration.
- (b) This Clause 13.6 shall not apply to any sale, lease, transfer or other disposal:
- (i) of inventory, stock-in-trade, goods and other current assets in the ordinary course of business;
  - (ii) of assets or revenues secured as collateral in favour of the Borrower or any Subsidiary;
  - (iii) of obsolete or redundant assets;
  - (iv) arising as a result of any Permitted Security Interest; or
  - (v) of any other assets or revenues where the aggregate book value thereof does not exceed U.S.\$1,000,000 in aggregate in any financial year.

### 13.7 Transactions with Affiliates

- (a) The Borrower shall not, and shall ensure that none of its Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”), including inter-company loans, unless: the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arms'-length transaction for Fair Market Value with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries; and (ii) 75 per cent. of the consideration for each such Affiliate Transaction is paid in cash or cash equivalents.
- (b) With respect to an Affiliate Transaction or a series of Affiliate Transactions involving aggregate payments or value in excess of U.S.\$10,000,000, the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) has the nature of an arms'-length commercial transaction.

### 13.8 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Tax, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Borrower and/or its Subsidiaries, *provided that*, neither of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made; or (b) whose amount, together with



all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed U.S.\$1,000,000 plus the amount of any Tax credit to which the Borrower is entitled under applicable tax laws or regulations.

### 13.9 Restricted Payments

The Borrower shall not, and shall procure and ensure that each of its Subsidiaries will not, directly or indirectly:

- (a) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital (other than a dividend or other distribution payable to the Borrower or a Subsidiary of the Borrower); or
- (b) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt (other than (i) Capital Stock or subordinated debt held by the Borrower or a Subsidiary of the Borrower and (ii) Capital Stock purchased by the Borrower from any Person other than an Affiliate for re-sale to an Affiliate within 90 days of the date of purchase at a price at least equal to the price which the Borrower paid for such Capital Stock),

(any such action, a “**Restricted Payment**”) if such Restricted Payments when aggregated with all other Restricted Payments previously made in respect of the relevant fiscal year exceed 50 per cent. of the Group’s consolidated net profit (calculated in accordance with IFRS) for such fiscal year or if such Restricted Payment would cause or result in a breach of one or more of the covenants contained in Clause 13.18 (*Financial Covenants*).

### 13.10 Financial Information

- (a) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 180 days after the end of each of its financial years, copies of the Borrower’s audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the report of the Auditors thereon.
- (b) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 90 days after the end of the second quarter of each of its financial years, copies of the Borrower’s unaudited consolidated financial statements for six months, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period.
- (c) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee, upon request and without delay, such additional information regarding the financial position or the business of the Borrower, any of its Subsidiaries and/or the Group as the Lender and/or the Trustee may reasonably request.

### 13.11 Prevention of restrictions on distributions from Subsidiaries

The Borrower shall not create, or otherwise cause or permit to exist or become effective, any consensual encumbrance or consensual restriction on the ability of any Subsidiary:

- (a) to pay dividends or make any other distributions on its share capital;
- (b) to make any loans or advances to the Borrower or pay any Indebtedness owed to the Borrower; or
- (c) to transfer any of its property or assets to the Borrower,

The preceding provisions of this Clause 13.11 will not prohibit:

- (i) any encumbrance or restriction pursuant to an agreement in effect at the date of this Agreement;
- (ii) any encumbrance or restriction with respect to a Subsidiary pursuant to an agreement relating to Indebtedness incurred by a Subsidiary on or before the date on which such Subsidiary was acquired by the Borrower or otherwise became a Subsidiary (other than Indebtedness incurred as consideration in, or to provide all or any proportion of the funds utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Borrower or in contemplation of the transaction) and outstanding on such date;

- (iii) any encumbrance or restriction pursuant to an agreement effecting a refunding, replacement or refinancing Indebtedness referred to in paragraphs (i) or (ii) above or this paragraph (iii) or contained in any amendment to any agreement relating to any Indebtedness referred to in paragraph (i) or (ii) or this paragraph (iii); and
- (iv) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order.

The provisions of this Clause 13.11 (*Prevention of restrictions on distributions from Subsidiaries*) are subject to, and without prejudice to, the restrictions contained in Clause 13.9 (*Restricted Payments*).

#### 13.12 Compliance Certificates

Within 30 days of the publication of its annual audited financial statements, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect to it.

#### 13.13 Maintenance of Property

The Borrower will and shall procure that its Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in this judgment of the Borrower or any such Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

#### 13.14 Maintenance of Insurance

The Borrower shall, and shall procure that its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers believed by the Borrower or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of a similar character is usually so insured by corporations in a similar industry, in the same jurisdictions similarly situated and owning like properties in the same jurisdiction.

#### 13.15 Environmental Matters

Save to the extent that it would not have a Material Adverse Effect,

- (a) the Borrower will at all times comply with all Environmental Laws to which it is or may be subject, obtain and maintain in full force and effect all Environmental Licences required in connection with its business and will at all times comply with the terms and conditions of those Environmental Licences; and
- (b) ensure that no property owned, leased, occupied or controlled by it is at any time contaminated with any Hazardous Substance and no discharge, release, leaching, migration or escape of any Hazardous Substance into the Environment occurs on, under or from such property.

#### 13.16 Sales of Nitrogen Fertilisers

The Borrower will ensure that at least 80 per cent. of its sales of ammonia, urea and ammonium nitrate in any financial year will be at, or above, the Applicable Market Price for the relevant product at the time of the relevant sale.

#### 13.17 Compliance with Ukrainian Laws

The Borrower will at all times comply, and shall procure that each of its Subsidiaries complies at all times, with all applicable provisions of the laws, directives of governmental authorities with the force of law and regulations of Ukraine, or, so far as the Borrower is aware, any other law or regulation affecting it and, except where failure to be so in compliance would not have a Material Adverse Effect, the Borrower and each of its Subsidiaries is in compliance in all respects with all applicable provisions of the laws and regulations of Ukraine.

### 13.18 Financial Covenants

- (a) The Borrower will ensure that the consolidated shareholders' equity of the Group (as taken from the most recent annual or half-yearly IFRS consolidated financial statements of the Group), at the end of each financial year and half-year, does not fall below U.S.\$175,000,000.
- (b) The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, incur any Indebtedness, *provided that* the Borrower and any Subsidiary may incur Indebtedness, in each case, if, after such incurrence of Indebtedness, the ratio of (i) the Group's total consolidated Indebtedness to (ii) the Group's consolidated earnings before interest, taxation, depreciation and amortisation (as taken, in the case of (ii), from the most recent annual IFRS consolidated financial statements of the Group) does not exceed 2.00 to 1.00.

## 14. EVENTS OF DEFAULT

Each of Clauses 14.1 (*Failure to Pay*) to 14.10 (*Analogous Events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Events of Default shall occur, the Lender shall be entitled to the remedies set forth in Clause 14.11 (*Acceleration*).

### 14.1 Failure to Pay

The Borrower fails to pay any interest, principal or other sum due from it hereunder at the time, in the currency and in the manner specified herein, and in the case of a failure to pay interest, such default is not remedied within five Business Days of the due date for payment.

### 14.2 Obligations and Covenants

The Borrower fails duly to perform or comply with, or is otherwise in breach of any other of its obligations (other than set out in Clause 14.1 (*Failure to Pay*)) or covenants expressed to be assumed by it in this Agreement and such failure or breach is not remedied within 15 Business Days after the Lender has given notice of it to the Borrower requiring the same to be remedied.

### 14.3 Cross-Default

(a) Any Indebtedness of the Borrower or any of its Subsidiaries becomes due and payable or becomes capable of being declared due and payable prior to the stated maturity thereof as a result of a default (howsoever described) by the Borrower or any of its Subsidiaries; or (b) the Borrower or any of its Subsidiaries fails to make any payment of principal in respect of any Indebtedness of the Borrower or any of its Subsidiaries or to make any payment under any Guarantee of any Indebtedness on the date on which such payment is due and payable or prior to the expiration of any grace period originally applicable thereto, unless the aggregate amount of Indebtedness relating to all the above events is less than U.S.\$1,000,000 (or its equivalent in any other currency).

### 14.4 Validity and Illegality

The validity of this Agreement is contested by the Borrower or the Borrower denies any of its obligations under this Agreement or it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement or any of such obligations becomes unenforceable or ceases to be legal, valid and binding.

### 14.5 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof expires, or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect.

### 14.6 Insolvency

(a) The occurrence of any of the following events: (i) the Borrower or any of its Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission or a similar officer; (ii) the presentation or filing of a petition in respect of the Borrower or any of its Subsidiaries in any court, arbitration court or before any agency for its bankruptcy, insolvency, dissolution or liquidation which, in the case of a petition

presented or filed by a Person other than the Borrower or such Subsidiary, as the case may be, is not dismissed within 60 days; (iii) the institution of supervision, external management or bankruptcy management to the Borrower or any of its Subsidiaries; (iv) the convening of a meeting of creditors generally of the Borrower or any of its Subsidiaries for the purposes of considering an amicable settlement with its creditors generally; and/or (v) any extra-judicial liquidation or analogous act in respect of the Borrower or any of its Subsidiaries by any Agency in or of Ukraine.

- (b) The Borrower or any of its Subsidiaries: (i) fails or is unable to pay its debts generally as they become due; (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Borrower or any of its Subsidiaries or any part of their respective property and such order or decree remains undischarged for a period of 60 days.
- (c) The shareholders of the Borrower approve any plan for the liquidation or dissolution of the Borrower.

#### 14.7 **Judgments**

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Borrower and/or any Subsidiaries of the Borrower exceeds U.S.\$1,500,000 or the equivalent thereof in any other currency or currencies and such judgment, decree or order remains undischarged for a period of 60 days.

#### 14.8 **Business**

The Borrower ceases to carry on the principal business it carries on at the date hereof.

#### 14.9 **Execution and Distress**

Any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any substantial part of, the property, undertaking, revenues or assets of the Borrower or any of its Subsidiaries and is not discharged within 60 days.

#### 14.10 **Analogous Events**

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 14.6 (*Insolvency*) and 14.7 (*Judgments*) inclusive.

#### 14.11 **Acceleration**

If an Event of Default has occurred and is continuing, the Lender may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable upon the demand of the Lender.

#### 14.12 **Amounts Due on Demand**

If, pursuant to Clause 14.11 (*Acceleration*), the Lender declares the outstanding principal amount of the Loan to be due and payable upon the demand of the Lender, then, and at any time thereafter, the Lender may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

### 15. **INTEREST ACCRUAL AND INDEMNITY**

#### 15.1 **Interest Accrual**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 17 (*Payments*), interest will continue to accrue on such sum at a rate per annum equal to the Rate of Interest up to but excluding the date on which it is paid by the Borrower.

## 15.2 The Borrower's Indemnity to the Lender

- (a) The Borrower undertakes to the Lender, that if the Lender, any of its Affiliates, or any director, officer, employee or agent of the Lender or any such Affiliate or any person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, damage or expense (including, without limitation, legal fees, costs and expenses and any VAT thereon) (a "**Loss**") as a result of or in connection with any Event of Default, any Potential Event of Default, the Loan, this Agreement (or enforcement thereof), the issue, constitution, sale, listing or enforcement of the Funding Instruments, the Funding Instruments being outstanding (including any Loss incurred under any documents relating to the Funding Instruments or their creation or subscription) or any combination of any of the foregoing, then the Borrower shall pay to the Lender on the written demand of the Lender an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim, as such costs, charges and expenses are incurred. The Lender shall not have any duty or obligation, whether as fiduciary or trustee, for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause 15.2.
- (b) The indemnity in paragraph (a) above shall not apply to any Loss:
- (i) which is caused by an indemnified party's gross negligence or wilful default or misconduct;
  - (ii) which is recovered under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*); or
  - (iii) where an indemnity is recovered under Clause 10 (*Changes in Circumstances*) or 18 (*Costs and Expenses*).

## 15.3 Independent Obligation

Clause 15.2 (*The Borrower's Indemnity to the Lender*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Funding Instruments and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

## 15.4 Evidence of Loss

A certificate of the Lender setting forth the Loss shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

## 15.5 Survival

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.3 (*Indemnity Amounts*), 10 (*Changes in Circumstances*), 15 (*Interest Accrual and Indemnity*), 16 (*Currency of Account and Payment*), 17.3 (*No Set-off*) and 18 (*Costs and Expenses*) shall survive the execution and delivery of this Agreement and the borrowing and the repayment of the Loan, in each case by the Borrower.

## 16. CURRENCY OF ACCOUNT AND PAYMENT

### 16.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

### 16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Borrower; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange



at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

## **17. PAYMENTS**

### **17.1 Payments to the Lender**

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds not later than 10.00 am (New York City time) one business day prior to such date (or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. dollars) to the Lender Account other than amounts payable (i) in respect of Reserved Rights; (ii) under the Fees Letter; or (iii) in relation to Clause 15.2 (*The Borrower's Indemnity to the Lender*), which the Borrower shall pay on their due date to such other account or accounts as the Lender shall notify to the Borrower, *provided that* if the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments, which would otherwise be made to the Lender Account, to such account as shall be notified by the Trustee to the Borrower.

Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the third Banking Day before the due date of each payment made by it under this Agreement, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business (including dealings in foreign currencies) in New York City.

### **17.2 Alternative Payment Arrangements**

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.1 (*Payments to the Lender*), then the Borrower may agree with the Lender and the Trustee alternative arrangements for the payment to the Lender of amounts due (prior to the delivery of the notice by the Trustee referred to in Clause 17.1 (*Payments to the Lender*)) under this Agreement, *provided that*, in the absence of any such agreement with the Lender and the Trustee, the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

### **17.3 No Set-off**

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

## **18. COSTS AND EXPENSES**

### **18.1 Transaction Expenses and Fees**

The Borrower agrees to pay the fees and expenses specified in the Fees Letters to the parties entitled thereto, in the amounts, at the times and on the dates specified therein.

### **18.2 Preservation and Enforcement of Rights**

The Borrower shall, from time to time, on the written demand of the Lender reimburse the Lender for all costs and expenses (including, without limitation, legal fees) and, in each case, together with any VAT thereon, incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement.

### **18.3 Stamp Taxes**

The Borrower shall pay all Ukrainian, Dutch and United Kingdom stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection therewith) to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on the written demand of the Lender, indemnify the Lender against



any liabilities, losses, costs or expenses (including, without limitation, legal fees and any applicable VAT thereon) and claims, actions or demands resulting from any failure to pay or any delay in paying any such duty or tax.

#### 18.4 **Costs relating to Amendments and Waivers**

The Borrower shall, from time to time, on written demand of the Lender (and without prejudice to the provisions of Clause 15.2 (*The Borrower's Indemnity to the Lender*) and Clause 18.2 (*Preservation and Enforcement of Rights*)) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine for all time expended by the Lender, its directors, officers, employees and/or agents, and for all costs and expenses (including telephone, facsimile, copying and travel costs) they may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

- (a) the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;
- (b) any actual, potential or suspected breach by the Borrower of any of its obligations under this Agreement;
- (c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or
- (d) any amendment or proposed amendment to this Agreement requested by the Borrower.

#### 18.5 **Costs of Auditors**

The Borrower agrees that the Lender and/or the Trustee shall have the right to engage the Auditors at any time and on any number of occasions to provide a report and adjudication on the Fair Market Value of one or more transactions and the Borrower agrees to pay the full cost of any such report in advance of the Auditors beginning work on it.

### 19. **ASSIGNMENTS AND TRANSFERS**

#### 19.1 **Binding Agreement**

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

#### 19.2 **No Assignments and Transfers by the Borrower**

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

#### 19.3 **Assignments by the Lender**

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than to the Trustee under the Trust Deed.

### 20. **CALCULATIONS AND EVIDENCE OF DEBT**

#### 20.1 **Evidence of Debt**

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder and in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

#### 20.2 **Change of Circumstance Certificates**

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or the amount for the time being required to indemnify it against any such cost, payment or liability as is

mentioned in Clauses 8.3 (*Indemnity Amounts*), 10.1 (*Increased Costs*), 15.2 (*The Borrower's Indemnity to the Lender*) and 18 (*Costs and Expenses*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower.

## **21. REMEDIES AND WAIVERS, PARTIAL INVALIDITY**

### **21.1 Remedies and Waivers**

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

### **21.2 Partial Invalidity**

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

## **22. NOTICES; LANGUAGE**

### **22.1 Written Notice**

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

### **22.2 Giving of Notice**

(a) Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days written notice specified another address) be made or delivered to that other person, addressed as follows:

(i) If to the Borrower:

Joint Stock Company Concern Stirol  
10 Gorlivskoyi Dyviziyyi  
Gorlivka  
Donetsk 84610  
Ukraine

Attention: Mr. Andrei Shulika, Head of the International Finance Department

Tel: + 38 062 427 8276

Fax: + 38 062 427 8243

(ii) If to the Lender

Moscow Narodny Bank Limited  
81 King William Street  
London  
EC4N 7BG  
United Kingdom

Attention: Alex Medlock

Tel: + 44 207 623 2006

Fax: + 44 207 929 2354

and shall be deemed to have been delivered when despatched (in the case of any communication by facsimile) or (in the case of any communication made by letter) when left at the address or (as the case may be) 10 days after being deposited in the post (postage pre-paid) in an envelope addressed to it at that address.

### **22.3 English Language**

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the

English and Ukrainian versions of such communication or document or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

#### 22.4 **Language of Agreement**

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

### 23. **LAW AND JURISDICTION**

#### 23.1 **English Law**

This Agreement is governed by, and shall be construed in accordance with, English law.

#### 23.2 **English Courts**

Subject to Clause 23.6 (*Arbitration*), the Borrower agrees for the benefit of the Lender that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement (“**Proceedings**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

#### 23.3 **Appropriate Forum**

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

#### 23.4 **Service of Process**

The Borrower agrees that the service of process relating to any Proceedings in England or Wales may be by delivery to Law Debenture Corporate Services Limited at 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 23.4 shall affect the right of the Lender to serve process in any other manner permitted by law.

#### 23.5 **Non-exclusivity**

The submission by the Borrower to the jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring Proceedings in any other court of competent jurisdiction.

#### 23.6 **Arbitration**

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (or any supplement, modification or addition hereto) (each a “**Dispute**”), each of the Lender and the Trustee may elect, by notice in writing to the Borrower, to settle such Dispute by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “**Rules**”) as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any arbitration shall be London, England. The language of the arbitration shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the President of the London Court of International Arbitration.

**23.7 Waiver of Immunity**

To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making judgment, award or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the law of such jurisdiction.

**23.8 Rights to Third Parties**

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement other than the Trustee in relation to Clauses 7 (*Prepayment*), 8 (*Taxes*), 12 (*Information*), 13 (*Covenants*), 17 (*Payments*), 18 (*Costs and Expenses*), 21 (*Remedies and Waivers, Partial Invalidity*) and this Clause 23 (*Law and Jurisdiction*), but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

**24. COUNTERPARTS**

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

**25. EFFECTIVENESS**

This Agreement shall become effective only when registered with the NBU.

**AS WITNESS** the hands of the duly authorised representatives of the parties hereto the day and year first before written.

**TERMS AND CONDITIONS OF THE NOTES**

A13.47

*The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to Notes in definitive form to the extent described under "Summary of Provisions Relating to the Notes in Global Form" below.*

The U.S.\$125,000,000 7.875 per cent. Loan Participation Notes due 2008 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of UkrChem Capital B.V. (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated 4 August 2005 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, Moscow Narodny Bank Limited and The Bank of New York as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 4 August 2005 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Bank of New York as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**", which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the "**Paying and Transfer Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying and Transfer Agent and the Paying and Transfer Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions include definitions to be found in, and summaries of detailed provisions of, the Trust Deed, the Loan Agreement and/or, as the case may be, the Agency Agreement and such summaries are subject to their detailed provisions and definitions.

The Noteholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed, the Loan Agreement and are deemed to have notice of the provisions of the Agency Agreement applicable to them.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London, E14 5AL, England and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer authorised the creation, issue and sale of the Notes for the sole purpose of funding a sub-participation (under the sub-participation agreement between the Issuer and Moscow Narodny Bank Limited, dated 28 July 2005 (the "**Sub-Participation Agreement**") (the "**Sub-Participation**") in a loan to be made by Moscow Narodny Bank Limited (the "**Lender**") to Joint Stock Company Concern Stinol (the "**Borrower**") (the "**Loan**") under a Loan Agreement between the Lender and the Borrower dated 28 July 2005 (the "**Loan Agreement**").

**In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (*Payments*) and Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders (as defined in Condition 2(a)), on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer from the Lender pursuant to the Sub-Participation Agreement and the Lender will only pay such sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, to the Issuer to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, actually received by or for the account of the Lender from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights (as defined below)). Noteholders must therefore rely solely and exclusively upon the covenant of the Borrower to pay under the Loan Agreement and the credit and financial standing of the Borrower and the covenant of the Lender to pay under the Sub-Participation Agreement and the credit and financial standing of the Lender. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.**

## 1. Form and Denomination; Status; Limited Recourse; Security

- (a) *Form and denomination:* The Notes are in registered form, without interest coupons attached, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each, an “**Authorised Holding**”).
- (b) *Status:* The Notes constitute direct limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition 1(c) (*Limited Recourse*) below. The Notes are secured in the manner described in Condition 1(d) (*Security*) below and shall rank at all times *pari passu* and without preference amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The sole purpose of the issue of the Notes is to provide the funding for the Sub-Participation in the Loan and by this means the funding for the Loan itself.

- (c) *Limited Recourse:* The obligations of the Issuer are solely to make payments of amounts which in aggregate are equal to principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer from the Lender pursuant to the Sub-Participation Agreement and the Lender will only pay such sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, to the Issuer to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, actually received by or for the account of the Lender from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights). Noteholders must therefore rely solely and exclusively upon the covenant of the Borrower to pay under the Loan Agreement and the credit and financial standing of the Borrower and the covenant of the Lender to pay under the Sub-Participation Agreement and the credit and financial standing of the Lender. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

Subject to the foregoing and these Conditions, payments in respect of the Notes will be made *pro rata* among all Noteholders, on the dates on which such payments are due. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Any payment made by the Lender under the Sub-Participation Agreement to, or to the order of, the Trustee or the Principal Paying and Transfer Agent shall *pro tanto* satisfy the obligations of the Issuer in respect of the Notes. Any payment made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying and Transfer Agent shall *pro tanto* satisfy the obligations of the Lender in respect of the Sub-Participation Agreement and shall *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Noteholders are deemed to have accepted that:

- (i) (A) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or by the Lender under the Sub-Participation Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement or from the Lender under the Sub-Participation Agreement; and (B) the Lender makes no representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;
- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower or the Lender;
- (iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement or the Lender under or in respect of the Sub-Participation Agreement;



- (iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying and Transfer Agent or any Paying and Transfer Agent of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Lender in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Lender for the sole benefit of the Lender and neither the Trustee nor the Issuer nor any Noteholder shall have any remedies or rights against the Borrower that the Lender may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Lender Transferred Rights (as defined below). The Borrower has represented and warranted to the Issuer in the Subscription Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 5 (*Representations and Warranties by the Borrower*) of the Subscription Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Issuer Transferred Rights (as defined below);
- (vi) the Issuer (and, pursuant to the assignment of the Issuer Transferred Rights, the Trustee) will rely on self-certification by the Lender and certification by third parties as a means of monitoring whether the Lender is complying with its obligations under the Sub-Participation Agreement and shall not otherwise be responsible for investigating any aspect of the Lender's performance in relation thereto. Pursuant to the assignment of the Lender Transferred Rights, the Trustee will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not be otherwise responsible for investigating any aspect of the Borrower's performance in relation thereto. Subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Note Security (as defined below) and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer or the Lender to the secured property represented by the Note Security whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Note Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and
- (vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement, if the Lender is required by law to make any withholding or deduction for or on account of tax from any payment under the Sub-Participation Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from the Lender pursuant to the Sub-Participation Agreement in respect of such payment, including, if applicable, Additional Amounts or Indemnity Amounts (in respect of the tax required to be so withheld or deducted) and the Lender will only pay such equivalent sums to the Issuer to the extent and at such time as it shall have actually received equivalent sums from the Borrower under the Loan Agreement in respect of such payment, including, if applicable, by way of Additional Amounts or Indemnity Amounts (in respect of tax required to be withheld or deducted);

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Sub-Participation Agreement or the Sub-Participation exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Sub-Participation Agreement or have direct recourse to the Lender except through action by the Trustee under the Note Security. Neither the Issuer nor the Trustee pursuant to the Issuer Transferred Rights shall be required to take proceedings to enforce payment under the Sub-Participation Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all

liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Borrower except through action by the Trustee under the Note Security. Neither the Lender nor the Trustee pursuant to the Lender Transferred Rights shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

(d) *Security*: The Issuer has:

- (i) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to: (A) principal, interest and other amounts now or hereafter paid and payable by the Lender to the Issuer under the Sub-Participation Agreement; and (B) all amounts now or hereafter paid or payable by the Lender to the Issuer under or in respect of any claim, award or judgment relating to the Sub-Participation Agreement;
- (ii) charged by way of security to the Trustee all of the Issuer's rights, interest and benefits in and to all sums held on deposit from time to time, in the Issuer Account (as defined in the Sub-Participation Agreement) with the Principal Paying and Transfer Agent, together with the debt represented thereby pursuant to the Trust Deed (this sub-clause (d)(ii), together with sub-clause (d)(i), the "**Issuer Charged Property**"); and
- (iii) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interest and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidence by the Sub-Participation Agreement (including, without limitation, the right to take proceedings to enforce the obligations of the Lender thereunder) and the Subscription Agreement, other than the Issuer Charged Property and amounts payable by the Borrower in relation to the Charged Property (the "**Issuer Transferred Rights**" and together with the Issuer Charged Property, the "**Issuer Note Security**").

The Lender has:

- (i) charged by way of security to the Trustee all of the Lender's rights, interests and benefits in and to: (A) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Lender under the Loan Agreement; and (B) all amounts now or hereafter paid or payable by the Borrower to the Lender under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than any rights and benefits constituting Reserved Rights as such term is defined in the Trust Deed);
- (ii) charged by way of security to the Trustee all of the Lender's rights, interest and benefits in and to all sums held on deposit from time to time, in the Lender Account (as defined in the Loan Agreement) with the Principal Paying and Transfer Agent, together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-clause (d)(ii), together with sub-clause (d)(i) other than the Reserved Rights, the "**Lender Charged Property**"); and
- (iii) assigned absolutely by way of security to the Trustee all of the Lender's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) and the Subscription Agreement, other than the Lender Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Lender Charged Property and the Reserved Rights (the "**Lender Transferred Rights**" and together with the Lender Charged Property, the "**Lender Note Security**").

In the circumstances set out in Condition 12 (*Enforcement*), the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection

with the Issuer Note Security and the Lender Note Security (the Issuer Note Security and the Lender Note Security together, the (“**Note Security**”)).

## 2. Register; Title; Transfers

- (a) *Register*: The Registrar will maintain outside the United Kingdom a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999. A13.4.14
- (c) *Transfers*: Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer, *provided that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- (d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying and Transfer Agent has its Specified Office.
- (e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Paying and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 (fifteen) days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Paying and Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market, a copy of the current regulations will be publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London.

## 3. Issuer’s Covenant; Lender’s Covenants

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to, any modification of, any waiver of or authorise any breach or proposed breach of the terms of the Sub-Participation Agreement and

will act at all times in accordance with any instructions of the Trustee, from time to time, with respect to the Sub-Participation Agreement, except as otherwise expressly provided in the Trust Deed and the Sub-Participation Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Lender will not, without the prior written consent of the Trustee, agree to any amendments to, any modification of, any waiver of or authorise any breach or proposed breach of the terms of the Sub-Participation Agreement and will act at all times in accordance with any instructions of the Trustee, from time to time, with respect to the Sub-Participation Agreement, except as otherwise expressly provided in the Trust Deed and the Sub-Participation Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*). A8.2.2.8

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Lender will not, without the prior written consent of the Trustee, agree to any amendments to, any modification of, any waiver of or authorise any breach or proposed breach of the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee, from time to time, with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

#### 4. Interest

- (a) *Accrual of Interest*: The Notes bear interest from 4 August 2005 (the “**Issue Date**”) at the rate of 7.875 per cent. per annum (the “**Rate of Interest**”) payable in two equal instalments semi-annually in arrear on 19 February and 19 August in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an “**Interest Period**”. There will be a long first Interest Period, and accordingly, interest in respect of such period will accrue from and including the Issue Date to but excluding the first Interest Payment Date. A13.4.8

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to accrue interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying and Transfer Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of a Note for any Interest Period (other than the first Interest Period) shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period (including, for the avoidance of doubt, the first Interest Period) other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

- (b) *Default Interest under the Loan Agreement*: In the event that, and to the extent that, the Lender actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement (less any amounts in respect of the Reserved Rights) and the Issuer actually receives such amounts from the Lender under the Sub-participation Agreement then the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 4(b) will be made on the next following business day (as defined in Condition 6(d)) after the day on which the Issuer receives such amounts from the Lender and, save as provided in this Condition 4(b), subject as provided in Condition 6 (*Payments*).



## 5. Redemption; Purchase

- (a) *Scheduled redemption*: Unless previously (i) prepaid pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstance*), Clause 7.2 (*Prepayment for Illegality*) or Clause 7.3 (*Prepayment upon a Put Event*) of the Loan Agreement; (ii) purchased and cancelled as provided in Clause 7.6 (*Purchase of Funding Instruments*) of the Loan Agreement; or (iii) repaid in accordance with Clause 15 (*Events of Default*) (and if prepaid in part only the remainder of this Condition 5(a) will apply to the outstanding part that is still to be repaid but the reference to “all the Notes” shall be read as a reference to those Notes that are still outstanding only), the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and the Lender, subject to the repayment of the Loan by the Borrower as aforesaid, will be required to repay the Sub-Participation on its due date as provided in the Sub-Participation Agreement and, subject to such repayments, all the Notes will be redeemed at their principal amount on 19 August 2008, subject as provided in Condition 6 (*Payments*).
- (b) *Mandatory Redemption*: The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days’ nor more than 90 days’ notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the relevant notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to (but excluding) the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:
- (i) the Issuer has received a notice of prepayment from the Lender following receipt of such a notice by the Lender from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement; or
  - (ii) the Issuer has received a notice from the Lender to the effect that (A) the Lender has delivered a notice to the Borrower requiring the Borrower to repay the whole (but not part only) of the Loan in accordance with the provisions of Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement and (B) setting out details of the circumstances contemplated by such provisions.

Prior to the publication of any notice of redemption to Noteholders referred to in this Condition 5(b), the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer:

- (i) stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b);
- (ii) including (A) copies of the Borrower’s notice of prepayment and the Lender’s notice to the Issuer (if Condition 5(b)(i) above applies); or (B) (aa) copies of the Lender’s notice to the Borrower and Lender’s notice to the Issuer (if Condition 5(b)(i) applies) and (bb) details of the circumstances contemplated by Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement (as set out in the notice received from the Lender); and
- (iii) stating the date fixed for redemption of the Notes.

The Trustee shall be entitled to accept any certificate delivered by the Issuer in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances, in which event such certificate shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

- (c) *Redemption at the option of the Noteholders upon a Put Event*:

Under Clause 7.3(a) (*Prepayment upon a Put Event*) of the Loan Agreement, upon the occurrence of a Put Event (as defined below) the Borrower is obliged to notify the Lender, the Issuer, the Principal Paying and Transfer Agent and the Trustee thereof.

Upon the Issuer being notified pursuant to the Sub-Participation Agreement that a Put Event has occurred, the Issuer shall and upon the Trustee becoming so aware (of the Issuer having failed to do so) the Trustee may, and, if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding, shall, give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 5(c).

To exercise the right to require the redemption of a Note under this Condition 5(c), a Noteholder must deliver, on any Put Business Day (as defined below) falling within the period of 30 days after the Put Event Notice is given by the Trustee (the “**Put Period**”), to the specified office of any Paying and Transfer Agent, such Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying and Transfer Agent (a “**Put Option Exercise Notice**”) (unless, prior to the delivery of the Put Option Exercise Notice, the Issuer gives notice to the Noteholders under Condition 5(b) above or the Loan becomes due and payable pursuant to Clause 15 (*Events of Default*) of the Loan Agreement).

The Paying and Transfer Agent, to whom such Note and Put Option Exercise Notice is delivered, will issue to the Noteholder concerned a non-transferable receipt and give notice to the Trustee, the Issuer, the Lender and the Principal Paying and Transfer Agent that the Noteholder concerned wishes to redeem the Note which is the subject of such Put Option Exercise Notice.

A Put Option Exercise Notice, once given, shall be irrevocable.

At the end of the Put Period, the Trustee shall deliver or shall instruct the Lender to deliver a Put Redemption Notice (as defined below in the Loan Agreement) to the Borrower as contemplated by Clause 7.3(b) (*Prepayment upon a Put Event*) of the Loan Agreement.

Any Note which is the subject of a Put Option Exercise Notice and which has been delivered to the Principal Paying and Transfer Agent or other Paying and Transfer Agent prior to the expiry of the Put Period, shall be redeemed by the Issuer on the date which is the fifteenth Put Business Day (as defined below) immediately following the last day of the Put Period (the “**Put Settlement Date**”).

Redemption by the Issuer shall be subject to receipt of the relevant monies from the Lender under the Sub-Participation Agreement. To the extent that such payment is received by the Issuer under the Sub-Participation Agreement, the Issuer shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date at its principal amount together with accrued interest (if any) to (but excluding) the Put Settlement Date.

In this Condition 5(c):

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Auditors**” means KPMG Ukraine Ltd. or any internationally recognised firm of accountants approved by the Lender;

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

“**Cessation of Regulation Event**” means the Ministry of Economy and European Integration of Ukraine ceasing to set minimum prices for the sale of ammonia and urea by Ukrainian producers and/or ceasing to issue recommendations as to the minimum price for the sale of ammonium nitrate by Ukrainian producers and following such cessation, the Borrower at any time sells any ammonia, urea or ammonium nitrate at a price which is below the Fair Market Value;

“**Change of Control**” means Dr. Nikolay A. Yankovskiy ceasing to own, subject to no Security Interests (as defined in the Loan Agreement) whatsoever and with full and unfettered discretion to freely exercise all rights and powers attaching thereto, (a) legally and beneficially; and (b) directly or indirectly (whether through the current nominees (OAO MFS, ING Bank N.V. and OOO IK Stirolochinvest) or any other future nominees) at least 50.1 per cent. of the Capital Stock of the Borrower and 50.1 per cent. of the Voting Stock of the Borrower;

“**Fair Market Value**” of a transaction means the value that would be obtained in an arm’s length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A Report of the Auditors of the Borrower of the Fair Market Value of a transaction may be relied upon by the Trustee and/or the Lender without further enquiry or evidence and, if relied upon by the Trustee and/or the Lender, shall be conclusive and binding on all parties;



“**Put Event**” means the occurrence of either (a) a Change of Control resulting in a Rating Downgrade or (b) a Cessation of Regulation Event;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

“**Put Business Day**” means a day on which banks are open for general business (including dealings in foreign currencies) in New York, London and the place of presentation;

“**Rating Agency**” means Moody’s Investors Service (“**Moody’s**”) and its successors or Fitch Ratings (“**Fitch**”) and its successors;

“**Rating Downgrade**” means:

- (a) the withdrawal (by Moody’s or, as the case may be, Fitch) of any of the long-term foreign currency debt or short-term foreign currency debt ratings of the Borrower or the Notes; or
- (b) the reduction (by Moody’s or, as the case may be, Fitch) by two rating sub-categories of any of the long term foreign currency debt or short-term foreign currency debt ratings of the Notes from B3 (Moody’s) or B (Fitch) (or their respective equivalents for the time being, meaning the rating symbol which Moody’s or, as the case may be, Fitch may use from time to time to denote the same rating sub-category),

*provided that* in relation to (b) above:

- (i) any Rating Downgrade stated by the relevant Rating Agency to result solely from the withdrawal or reduction of the rating of any debt of Ukraine shall not be taken into account when determining whether or not a Put Event has occurred; and
- (ii) if, prior to the announcement of a Change of Control, any rating of the Borrower or the Notes has been reduced by one or more rating sub-categories and the reduction is stated by the relevant Rating Agency to result solely from the withdrawal or reduction of the rating of any debt of Ukraine, then, for the purposes of determining whether or not a Put Event has occurred, the ratings of the Borrower and the Notes in existence at the time of the announcement of such Change of Control shall be substituted, if different, for the ratings set out in (b) above;

“**Voting Stock**” means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

- (d) *No other redemption*: the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Conditions 5(b) (*Mandatory Redemption*) and 5(c) (*Redemption at the option of the Noteholders upon a Put Event*).
- (e) *Purchase*: The Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Notes held by the Lender or any of its subsidiaries will continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed. Notes held by the Borrower or any of its subsidiaries will cease to carry such rights and will not be taken into account, *inter alia*, for the purposes of Conditions 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 12 (*Enforcement*).
- (f) *Cancellation*: The Loan Agreement provides that the Borrower may deliver to the Issuer, at any time, Notes purchased by the Borrower or any of its subsidiaries, pursuant to Condition 5(e) (*Purchase*) (provided the aggregate principal amount of such Notes is not less than U.S.\$1,000,000) with instructions that the Issuer procure the cancellation of such Notes by the Registrar in accordance with the provisions of the Agency Agreement. The Sub-Participation Agreement and the Loan Agreement each provide that the outstanding amount thereunder shall be reduced *pro tanto* with effect from the date of cancellation by the Registrar of such Notes.
- (g) *Notice*: In the event that the Notes are redeemed prior to their scheduled redemption, the Issuer shall notify the Noteholders, in accordance with Condition 14 (*Notices*), and the London Stock Exchange of the reason for, and the timing of, such early redemption.

## 6. Payments

- (a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.
- (b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.
- (c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying and Transfer Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments*: If a Paying and Transfer Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Payment to the Issuer Account and the Lender Account*: Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7 of the Agency Agreement require the Lender to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the Sub-Participation Agreement to the Issuer Account. Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Lender will pursuant to the provisions of Clause 7 of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement to the Lender Account (less any amounts in respect of the Reserved Rights).
- (h) *Payment obligations limited*: Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 5 (*Redemption; Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer from the Lender pursuant to the Sub-Participation Agreement and the Lender will only pay such sums of principal, interest, Additional Amounts and

Indemnity Amounts, if any, to the Issuer to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, actually received by or for the account of the Lender from the Borrower pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights).

## 7. Taxation

All payments by or on behalf of the Issuer in respect of the Notes shall be made in full without set-off or counterclaim, free and clear of and without deduction for or on account of any present or future taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto) no matter how they are levied or determined (“**Tax**”) imposed by any taxing authority of or in The Netherlands (each, a “**Taxing Authority**”), unless such deduction or withholding of Tax is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts (“**additional amounts**”) as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay additional amounts, however, will not apply to any:

- (a) Tax that would not have been imposed but for the existence of any present or former connection between such Noteholder and the relevant Taxing Authority other than the mere receipt of such payment or the ownership or holding of such Note;
- (b) Tax that would not have been imposed but for the presentation by the Noteholder for payment on a date more than 30 days after the Relevant Date (as defined below);
- (c) Tax required to be deducted or withheld by any Paying and Transfer Agent from a payment on a Note, if such payment can be made without deduction or withholding by any other Paying and Transfer Agent in a Member State of the European Union; and
- (d) Tax imposed on a payment to an individual where such Tax are required to be withheld or deducted pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

**Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders pursuant to this Condition 7 (Taxation) to the extent and at such time as it shall have actually received an equivalent amount from the Lender under the Sub-Participation Agreement and the Lender will only pay such equivalent amount to the Issuer to the extent and at such time as it shall have actually received an equivalent amount from the Borrower under the Loan Agreement by way of Additional Amounts or Indemnity Amounts or otherwise.**

To the extent that the Issuer does not receive from the Lender such equivalent amount in full, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (Taxation) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Sub-Participation Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in London by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 14 (Notices).

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (Taxation) or any undertaking given in addition to or in substitution of this Condition 7 (Taxation) pursuant to the Trust Deed, the Sub-Participation Agreement or the Loan Agreement.

## 8. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

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## 9. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Principal Paying and Transfer Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

## 10. Trustee and Agents

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Lender, the Borrower and any entity relating to the Issuer, the Lender or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Lender, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying and transfer agent or registrar and additional or successor paying and transfer agents, *provided that* the Issuer shall at all times maintain (a) a principal paying and transfer agent and a registrar; (b) a paying and transfer agent in London; and (c) a paying and transfer agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

## 11. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including to propose the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on not less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present being or representing Noteholders whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals *inter alia*: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment; (iv) to change the currency of payments under the Notes; (v) to change the quorum



requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (vi) to alter the governing law of the Conditions, the Trust Deed, the Sub-Participation Agreement or the Loan Agreement; (vii) to change any date fixed for payment of principal or interest under the Sub-Participation Agreement or the Loan Agreement; (viii) to alter the method of calculating the amount of any payment under the Sub-Participation Agreement or the Loan Agreement; or (ix) to change the currency of payment under the Sub-Participation Agreement or the Loan Agreement or, without prejudice to the rights under Condition 11(b) (*Modification and Waiver*) below, change the definition of "Event of Default" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Issuer Transferred Rights, the Sub-Participation Agreement or, pursuant to the Lender Transferred Rights, the Loan Agreement (other than, in each case, in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Issuer Transferred Rights, the Sub-Participation Agreement by the Lender or, pursuant to the Lender Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

- (c) *Substitution*: The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, in the event of such substitution, the London Stock Exchange will be informed of such substitution, a supplemental prospectus will be produced and will be made publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

## 12. Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or an Issuer Relevant Event or Lender Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the Holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

The Trust Deed also provides that, in the case of an Event of Default, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its

satisfaction declare or require the Lender to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable.

Upon repayment of the Loan (and the Sub-Participation) following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding. Following any partial repayment of the Loan (and the Sub-Participation) following an Event of Default, the Notes will be partially redeemed or repaid on a *pro rata* basis.

The Trust Deed also provides that, in the case of an Issuer Relevant Event or Lender Relevant Event (each as defined in the Trust Deed), the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction enforce the security created in the Trust Deed by the Issuer or the Lender, as the case may be, in favour of the Noteholders. *For the avoidance of doubt, the Trustee may only enforce (a) the security granted by the Lender following the occurrence of a Lender Relevant Event and (b) the security granted by the Issuer following the occurrence of an Issuer Relevant Event.*

### 13. Further Issues

The Issuer may, from time to time, with the consent of the Borrower and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to consolidate and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a sub-participation agreement supplemental to the Sub-Participation Agreement with the Lender on the same terms as the original Sub-Participation Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental sub-participation agreement equivalent to the rights charged and assigned as Issuer Note Security in relation to the Issuer's rights under the original Sub-Participation Agreement which will, together with the Issuer Note Security referred to in the Conditions, secure both the Notes and such further Notes. In relation to such further issue, the Lender will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Lender will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Lender Note Security in relation to the Lender's rights under the original Loan Agreement which will, together with the Lender Note Security referred to in the Conditions, secure both the Notes and such further Notes. The Issuer has covenanted in the Trust Deed that it will notify the Rating Agencies prior to the issue of any further Notes pursuant to this Condition 13.

### 14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are admitted to trading on the London Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

### 15. Governing Law; Jurisdiction

- (a) *Governing law*: The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction*: The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders



from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### Form of Notes

The Notes will be represented by a Global Note Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for and deposited with The Bank of New York as common depository for Euroclear and Clearstream, Luxembourg.

### Exchange

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates (“Individual Note Certificates”) if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the Holder may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Note Certificate for Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

### Notices

Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the Notes are admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

### Payment

To the extent that the Issuer has actually received the relevant funds from the Company, payments in respect of Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System as appropriate.

**Cancellation**

Cancellation of any Note will be effected by a reduction in the principal amount of the Notes in the Register.

**Exercise of Put Option**

For so long as all of the Notes are represented by the Global Note Certificate and such Global Note Certificate is registered in the name of, and held on behalf of a common depository for, Euroclear and/or Clearstream, Luxembourg, the exercise of the option of the Noteholders provided for in Condition 5.3 (*Redemption at the option of the Noteholders*) will be subject to the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg.

**Transfers**

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

## TAXATION

*The following is a general description of certain tax laws relating to the Notes, the Sub-Participation and the Loan as in effect on the date hereof and does not purport to be a complete analysis of all tax considerations relating to the Notes, the Sub-Participation or the Loan. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.*

*This summary is based upon the law as in effect as of the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### Ukraine

#### *General*

The following summary is included for general information only. Potential investors in and holders of the Notes should consult their own tax advisor as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to change or varying interpretations, possibly with retrospective effect. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retrospective effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Prospectus.

#### *Tax Implications for Non-Residents of Ukraine*

##### *Tax on Interest Payments under the Loan*

The Law of Ukraine "On Taxation of Profits of Enterprises", dated 28 December 1994, as amended and restated (the "Profits Tax Law") stipulates that income of legal entities which are non-tax residents of Ukraine and which is derived from sources in Ukraine in the form of interest payments is subject to 15 per cent. withholding tax. At the same time, paragraph 13.2 of Article 13 of the Profits Tax Law provides that the withholding tax rate may be reduced by the provisions of an applicable tax treaty on the avoidance of double taxation.

The United Kingdom and Ukraine have entered into such a treaty, signed on 10 February 1993, effective since 11 August 1993 (the "Double Tax Treaty"), pursuant to which (Article 11) interest arising in Ukraine and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if such resident is the beneficial owner of the interest and subject to tax in respect of the interest in the United Kingdom.

Based on professional advice it has received, the Company believes that payments of interest on the Loan will not, under the Double Tax Treaty as currently applied, be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian legislation are duly satisfied. In particular, in order for exemption from withholding under the Double Tax Treaty to be applicable, the Lender must be the beneficial owner of the interest payments received in the United Kingdom and subject to tax in respect of such interest payments in the United Kingdom. The exemption will only be available under the Double Tax Treaty if the Lender neither carries on business through a permanent establishment situated in Ukraine nor performs independent personal services from a fixed base in Ukraine. While the Company believes the Lender should be treated as the beneficial owner of the income in question under Article 11 of the Double Tax Treaty, the notion of beneficial ownership is not well defined in Ukrainian law. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the interest payments received in the United Kingdom. However, the Company believes that it is unlikely that the Ukrainian authorities will adopt this view.

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti-avoidance provision. There is no established practice by the Ukrainian tax authorities with respect to the application of this provision. However, if the Ukrainian tax authorities take a position that one of the main purposes of selecting the United Kingdom, the Lender's jurisdiction of residence, for this transaction was to avail the Company of the tax benefits provided under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7). In such circumstances, there is a risk that payments of interest by the Company under the Loan Agreement would cease to have the benefit of the Double Tax Treaty.

Applicable Ukrainian legislation allows relief under the Double Tax Treaty if current confirmation of the UK recipient's tax residency in the United Kingdom in accordance with the requirements of the Ukrainian authorities is available. In order to be current, a new tax residence confirmation must be obtained for each tax year. The obtaining of this relief does not require the payee or payor to apply for and/or obtain any transaction-specific prior clearance from the Ukrainian tax authorities. Instead, the Ukrainian payor directly applies the rate under the Double Tax Treaty, provided that the current tax residence confirmation is available on or prior to the date of payment of the Ukrainian source income. Therefore, when making payments to the Lender under the Loan Agreement, the Company will not make any deduction representing Ukrainian withholding tax, provided that it has a current confirmation of tax residency of the Lender on or prior to the date of payment.

#### *Tax on Issue of and Interest Payments under the Notes*

No Ukrainian withholding tax should be applicable to the issue of the Notes or interest payments under the Notes because the Notes will not be issued and interest payments on the Notes will not be made by the Company or from Ukraine.

#### *Tax on Payment of Instalments of Principal and on Redemption of the Notes*

The Profits Tax Law does not expressly exempt principal repayments from Ukrainian withholding tax. More specifically, paragraph 13.1 of Article 13 of the Profits Tax Law contains a "catch-all" provision, under which "other income of a non-resident (a permanent establishment of such or other non-resident) from carrying out business activity on the territory of Ukraine" is subject to a 15 per cent. withholding tax, established by paragraph 13.2 of Article 13 of the Profits Tax Law. Absent a definition of "income" in the Profits Tax Law, there is a theoretical risk that the repayment of principal under the Loan Agreement may be regarded as Ukrainian-source income of the Lender and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional advice it has received, the Company is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

The amount received by a non-resident on redemption of the Notes should not be subject to Ukrainian taxation because such payments will be made neither to nor by a Ukrainian borrower, nor will there be any guarantee of any payments under the Notes by a Ukrainian borrower.

#### *Gross-Up Obligations*

If payments under the Loan Agreement are subject to any withholding (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding), then, subject to certain exceptions relating to maintenance by the Issuer of its incorporation in a qualifying jurisdiction, the Company would be obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding. In such circumstances, the Company would have the right to prepay the Loan as fully set out in the Loan Agreement. Notwithstanding the foregoing, the Profits Tax Law generally prohibits contractual provisions requiring one party to pay tax for another party. Absent any official interpretation or guidance on whether such restriction would apply to the Company's obligation to pay additional amounts, such provisions in contracts may be construed as unenforceable under Ukrainian law.

#### *Transfer of Notes to Ukrainian Investors*

Under the Profits Tax Law, Ukrainian-source profits (capital gains) of non-tax resident legal entities derived from trading in securities are subject to 15 per cent. withholding tax (while Ukrainian-source income of non-resident individuals is, subject to certain exceptions, subject to 26 per cent. withholding tax (30 per cent. from 1 January 2007)), unless there is an exemption under an applicable double taxation treaty. Ukrainian investors may therefore be obliged to withhold from payments to Non-Ukrainian Noteholders amounts in respect of withholding tax in relation to profits derived from the transfer of the Notes to Ukrainian investors unless an exemption is available under an applicable double taxation treaty. However, there is some uncertainty as to whether the Notes would be considered "securities" under applicable Ukrainian law. An interpretation that the Notes are not securities under such law would, in principle, exempt the Notes from Ukrainian withholding tax. However, such approach is unlikely to be supported by the Ukrainian tax authorities and investors would likely be required to defend their position in court.

### ***Tax Implications for Residents of Ukraine***

A Noteholder who is an individual or legal entity resident in Ukraine for tax purposes (including a permanent establishment of a non-Ukrainian legal entity) is subject to applicable Ukrainian taxes. Interest from holding debt securities is included into the taxable income of a resident taxpayer, while the principal amount generally is not treated as a taxable income of such persons.

### ***Transfer Pricing Rules***

Despite the fact that Ukrainian transfer pricing rules are not yet aggressively applied on a consistent basis by the Ukrainian tax authorities, the scope of these rules is broad enough to apply to cross-border transactions, irrespective of whether related parties are involved. For this reason, there is a risk that the Ukrainian tax authorities may attempt to apply transfer pricing rules to the amount of interest accrued and paid under the Loan Agreement, as a cross-border transaction, for the purposes of profits tax deductions. Interest is currently allowed as a deduction, subject to certain limitations of interest deductibility in any given tax reporting period, if the amount of interest incurred in respect of a debt obligation does not exceed the market value. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate of interest nor does it provide any "safe harbour" in case of the deviation from such market rate. For this reason, there is a slight risk that the interest rate under the Loan Agreement may be challenged by the Ukrainian tax authorities, which may result in the assessment of an additional tax liability to the Company. If interest is increased due to gross-up provisions, this will increase the transfer pricing risk, as the gross-up can raise the interest rate above the market value.

## **The Netherlands**

### ***General***

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of the Notes. This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, hold or dispose of Notes. Each prospective Noteholder should consult a professional adviser with respect to the tax consequences of an investment in the Notes. The discussion of certain Netherlands taxes set forth below is included for general information purposes only.

This summary is based on The Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

This summary does not address The Netherlands tax consequences of a Noteholder who holds a substantial interest (*aanmerkelijk belang*) in the Issuer, within the meaning of Section 4.3 of the Income Tax Act 2001. Generally speaking, a Noteholder holds a substantial interest in the Issuer, if such Noteholder, alone or together with his or her partner (a statutorily defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 percent or more of the total issued capital of the Issuer or 5 percent or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such an interest or (iii) certain profit sharing rights in the Issuer.

### ***Withholding Tax***

No Netherlands withholding tax is due upon payments on the Notes.

### ***Corporate Income Tax and Individual Income Tax***

#### ***Residents of The Netherlands***

If the Noteholder is subject to Netherlands corporate income tax and the Notes are attributable to its (deemed) business assets, income derived from the Notes and gains realised upon the redemption and disposal of the Notes are generally taxable in The Netherlands.

If the Noteholder is an individual, resident or deemed to be resident of The Netherlands for Netherlands tax purposes (including an individual Noteholder who has opted to be taxed as a resident of The Netherlands), the income derived from the Notes and the gains realised upon the redemption and disposal of the Notes are taxable at the progressive rates of the Income Tax Act 2001 if:



- (i) the Noteholder has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or
- (ii) such income or gains qualify as “income from miscellaneous activities” (*resultaat uit overige werkzaamheden*) within the meaning of Section 3.4 of the Income Tax Act 2001, which include activities with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the individual Noteholder, the actual income derived from the Notes and the actual gains realised with respect to the Notes will not be taxable in The Netherlands. Instead, such Noteholder will be taxed at a flat rate of 30 per cent. on deemed income from “savings and investments” (*sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4 per cent. of the average of the individual’s “yield basis” (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual’s yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Notes will be included in the individual’s yield basis.

#### *Non-residents of The Netherlands*

A Noteholder that is neither a resident nor deemed to be a resident of The Netherlands for Netherlands tax purposes (and who has not, if such Noteholder is an individual, opted to be taxed as a resident of The Netherlands) is not taxable in respect of income derived from the Notes and gains realised upon the redemption and disposal of the Notes, unless:

- (i) the Noteholder has an enterprise or an interest in an enterprise, that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which establishment or representative the Notes are attributable or
- (ii) the Noteholder is entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes are attributable; or
- (iii) the Noteholder is an individual and such income or gains qualify as “income from miscellaneous activities” (*resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Income Tax Act 2001, which include activities in The Netherlands with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

#### **Gift and Inheritance Taxes**

##### *Residents of The Netherlands*

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a Noteholder who is a resident or deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of The Netherlands nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax if he or she has been resident in The Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax only if he or she has been residing in The Netherlands at any time during the twelve months preceding the time of the gift. The same twelve-month rule may apply to entities that have transferred their seat of residence out of The Netherlands.

##### *Non-residents of The Netherlands*

No gift or inheritance taxes will arise in The Netherlands in respect of the acquisition of the Notes by way of gift by, or as a result of the death of, a Noteholder who is neither a resident nor deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, unless:

- (i) such Noteholder at the time of the gift has or at the time of his or her death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which establishment or representative the Notes are or were attributable; or
- (ii) the Notes are or were attributable to the assets of an enterprise that is effectively managed in The Netherlands and the donor is or the deceased was entitled to a share in the profits of that enterprise, at

the time of the gift or at the time of his or her death, other than by way of securities or through an employment contract; or

- (iii) in the case of a gift of the Notes by an individual who at the date of the gift was neither a resident nor deemed to be a resident of The Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of The Netherlands.

#### *Treaties*

Treaties may limit The Netherlands' sovereign authority to levy gift and inheritance tax.

#### ***Other Taxes and Duties***

No Netherlands VAT, capital duty, registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be due in The Netherlands by a Noteholder in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Notes.

#### **EU Savings Directive**

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a Directive (2003/48/EC) on the taxation of savings income. From 1 July 2005, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria (unless during that period they elect otherwise) are operating a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of third countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## SUBSCRIPTION AND SALE

ING Bank N.V., London Branch and Moscow Narodny Bank Limited (the "Managers") have, pursuant to the terms and conditions set forth in a subscription agreement dated 28 July 2005 (the "Subscription Agreement") between the Issuer, the Lender, the Company and the Managers jointly and severally agreed with the Issuer to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Subscription Agreement also provides for the Managers to receive a combined management and underwriting commission and selling concession of 0.9 per cent. of the aggregate principal amount of the Notes. The Company has agreed to reimburse the Managers for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

### United States of America

The Notes, the Sub-Participation and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### The Netherlands

Each Manager has represented and agreed that:

- (i) it has not offered, sold, delivered or transferred, and will not offer, sell, deliver or transfer, any of the Notes (including rights representing an interest in any global Note), as part of their initial distribution or at any time thereafter, directly or indirectly, anywhere in the world other than to Professional Market Parties (as defined below) that trade or invest in securities in the conduct of their profession or business; and
- (ii) it will have sent to each person to which it sells Notes (including rights representing an interest in any global Note) a confirmation or other notice setting forth the above restrictions and stating that by purchasing any Note, the purchaser represents and agrees that it will send to any other person to whom it sells any such Note a notice containing substantially the same statement as is contained in this sentence,

"Professional Market Parties" are any of the following persons but no other person:

- (a) banks, insurance companies, securities firms, investment institutions and pension funds that are:
  - (i) supervised or licensed under Dutch law; or
  - (ii) established and acting under supervision in a European Union Member State (other than The Netherlands), Hungary, Monaco, Poland, Puerto Rico, Saudi Arabia, Slovakia, Czech Republic, Turkey, South Korea, the United States of America, Japan, Australia, Canada, Mexico, New Zealand or Switzerland;

- (b) investment institutions which offer their participation rights exclusively to Professional Market Parties and are not required to be supervised or licensed under Dutch law;
- (c) the State of The Netherlands, the Dutch Central Bank, a foreign central government body, a foreign central bank, Dutch regional and local governments and comparable foreign decentralised government bodies, international treaty organisations and supranational organisations;
- (d) enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) as per the balance sheet as of the year end preceding the obtaining of the repayable funds;
- (e) enterprises, entities or individuals with net assets of at least €10,000,000 (or the equivalent thereof in another currency) as of the year end preceding the obtaining of the repayable funds who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding the obtaining of the repayable funds;
- (f) subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to supervision; or
- (g) an enterprise or institution that has a rating from a rating agency that in the opinion of the Dutch Central Bank is an expert or that issues securities that have a rating from a rating agency that in the opinion of the Dutch Central Bank is an expert.

All Notes shall bear the following legend:

“THIS NOTE (OR ANY INTEREST THEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES OTHER THAN TO PROFESSIONAL MARKET PARTIES (“PMP”) WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 (AS AMENDED).

EACH HOLDER OF THIS NOTE (OR ANY INTEREST THEREIN), BY PURCHASING THIS NOTE (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS A PMP AND IS ACQUIRING THIS NOTE (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST THEREIN), BY PURCHASING SUCH NOTE (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST THEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY OTHER INDIVIDUAL OR LEGAL ENTITY THAN A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP AND THAT (2) IT WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.”

### **Ukraine**

Each Manager has agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

### **Russian Federation**

Each Manager has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (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, unless to the extent otherwise permitted by Russian laws or regulations.

### **Republic of Italy**

Offers of the Notes in the Republic of Italy (“Italy”) have not been and will not be registered with the *Commissione Nazionale per le Società e la Borsa* (“Consob”) pursuant to Italian securities legislation and, accordingly, the Notes shall not be offered in Italy in a solicitation to the public at large within the meaning of Article 1, paragraph 1, letter (t) of legislative decree No. 58 of 24 February 1998. In any case, the Notes shall not

be placed, sold and/or offered either in the primary or in the secondary market to physical individuals resident in Italy. In any case, sales of the Notes in Italy will only be:

- (i) negotiated on an individual basis with “Professional Investors” (“*Operatori Qualificati*”) other than natural persons, as defined under Article 31, paragraph 2 of Consob Regulation No. 11522 of 1 July 1998 as amended;
- (ii) effected in compliance with Article 129 of the Legislative Decree No. 385 of 1 September 1993 and the implementing instructions of the Bank of Italy, unless an exemption, depending *inter alia* on the amount of the issue and the characteristics of the securities applies;
- (iii) effected in accordance with any other securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by Consob or the Bank of Italy; and
- (iv) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the relevant provisions of Italian law.

### **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Lender, the Company or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Lender, the Company and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

1. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. A13.5.1
2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with Common Code of 022548271. The International Securities Identification Number for the Notes is XS0225482719.
3. For the period of 12 months following the date of this Prospectus, copies in English of the following documents will, when published, be available from the specified office of the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - A7.10.1 A9.14 A13.4.11
  - (a) the Charter of the Company;
  - (b) the constitutional documents of the Issuer;
  - (c) this Prospectus;
  - (d) the Agency Agreement;
  - (e) the Trust Deed which constitutes the Notes and which includes the forms of the Global Note and the definitive Notes;
  - (f) the Subscription Agreement;
  - (g) the Loan Agreement;
  - (h) the Sub-Participation Agreement;
  - (i) copies of the authorisations listed below;
  - (j) the audited annual consolidated financial statements of the Company in respect of each of the financial years ended 31 December 2004 and 2003; and
  - (k) the latest audited annual consolidated financial statements of the Company and the latest unaudited interim non-consolidated financial statements of the Company.

The Company currently prepares audited consolidated accounts only on an annual basis in accordance with IFRS and does not publish IFRS interim financial statements.
4. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes. A8.4.1
5. The Company, the Issuer and the Lender have obtained all necessary consents, approvals and authorisations required in connection with the Loan, the Sub-Participation and the issue and performance of the Notes. A13.4.12
 

The issuance of the Notes was authorised by the Issuer by a resolution of the board passed on 15 July 2005. The Loan Agreement was authorised by the Company by a resolution of the Management Board passed on 14 May 2005.
6. Since the Issuer's date of incorporation, there has been no significant change in the financial or trading position, or material adverse change in the prospects, of the Issuer. Save as disclosed in the footnotes to the capitalisation table appearing on page 29 of this Prospectus and in "Financial Review — Liquidity, Borrowings, Cash and Capital Expenditure — Borrowings", since 31 December 2004 there has been no significant change in the financial or trading position, or material adverse change in the prospects, of the Company and its subsidiaries. A7.8.4 A9.7.1 A9.11.6
7. The Company's IFRS consolidated financial statements as at and for the years ended 31 December 2004 and 2003 included in this document have been audited by KPMG Ukraine Ltd. who have expressed an opinion on those statements, as stated in their report appearing in this Prospectus. A9.11.3.1 A9.11.4.1
8. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of The Netherlands for the maintaining of the Sub-Participation or for the issue and performance of the Notes.
9. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Lender under the laws of the United Kingdom for the maintaining of the Loan.
10. Neither the Company nor the Issuer has entered into any material contracts outside the ordinary course of its business which could result in any Group member being under an obligation or entitlement that is material to A9.12



the Company's ability to meet its obligations under the Loan Agreement or the Issuer or Lender's ability to make payments under the Sub-Participation Agreement, the Notes or the Trust Deed, as the case may be.

11. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company or the Issuer is aware), and there have been no such proceedings during the 12 months preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the Company and its subsidiaries' or the Issuer's financial position and profitability. A7.8.3 A9.11.5
12. The Trust Deed will provide, *inter alia*, that the Trustee may act on the opinion or advice of or a certificate or any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert, notwithstanding that such opinion or advice contains a limitation on liability. The Notes provide for the Trustee to take action on behalf of the Noteholders in certain situations, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it and it will be for the Noteholders to take action directly.
13. The total fees and expenses in connection with the admission of the Notes to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market are expected to be approximately U.S.\$2.1 million. A13.6.1

## INDEX TO FINANCIAL STATEMENTS

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### Independent auditors' report

To the Board of Directors of  
Open Joint-Stock Company "Concern Stirol"

We have audited the accompanying consolidated balance sheet of Open Joint-Stock Company "Concern Stirol" and its subsidiaries (the "Group") as of December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not appointed auditors of the Group until after December 31, 2003, we were not able to observe the counting of the physical inventories at that date or as of December 31, 2002 or satisfy ourselves concerning those inventory quantities or condition at those dates by alternative means. Accordingly, we were unable to determine whether any adjustments might be necessary to the carrying amounts of inventories as of December 31, 2003 and the amounts shown in consolidated financial statements for cost of revenues, income tax expense and net profit for the years ended December 31, 2003 and 2004. Our audit report on the consolidated financial statements as of and for the year ended December 31, 2003, dated August 10, 2004, was modified accordingly.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to extend our auditing procedures to the carrying amounts of inventories as described in the preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

/s/ KPMG

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KPMG-Ukraine Ltd.  
April 27, 2005

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated financial statements  
December 31, 2004**

*These consolidated financial statements contain 27 pages*

## Open Joint-Stock Company "Concern Stirol"

## Consolidated Financial Statements

## Consolidated balance sheet as of December 31, 2004

	<u>Note</u>	<u>2004</u>	<u>2003</u>
		<i>(in thousands of Ukrainian hryvnias)</i>	
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	4	414,916	404,576
Prepayments for property, plant and equipment . . . . .		25,930	1,413
Intangible assets . . . . .	5	16,480	9,504
Investments in unconsolidated subsidiaries . . . . .		1,657	2,807
Term bank deposits . . . . .	13	51,197	—
Cash restricted in use . . . . .		5,660	—
Available-for-sale securities . . . . .	6	18,937	21,829
		<u>534,777</u>	<u>440,129</u>
<b>Current assets</b>			
Investment in associated bank not accounted for under the equity method . . . . .	8	63,020	—
Investment in unconsolidated subsidiary . . . . .	9	—	9,470
Inventories . . . . .	10	204,224	132,576
Trade and other receivables . . . . .	11	85,146	93,733
VAT receivable . . . . .	12	48,970	31,666
Term bank deposits . . . . .	13	344,076	191,553
Cash and cash equivalents . . . . .	14	52,457	6,973
		<u>797,893</u>	<u>465,971</u>
<b>Total assets . . . . .</b>		<u><b>1,332,670</b></u>	<u><b>906,100</b></u>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity . . . . .	15		
Issued capital . . . . .		325,503	325,503
Treasury shares . . . . .		(38,885)	(7,685)
Retained earnings . . . . .		731,176	367,958
		<u>1,017,794</u>	<u>685,776</u>
<b>Minority interest . . . . .</b>		<b>705</b>	<b>11,113</b>
<b>Non-current liabilities</b>			
Loans and borrowings . . . . .	16	10,000	4,250
<b>Current liabilities</b>			
Loans and borrowings . . . . .	16	79,818	32,225
Trade and other payables . . . . .	17	198,246	172,736
Income tax payable . . . . .		26,107	—
		<u>304,171</u>	<u>204,961</u>
<b>Total shareholders' equity and liabilities . . . . .</b>		<u><b>1,332,670</b></u>	<u><b>906,100</b></u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-8 to F-29.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Consolidated income statement for the year ended December 31, 2004**

	<u>Note</u>	<u>2004</u>	<u>2003</u>
		<i>(in thousands of Ukrainian hryvnias, except earnings per share data)</i>	
<b>Revenues</b> .....	18	<b>1,881,080</b>	1,325,477
Cost of revenues .....		<b>(1,173,807)</b>	(879,222)
<b>Gross profit</b> .....		<b>707,273</b>	446,255
Other operating income .....		<b>3,695</b>	13,388
Distribution costs .....		<b>(171,644)</b>	(143,825)
Administrative expenses .....	19	<b>(40,725)</b>	(33,349)
Other operating expenses .....	20	<b>(43,200)</b>	(26,471)
<b>Profit from operations</b> .....		<b>455,399</b>	255,998
Financial income .....	22	<b>38,640</b>	9,661
Financial expense .....	23	<b>(18,674)</b>	(3,415)
Income from associates .....		<b>1,910</b>	—
<b>Profit before tax and minority interest</b> .....		<b>477,275</b>	262,244
Income tax expense .....	24	<b>(108,932)</b>	(92,231)
<b>Profit before minority interest</b> .....		<b>368,343</b>	170,013
Minority interest .....		<b>(125)</b>	(1,590)
<b>Net profit for the year</b> .....		<b>368,218</b>	168,423
Weighted average number of shares — in thousands .....		<b>22,383</b>	26,557
Basic earnings per share — in Ukrainian hryvnias .....		<b>16.45</b>	6.34
Diluted earnings per share — in Ukrainian hryvnias .....		<b>16.45</b>	6.34

*The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-8 to F-29.*



## Open Joint-Stock Company "Concern Stirol"

## Consolidated Financial Statements

## Consolidated cash flow statement for the year ended December 31, 2004

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
<b>Operating activities</b>		
<b>Profit before tax and minority interest</b> .....	<b>477,275</b>	262,244
<i>Adjustments for:</i>		
Depreciation and amortization .....	79,378	76,866
Loss on sale of property, plant and equipment .....	1,706	9,043
Impairment loss on property, plant and equipment .....	20,281	—
Income from associates .....	(1,910)	—
Adjustment to fair value of promissory notes available-for-sale .....	4,900	—
Impairment loss on unconsolidated subsidiaries .....	1,150	—
Impairment loss on available-for-sale securities .....	3,187	—
Impairment loss on investment in associated bank .....	2,218	—
Loss on sale of available-for-sale securities .....	—	2,702
Interest expense .....	7,219	3,415
Interest income .....	(37,121)	(8,580)
Dividend income .....	(1,314)	(394)
Increase in cash restricted in use .....	(5,660)	—
Increase in inventories .....	(59,492)	(42,832)
Decrease (increase) in trade and other receivables .....	37,663	(30,319)
(Increase) decrease in VAT receivable .....	(19,000)	30,026
Increase in trade and other payables .....	22,805	22,367
Interest income received .....	29,559	8,580
Dividends received .....	1,000	394
Interest paid .....	(7,219)	(5,363)
Income tax offset with VAT receivable .....	(23,965)	(77,085)
Income taxes paid .....	(57,030)	(15,146)
<b>Cash flows from operating activities</b> .....	<b>475,630</b>	<b>235,918</b>
<b>Investing activities</b>		
Purchase of additional shares in consolidated subsidiary .....	(19,140)	(90)
Purchase of available-for-sale securities .....	(10,988)	(31,847)
Proceeds from sale of available-for-sale securities .....	909	31,061
Purchase of investment in associated bank not accounted for under the equity method .....	(55,020)	—
Purchase of investment in unconsolidated subsidiary .....	—	(9,470)
Proceeds from sale of investment in unconsolidated subsidiary .....	9,470	—
Placement of term bank deposits .....	(203,720)	(191,553)
Proceeds from sale of property, plant and equipment .....	3,392	606
Purchase of property, plant and equipment and other intangible assets .....	(149,687)	(64,419)
<b>Cash flows used in investing activities</b> .....	<b>(424,784)</b>	<b>(265,712)</b>
<b>Financing activities</b>		
Proceeds from loans and borrowings .....	367,405	115,215
Repayment of loans and borrowings .....	(314,062)	(130,298)
Own shares acquired .....	(129,694)	(30,682)
Own shares sold .....	73,740	27,933
Dividends paid .....	(2,295)	(947)
Dividends paid to minority shareholders .....	(456)	—
<b>Cash flows used in financing activities</b> .....	<b>(5,362)</b>	<b>(18,779)</b>
Net increase (decrease) in cash and cash equivalents .....	45,484	(48,573)
Cash and cash equivalents at beginning of year .....	6,973	55,546
<b>Cash and cash equivalents at end of year</b> .....	<b>52,457</b>	<b>6,973</b>
<b>Supplementary cash flow information</b>		
<b>Non-cash transactions</b>		
Government VAT bonds received as a settlement for VAT receivable .....	1,696	—
Promissory notes received as a settlement for trade receivables .....	1,410	—

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-8 to F-29.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Consolidated statement of changes in shareholders' equity for the year ended December 31, 2004**

	<u>Issued capital</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Balances at January 1, 2003 .....	325,503	(4,936)	200,535	521,102
Own shares acquired .....	—	(30,682)	—	(30,682)
Own shares sold .....	—	27,933	—	27,933
Net profit for the year .....	—	—	168,423	168,423
Dividends to shareholders .....	—	—	(1,000)	(1,000)
<b>Balances at December 31, 2003 .....</b>	<b><u>325,503</u></b>	<b><u>(7,685)</u></b>	<b><u>367,958</u></b>	<b><u>685,776</u></b>
Own shares acquired .....	—	(129,694)	—	(129,694)
Own shares sold .....	—	98,494	—	98,494
Net profit for the year .....	—	—	368,218	368,218
Dividends to shareholders .....	—	—	(5,000)	(5,000)
<b>Balances at December 31, 2004 .....</b>	<b><u>325,503</u></b>	<b><u>(38,885)</u></b>	<b><u>731,176</u></b>	<b><u>1,017,794</u></b>

*The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-8 to F-29.*

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements December 31, 2004

## 1 Background

### (a) Organization and operations

Open Joint-Stock Company "Concern Stirol" (the "Company") is a Ukrainian open joint stock company. The original enterprise was established as a state owned enterprise in 1933. It was privatized on September 1, 1995, as part of the Ukrainian privatization program as an open joint stock company. The consolidated financial statements for the year ended December 31, 2004 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group's principal activity is the production of ammonia, urea, ammonium nitrate, other inorganic chemicals and organic chemicals at a plant located in the city of Gorlivka, Ukraine. The Group also produces pharmaceuticals as well as packaging and other products derived from chemicals. These products are sold in Ukraine and abroad.

### (b) Ukrainian business environment

Ukraine has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These consolidated financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 2 Basis of preparation

### (a) Statement of compliance

The Group maintains its accounting records in accordance with Ukrainian National Accounting Standards ("NAS"). These consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

### (b) Historical cost basis

The consolidated financial statements are prepared on the historical cost basis except for financial instruments available-for-sale. Financial instruments available-for-sale are stated at their fair value, excluding those for which a reliable measure of fair value is not determinable.

### (c) Measurement and reporting currency

The national currency of Ukraine is the Ukrainian hryvnia and the measurement and reporting currency for the purposes of these consolidated financial statements is the Ukrainian hryvnia, rounded to the nearest thousand.

### (d) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

<u>Name</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>2004 % of ownership</u>	<u>2003 % of ownership</u>
<b>Consolidated:</b>				
Stirol Pack CJSC .....	Ukraine	Production of packaging and other products derived from chemicals	<b>95</b>	66
<b>Non-consolidated:</b>				
Stirolkhimbit Ltd. ....	Ukraine	Production	<b>99</b>	99
DOZ JSC .....	Ukraine	Production	<b>86</b>	86
KSKS .....	Ukraine	Social	<b>100</b>	100
Stirol TV .....	Ukraine	Media	<b>100</b>	100
Mriya .....	Ukraine	Trade	<b>100</b>	100

As of December 31, 2003, the Group also had a non-consolidated investment of 63% of the shares in a property holding company. This investment was sold in March 2004 at no gain or loss.

Management decided not to consolidate certain subsidiaries because the effect of non-consolidation is not material, or they were acquired with the intent to dispose of them in the near future.

#### (ii) Associates

Associates are those enterprises in which the Company has significant influence, but not control, over the financial and operating policies.

The listing of the Company's associates as of December 31 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>2004 % of ownership</u>	<u>2003 % of ownership</u>
<b>Accounted for under the equity method:</b>				
Stirolkhimplast .....	Ukraine	Production of polysterene	<b>49</b>	—
Stirolbiopharm .....	Ukraine	Research and development	<b>49</b>	—
Stirolmash .....	Ukraine	Metal-Working	<b>25</b>	25
Stirolelectropribor .....	Ukraine	Equipment repair	<b>25</b>	25
Stirolautoservice .....	Ukraine	Transportation	<b>25</b>	25
TEC Stirol .....	Ukraine	Utility services	<b>25</b>	25
Stirolstroyontaj .....	Ukraine	Construction	<b>25</b>	25
Stiroltrans .....	Ukraine	Maintenance of railway facilities	<b>25</b>	—
Stirol IT .....	Ukraine	Maintenance of computers	<b>25</b>	—
Stirolservicepribor .....	Ukraine	Equipment repair	<b>25</b>	—
Stiroltechservice .....	Ukraine	Equipment repair	<b>25</b>	—
Stirolcleaningservice .....	Ukraine	Cleaning	—	25
<b>Not accounted for under the equity method:</b>				
JSB Brokbusinessbank .....	Ukraine	Banking	<b>20</b>	8

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

During 2004 and 2003, the Company established several associate companies, leased certain items of property, plant and equipment and transferred some of its employees to these companies in order to dispose of non-core activities previously performed by the Company itself. The Company incurs charges for the services provided by these associate companies.

The investment in JSB Brokbusinessbank has not been accounted for using the equity method because the additional investment in JSB Brokbusinessbank was acquired by the Company with the intent to sell it in the near future, together with the original investment in JSB Brokbusinessbank.

#### *(iii) Jointly controlled entities*

Jointly controlled entities are those enterprises over whose activities the Group has joint control. The consolidated financial statements include the Group’s proportionate share of the jointly controlled entity’s assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

The listing of the Group’s jointly controlled entities as of December 31 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>2004 % of ownership</u>	<u>2003 % of ownership</u>
<b>Proportionately consolidated:</b>				
IBE Stirol JV .....	Ukraine	Production	50	50
<b>Non-consolidated:</b>				
Salyami JSC .....	Ukraine	Production	50	50

The non-consolidated jointly controlled entity has not been proportionately consolidated, as management believes that the effect of non-consolidation is not significant. The non-consolidated jointly controlled entity is accounted for as available-for-sale financial assets and is included in available-for-sale securities.

#### *(iv) Transactions eliminated on consolidation*

Intragroup balances and transactions, and any unrealized gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group’s interest in the enterprise. Unrealized gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### **(e) Use of estimates**

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of the contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

#### **(f) Going concern**

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

### 3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the consolidated financial statements.

#### (a) Foreign currency transactions

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. The Group’s principal foreign currency is the US dollar (“USD”).

The principal UAH exchange rates used in the preparation of the consolidated financial statements as of December 31 are as follows:

<u>Currency</u>	<u>2004</u>	<u>2003</u>
US dollar . . . . .	<b>5.305</b>	5.331
Russian rouble . . . . .	<b>0.191</b>	0.181
EURO . . . . .	<b>7.217</b>	6.662

At the date of this report, April 27, 2005, the exchange rate is UAH 5.05 to USD 1.00.

#### (b) Financial instruments

##### (i) Classification

*Originated loans and receivables* are loans and receivables created by the Group by providing money directly to a debtor, other than those created with the intention to be sold immediately or in the short term.

*Held-to-maturity investments* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not originated by the Group or held to maturity.

##### (ii) Recognition

The Group recognizes financial assets in its consolidated balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

##### (iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses.

Originated loans and receivables, and held-to-maturity investments are measured at amortized cost less impairment losses. All non-trading financial liabilities are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.



## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

*(iv) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

**(c) Property, plant and equipment**

*(i) Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation. Items of property, plant and equipment acquired prior to January 1, 2001 are carried at indexed cost (as Ukraine was considered to be a hyperinflationary economy through that date) less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

*(ii) Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement as an expense as incurred.

*(iii) Depreciation*

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

Buildings . . . . .	20-50 years
Plant and equipment . . . . .	10-20 years
Vehicles . . . . .	5-10 years

*(iv) Construction in progress*

Construction in progress is stated at cost less impairment loss.

**(d) Goodwill**

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired.

Goodwill arising on acquisitions of minority interests is determined as the excess of the cost of the acquisition over the book values of the assets and liabilities acquired.

Goodwill arising on acquisitions that occurred prior to March 31, 2004 is stated at cost less accumulated amortization and impairment losses. Goodwill is amortized from the date of initial recognition on a straight-line basis over its estimated useful life of eight years. Goodwill arising on or after March 31, 2004 is stated at cost less impairment losses.

Goodwill acquired in a business combination after March 31, 2004 is allocated to each of the Group’s cash generating units that are expected to benefit from the synergies of the combination. A cash generating unit to

**Open Joint-Stock Company “Concern Stirol”****Consolidated Financial Statements****Notes to consolidated financial statements — (Continued)  
December 31, 2004**

which goodwill has been allocated is tested annually for impairment by comparing the carrying amount of the unit to the recoverable amount of the unit.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

**(e) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of raw materials is determined using the weighted average method including acquisition costs incurred, such as transportation.

Work in progress and finished goods are stated at cost. Cost includes the cost of raw materials, labor and manufacturing overheads allocated proportionately to the stage of completion of the inventory.

**(f) Trade accounts receivable**

Trade accounts receivable are stated at their cost less impairment losses.

**(g) Advances to suppliers**

Advances to suppliers are stated at their cost less impairment losses.

**(h) Term bank deposits**

Term bank deposits comprise deposits with banks with an original maturity term of longer than three months.

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits with banks with an original maturity term of three months or less.

**(j) Impairment**

The carrying amounts of the Group's assets, other than inventories, deferred tax assets and goodwill, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated income statement.

**(k) Share capital*****(i) Repurchase of share capital***

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a charge to equity. Repurchased shares are presented as a deduction from total equity.

**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements****Notes to consolidated financial statements — (Continued)  
December 31, 2004****(ii) Dividends**

Dividends are recognized as a liability in the period in which they are declared.

**(l) Promissory notes issued**

Promissory notes issued are stated at their amortized cost.

**(m) Loans and borrowings**

Loans and borrowings are recognized initially at cost, which is the fair value of the consideration received, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowings.

When loans are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated income statement.

**(n) Trade accounts payable**

Trade accounts payable are stated at their cost.

**(o) Other liabilities and accrued expenses**

Other liabilities and accrued expenses are stated at their cost.

**(p) Advances received**

Advances received are stated at their cost.

**(q) Employee benefits**

The Group pays into the Ukrainian state pension fund an amount based on each employee's wage. These amounts are expensed as incurred.

**(r) Income tax**

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

#### (s) Revenues

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

#### (t) Interest income

Interest income is recognized in the consolidated income statement as it accrues, taking into account the effective yield on the asset.

#### (u) Interest expense

Interest expense is recognized in the consolidated income statement on an effective interest rate basis.

#### (v) Comparative information

During the current year the Group presented financial income and financial expense separately on the face of the consolidated income statement. Comparative financial statements were reclassified for consistency.

The Group’s consolidated financial statements as of and for the year ended December 31, 2003 did not include a listing of significant subsidiaries and disclosure of related party balances and transactions. During the current year the Group presented a listing of significant subsidiaries and disclosure of related party balances and transactions. Comparative related party disclosures were presented for consistency.

During 2004 the Group revised the amount of tax base used to determine temporary differences relating to items of property, plant and equipment as of December 31, 2003 and the presentation of the reconciliation of effective tax rate. Accordingly, comparative information was reclassified to reflect this revision, which had no effect on the carrying amount of the net deferred tax asset as of December 31, 2003 and the amount of deferred tax expense for 2003.

### 4 Property, plant and equipment

Property, plant and equipment as of December 31 is as follows:

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>				
<i>Cost</i>					
At January 1, 2004 . . . . .	100,107	804,061	78,978	15,114	998,260
Additions . . . . .	—	63,698	6,139	55,302	125,139
Disposals . . . . .	(932)	(41,736)	(989)	—	(43,657)
Transfers . . . . .	6,262	10,958	—	(17,220)	—
<b>At December 31, 2004 . . . . .</b>	<b><u>105,437</u></b>	<b><u>836,981</u></b>	<b><u>84,128</u></b>	<b><u>53,196</u></b>	<b><u>1,079,742</u></b>
<i>Accumulated depreciation and impairment losses</i>					
At January 1, 2004 . . . . .	22,378	511,874	59,432	—	593,684
Depreciation charge . . . . .	3,861	65,715	7,688	—	77,264
Impairment losses . . . . .	13,832	6,449	—	—	20,281
Disposals . . . . .	(123)	(25,542)	(738)	—	(26,403)
<b>At December 31, 2004 . . . . .</b>	<b><u>39,948</u></b>	<b><u>558,496</u></b>	<b><u>66,382</u></b>	<b><u>—</u></b>	<b><u>664,826</u></b>
<i>Net book value</i>					
At January 1, 2004 . . . . .	77,729	292,187	19,546	15,114	404,576
<b>At December 31, 2004 . . . . .</b>	<b><u>65,489</u></b>	<b><u>278,485</u></b>	<b><u>17,746</u></b>	<b><u>53,196</u></b>	<b><u>414,916</u></b>

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

As of December 31, 2004 items of property, plant and equipment with a carrying amount of UAH 78,091 thousand (2003: UAH 15,319 thousand) were pledged to secure loans and borrowings.

During 2004, the Group recognized impairment losses amounting to UAH 20,281 thousand. Impairment losses amounting to UAH 18,300 thousand relate to property, plant and equipment used in the production of pharmaceuticals following indications that the economic performance of this property, plant and equipment was worse than expected. For impairment purposes, the recoverable amount of this equipment was determined in aggregate as its value used in production of pharmaceuticals. The value in use amounting to UAH 16,251 thousand was determined by discounting the estimated future net cash flows generated from the continuing use of property, plant and equipment used in the production of pharmaceuticals using a discount rate of 20%.

#### 5 Intangible assets

Intangible assets as of December 31 are as follows:

	<u>Goodwill</u>	<u>Other intangible assets</u>	<u>Total</u>
<i>(in thousands of Ukrainian hryvnias)</i>			
<i>Cost</i>			
At January 1, 2004 .....	25,686	7,041	32,727
Additions .....	9,059	31	9,090
At December 31, 2004 .....	34,745	7,072	41,817
<i>Accumulated amortization and impairment losses</i>			
At January 1, 2004 .....	17,726	5,497	23,223
Amortization charge .....	1,327	787	2,114
At December 31, 2004 .....	19,053	6,284	25,337
<i>Net book value</i>			
At January 1, 2004 .....	7,960	1,544	9,504
<b>At December 31, 2004 .....</b>	<b>15,692</b>	<b>788</b>	<b>16,480</b>

In April and November 2004, the Group purchased an additional 698,934,206 shares (29% of the authorized share capital) of consolidated subsidiary Stirol Pack CJSC for a purchase consideration of UAH 19,140 thousand from Stirolkhinvest IK Ltd, which is a shareholder of the Company. Additional goodwill amounting to UAH 9,059 thousand was recorded in the consolidated financial statements in respect of this additional purchase of shares.

#### 6 Available-for-sale securities

Available-for-sale securities as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
<i>(in thousands of Ukrainian hryvnias)</i>		
Shares of JSB Brokbusinessbank .....	—	10,218
Promissory notes .....	7,412	2,676
Shares of OJSC Stirolbiotech .....	3,280	3,091
Shares of JSB Ikar bank .....	1,922	4,542
Government VAT bonds .....	1,696	—
Shares of OJSC Ukrtermotransservice .....	1,633	—
Other equity investments .....	2,994	1,302
	<b>18,937</b>	<b>21,829</b>

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

Available-for-sale securities as of December 31, 2003 include an investment in the unquoted shares of JSB Brokbusinessbank amounting to UAH 10,218 thousand (8% of ownership). As of December 31, 2004, this investment was classified as a current investment in associated bank not accounted for under the equity method — see note 2 (d)(ii) and note 8.

Equity investments do not have a quoted market price in an active market and their fair value cannot be reliably measured. Therefore, these equity investments are stated at cost, including transaction costs, less impairment losses.

Promissory notes are stated at estimated fair value.

#### 7 Deferred tax assets and liabilities

Deferred tax assets and liabilities of the Group as of December 31 are attributable to the items detailed as follows:

	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
	<i>(in thousands of Ukrainian hryvnias)</i>					
Property, plant and equipment	40,725	29,518	—	—	40,725	29,518
Available-for-sale securities	2,310	539	(1,553)	(1,165)	757	(626)
Inventory	3,448	1,030	(1,967)	(1,151)	1,481	(121)
Trade and other receivables	1,516	—	(9,348)	(5,043)	(7,832)	(5,043)
Trade and other payables	17,174	29,132	—	—	17,174	29,132
Deferred tax asset (liability)	65,173	60,219	(12,868)	(7,359)	52,305	52,860
Valuation provision					(52,305)	(52,860)
<b>Net deferred tax asset</b>					<u>—</u>	<u>—</u>

The net deferred tax asset was fully provided based on management's estimation of the availability of future taxable profits during a long-term period over which the majority of temporary differences will reverse.

#### 8 Investment in associated bank not accounted for under the equity method

In December 2004, the Group purchased 4,200,000 shares of JSB Brokbusinessbank representing 16.8% of the authorized share capital of JSB Brokbusinessbank from JSB Brokbusinessbank for UAH 55,020 thousand, thus increasing the Group's ownership in JSB Brokbusinessbank to 20%. As the additional ownership of JSB Brokbusinessbank was acquired by the Company with the intent to sell it and other ownership of JSB Brokbusinessbank in the near future, it has not been accounted for under the equity method. This 20% investment in JSB Brokbusinessbank was accounted for as available-for-sale financial security.

In 2004, the Group recognized an impairment loss of UAH 2,218 thousand on the investment in JSB Brokbusinessbank.

In 2005, the Group sold 5,000,000 shares of JSB Brokbusinessbank for an amount of UAH 63,020 thousand, which is equal to the carrying amount as of December 31, 2004.

#### 9 Investment in unconsolidated subsidiary

A 63% investment in a property holding company was sold to a shareholder of the Group in March 2004 for UAH 9,470 thousand, which was equal to its cost.



**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Notes to consolidated financial statements — (Continued)**  
**December 31, 2004**

**10 Inventories**

Inventories as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Raw materials and consumables .....	<b>106,490</b>	73,583
Work in progress .....	<b>7,038</b>	3,191
Finished goods and goods for resale .....	<b>90,696</b>	55,802
	<b><u>204,224</u></b>	<u>132,576</u>

As of December 31, 2004 inventories with a carrying amount of UAH 33,990 thousand (2003: UAH 25,606 thousand) were pledged to secure loans and borrowings.

**11 Trade and other receivables**

Trade and other receivables as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Accounts receivable — trade .....	<b>29,526</b>	33,671
Prepayments to suppliers .....	<b>10,644</b>	38,742
Receivables for treasury shares sold .....	<b>24,754</b>	—
Interest receivable .....	<b>7,562</b>	—
Income tax receivable .....	—	1,830
Other receivables .....	<b>15,185</b>	19,490
Provision for bad debts .....	<b>(2,525)</b>	—
	<b><u>85,146</u></b>	<u>93,733</u>

**12 VAT receivable**

VAT receivable as of December 31 is as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
VAT receivable .....	<b>54,330</b>	31,666
Provision for VAT receivable .....	<b>(5,360)</b>	—
	<b><u>48,970</u></b>	<u>31,666</u>

Management believes that the VAT receivable amounting to UAH 48,970 thousand will be collected in full through direct collections and other non-cash settlements.

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

#### 13 Term bank deposits

Term bank deposits as of December 31, 2004 can be summarized as follows:

	<u>From three months to one year</u>	<u>From one year to five years</u>	<u>Over five years</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Non-current term bank deposits				
USD — fixed at 9.5%-10.0% .....	—	31,832	19,365	51,197
Current term bank deposits:				
USD — fixed at 9.0%-9.3% .....	92,845	—	—	92,845
UAH — fixed at 11.0%-16.5% .....	251,231	—	—	251,231
	<u>344,076</u>	<u>31,832</u>	<u>19,365</u>	<u>395,273</u>

Term bank deposits as of December 31, 2003 can be summarized as follows:

	<u>Within three months to one year</u>	<u>From one year to five year</u>	<u>Over five years</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Current term bank deposits:				
USD — fixed at 10% .....	10,663	—	—	10,663
UAH — fixed at 10%-16% .....	180,890	—	—	180,890
	<u>191,553</u>	<u>—</u>	<u>—</u>	<u>191,553</u>

Term bank deposits as of December 31, 2004 amounting to UAH 305,418 thousand (2003: UAH 161,553 thousand) were deposited with associated domestic bank, JSB Brokbusinessbank, in which the Group has an investment amounting to UAH 65,238 thousand (20% of ownership) as described in notes 6 and 8.

JSB Brokbusinessbank does not publish audited financial statements in accordance with generally accepted accounting principles and there is no credit rating evaluation from a recognized rating agency available.

As of December 31, 2004 term bank deposits of UAH 10,200 thousand (2003: nil) were pledged to secure loans and borrowings.

#### 14 Cash and cash equivalents

Cash and cash equivalents as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Bank balances .....	6,157	4,619
Short term bank deposits .....	46,300	2,354
	<u>52,457</u>	<u>6,973</u>

#### 15 Shareholders' equity

##### *Issued capital*

The authorized and issued share capital comprises 27,125,280 ordinary shares (2003: 27,125,280). All shares have a nominal par value of UAH 12.

The Company has accounted for its share capital in accordance with Ukrainian National Accounting Standards, using inflation indices during hyperinflation which differed from those that would have been applied had

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

International Accounting Standard 29, *Financial Reporting in Hyperinflationary Economies (IAS 29)*, been used. The share capital reported in these financial statements is UAH 61,044 thousand higher and retained earnings is UAH 61,044 thousand lower than they would have been under IFRS. Management believes that this departure from IAS 29 is not significant for these consolidated financial statements.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

#### *Treasury shares*

Treasury shares comprise the cost of the Company's shares held by the Company. In May 2004, the Company purchased 7,009,964 of its own shares which represent 25.84% of the authorized share capital for a purchase consideration of UAH 119,232 thousand.

In October 2004, the Company sold 2,441,275 of its own shares which represent 9.00% of the authorized share capital for UAH 40,674 thousand to its shareholders. In October 2004, the Company also sold 400,000 of its own shares which represent 1.47% of the authorized share capital for UAH 2,800 thousand.

During 2004, the Company purchased 432,675 of its own shares which represent 1.60% of the authorized share capital for UAH 7,662 thousand from Stirolkhinvest IK Ltd, which is a shareholder.

In November 2004, the Company purchased 400,000 of its own shares which represent 1.47% of the authorized share capital for UAH 2,800 thousand from an unconsolidated subsidiary and from other related party.

In December 2004, the Company sold 2,712,527 of its own shares which represent 10.00% of the authorized share capital for a purchase consideration of UAH 55,020 thousand to JSB Brokbusinessbank.

At the balance sheet date the Company held 2,948,470 (2003: 659,633) of its own shares.

#### *Dividends*

Maximum dividends payable are restricted to the retained earnings of the Company, which are determined according to legislation in Ukraine. At December 31, 2004 retained earnings available for distribution amounted to UAH 410,797 thousand (unaudited).

Dividends per share amounted to UAH 0.21 in 2004 (2003: UAH 0.04 per share).

### **16 Loans and borrowings**

This note provides information about the contractual terms of the Group's loans and borrowings. Refer to note 25 for more information about the Group's exposure to interest rate and foreign currency risk.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Notes to consolidated financial statements — (Continued)**  
**December 31, 2004**

Loans and borrowings as of December 31 can be summarized as follows:

	<b>2004</b>	<b>2003</b>
	<i>(in thousands of Ukrainian hryvnias)</i>	
<i>Non-current</i>		
Unsecured bond issue .....	<b>10,000</b>	—
Unsecured bank loans .....	<u>—</u>	<u>4,250</u>
	<b><u>10,000</u></b>	<b><u>4,250</u></b>
<i>Current</i>		
Secured bank loans .....	<b>75,568</b>	21,326
Unsecured bank loans .....	<b>4,250</b>	—
Secured loan from the State Innovation Fund of Ukraine .....	—	3,750
Unsecured bond issue .....	<u>—</u>	<u>7,149</u>
	<b><u>79,818</u></b>	<b><u>32,225</u></b>

***Terms and debt repayment schedule***

The terms and debt repayment schedule as of December 31, 2004 can be presented as follows:

	<b>Within six months</b>	<b>From six months to one year</b>	<b>From one to five years</b>	<b>Total</b>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Unsecured bond issue:				
UAH — fixed at 18% .....	—	—	<b>10,000</b>	<b>10,000</b>
Unsecured bank loans:				
UAH — fixed at 8% .....	—	<b>4,250</b>	—	<b>4,250</b>
Secured bank loans:				
USD — LIBOR + 6% .....	<b>31,832</b>	—	—	<b>31,832</b>
USD — LIBOR + 6.5% .....	—	<b>37,138</b>	—	<b>37,138</b>
USD — fixed at 14% .....	<b>291</b>	—	—	<b>291</b>
UAH — fixed at 18% .....	<b>307</b>	—	—	<b>307</b>
UAH — fixed at 20% .....	<b>6,000</b>	—	—	<b>6,000</b>
	<b><u>38,430</u></b>	<b><u>41,388</u></b>	<b><u>10,000</u></b>	<b><u>89,818</u></b>

The terms and debt repayment schedule as of December 31, 2003 can be presented as follows:

	<b>Within six months</b>	<b>From six months to one year</b>	<b>From one to five years</b>	<b>Total</b>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Unsecured bank loans:				
UAH — fixed at 8% .....	—	—	<b>4,250</b>	<b>4,250</b>
Secured bank loans:				
USD — LIBOR + 7.5% .....	<b>21,326</b>	—	—	<b>21,326</b>
Unsecured bond issue:				
UAH — fixed at 35% .....	—	<b>7,149</b>	—	<b>7,149</b>
Secured loan:				
UAH — fixed at 9% .....	<b>3,750</b>	—	—	<b>3,750</b>
	<b><u>25,076</u></b>	<b><u>7,149</u></b>	<b><u>4,250</u></b>	<b><u>36,475</u></b>

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

As of December 31, 2004 the bank loans are secured by items of property, plant and equipment with a carrying amount of UAH 72,673 thousand (2003: nil), by inventory with a carrying amount of UAH 33,990 thousand (2003: UAH 25,606 thousand) and by cash deposits in amount of UAH 10,200 thousand (2003: nil).

As of December 31, 2003 the loan from the State Innovation Fund of Ukraine is secured by items of property, plant and equipment with a carrying amount of UAH 15,319 thousand.

A long-term loan facility agreement of USD 10,000 thousand with an interest rate of LIBOR + 4.75% was concluded in 2004 with the Black Sea Bank for Trade and Development and the first installment was received in 2005. This loan facility is secured by items of property, plant and equipment with a carrying amount of UAH 5,418 thousand and by 2,073,601,862 shares (nominal value of a share UAH 0.01) of consolidated subsidiary CJSC Stirol Pack, which represent 86% of the authorized share capital of this subsidiary. According to the terms of the loan agreement with the Black Sea Bank for Trade and Development, the Group has to comply with certain covenants. The major covenants restrict the Group’s ability to form or acquire any subsidiaries with single or cumulative effect exceeding USD 500 thousand per year, hold or make any deposits other than in the normal course of business or invest available funds except for investing in highly liquid securities. The Group is also restricted from decreasing its capital in any form. There are also financial covenants regarding ratio of loans less cash and cash equivalents to earnings before interest, taxes, depreciation and amortization (“EBITDA”), EBITDA to interest expense, total liabilities to equity, current assets to current liabilities. Non-compliance with any of these covenants allows the Black Sea Bank for Trade and Development to demand immediate repayment of the loan facility.

The Group has no subordinated debt and no debt convertible into equity.

#### 17 Trade and other payables

Trade and other payables as of December 31 are as follows:

	2004	2003
	<i>(in thousands of Ukrainian hryvnias)</i>	
Accounts payable — trade .....	110,704	34,294
Advances received .....	61,780	112,477
Dividends payable .....	4,380	1,675
Other payables and accrued expenses .....	21,382	24,290
	<b>198,246</b>	<b>172,736</b>

#### 18 Revenues

Revenues for the year ended December 31 are as follows:

	2004	2003
	<i>(in thousands of Ukrainian hryvnias)</i>	
Urea .....	698,205	534,763
Ammonia .....	599,036	412,433
Ammonium nitrate .....	267,975	131,401
Other inorganic products .....	77,811	89,828
Organic products .....	135,201	70,148
Pharmaceuticals .....	38,716	32,396
Packaging and other products derived from chemicals .....	46,493	34,459
Other revenues .....	17,643	20,049
	<b>1,881,080</b>	<b>1,325,477</b>

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

The Group is engaged in the production and distribution of basic chemicals and related products. Basic chemicals include urea, ammonia, ammonium nitrate, other inorganic products and organic products. The Group's operations relating to products other than basic chemicals are not significant, and therefore business segment information is not presented. The Group is engaged in the production of products in Ukraine, and the markets to which it sells are subject to similar risks and rewards. Therefore, geographical segment information is not presented.

#### 19 Administrative expenses

Administrative expenses for the year ended December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Salary and related charges .....	16,078	13,252
Taxes .....	3,479	3,896
Energy .....	3,038	2,888
Consumables .....	2,067	1,486
Depreciation .....	3,971	3,351
Bank services .....	1,747	1,351
Transport and communication .....	3,101	689
Traveling expenses .....	2,561	2,703
Other .....	4,683	3,733
	<u>40,725</u>	<u>33,349</u>

#### 20 Other operating expenses

Other operating expenses for the year ended December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Impairment of property, plant and equipment (note 4) .....	20,281	—
Loss on disposal of property, plant and equipment .....	1,706	9,043
Research costs .....	1,329	1,306
Sponsorship .....	4,652	3,991
Amortization of goodwill .....	1,327	1,327
Provision for VAT refundable .....	5,360	285
Other .....	8,545	10,519
	<u>43,200</u>	<u>26,471</u>

#### 21 Total personnel costs

Total personnel costs for the year ended December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Wages and salaries .....	37,756	40,458
Salary related charges .....	14,392	15,711
	<u>52,148</u>	<u>56,169</u>

The average number of employees of the Group in 2004 was 2,581 (2003: 3,273).



**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Notes to consolidated financial statements — (Continued)**  
**December 31, 2004**

**22 Financial income**

Financial income for the year ended December 31 is as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Interest income .....	37,121	8,580
Dividend income .....	1,314	394
Net foreign exchange gain .....	205	687
	<u>38,640</u>	<u>9,661</u>

**23 Financial expense**

Financial expense for the year ended December 31 is as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Interest expense .....	(7,219)	(3,415)
Adjustment to fair value of promissory notes available-for-sale .....	(4,900)	—
Impairment losses on unconsolidated subsidiaries and available-for-sale securities .....	(4,337)	—
Impairment loss on investment in associated bank not accounted for under the equity method .....	(2,218)	—
	<u>(18,674)</u>	<u>(3,415)</u>

**24 Income tax expense**

Income tax expense for the year ended December 31 is as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Current tax expense .....	108,932	92,231
Deferred tax expense .....	—	—
	<u>108,932</u>	<u>92,231</u>

The statutory income tax rate is 25% for 2004 (2003: 30%).

The Company enjoys preferential tax treatment for some of its operations, as it is located in a free economic zone. The taxable profit from certain investment projects authorized by local authorities is fully exempt from the payment of corporate income tax during the first three years. After three years of the projects' commencement, a corporate income tax on taxable profits of these investment projects at the rate of 50% of the statutory corporate income tax rate is applied. After six years, 100% of the statutory income tax rate is applied.

As also described in note 29, subsequent to year end the laws related to this preferential tax treatment were revised such that the benefits will no longer be available to the Company from March 31, 2005.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Notes to consolidated financial statements — (Continued)**  
**December 31, 2004**

*Reconciliation of effective tax rate*

	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Profit before tax . . . . .	477,275		262,244	
Income tax at applicable tax rate . . . . .	119,319	25	78,673	30
Effect of change in tax rate on deferred tax position . . . . .	—	—	10,572	4
Change in valuation allowance on deferred tax position . . . . .	(555)	—	2,716	1
Effect of preferential tax treatment . . . . .	(27,603)	(6)	(24,240)	(9)
Taxable gain on sales of treasury shares . . . . .	2,817	1	—	
Non tax-deductible items . . . . .	<u>14,954</u>	<u>3</u>	<u>24,510</u>	<u>9</u>
	<u>108,932</u>	<u>23</u>	<u>92,231</u>	<u>35</u>

**25 Financial instruments**

Exposure to credit, interest rate and currency risk arises in the normal course of the Group’s business.

**(a) Credit and concentration risk**

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At balance sheet date there was a significant concentration of credit risk to JSB Brokbusinessbank as described in note 13. There were no other significant concentrations of credit risk as of December 31, 2004. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Group has also concentration risk in respect of purchases and sales as described in note 27 (c) and 27 (d) respectively.

**(b) Interest rate risk**

The Group’s policy is to manage interest rate risk by using a mix of fixed rate and variable rate borrowings. Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**(c) Foreign currency risk**

The Group incurs foreign currency risk on sales, purchases, bank balances, bank deposits and borrowings that are denominated in a currency other than hryvnias. The currencies giving rise to this risk are primarily USD, RUR, and EURO. Ukrainian legislation restricts the Group’s ability to hedge its exposure to foreign currency risk, and, accordingly, the Group does not hedge its exposure to foreign exchange risk.

**(d) Fair values**

Estimated fair values of the Group’s financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the estimated fair values. Accordingly, the estimates of fair values are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The fair value of the Group’s equity investments is not practicable to be determined with sufficient reliability due to the lack of a developed market for those products.

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

For all other financial assets and liabilities the carrying value is estimated to approximate the fair value as of December 31, 2004 and 2003.

#### 26 Related party transactions

During 2004 and 2003, the Group had the following transactions and balances with related parties. The Group has a controlling relationship with all of its subsidiaries (see note 2 (d) (i) for a list of significant subsidiaries) and jointly controlled relationship with all of its jointly controlled entities (see note 2 (d) (iii) for a list of significant jointly controlled entities). Related parties also comprise the associates of the Company, the shareholders of the Company, companies which are under common control with the Company, key management personnel of the Company or their close family members, companies that are controlled or significantly influenced by shareholders, key management personnel of the Company or their close family members. Prices for related party transactions are determined by the Group on an ongoing basis.

#### *Revenues*

Sales of goods and services to related parties for the year ended December 31 are as follows:

	<b>2004</b>	<b>2003</b>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Revenue from sales of goods and services . . . . .	<b><u>1,617,517</u></b>	<b><u>774,366</u></b>

#### *Purchases*

Purchases of goods and services from related parties for the year ended December 31 are as follows:

	<b>2004</b>	<b>2003</b>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Purchases of goods and services . . . . .	<b><u>197,036</u></b>	<b><u>55,371</u></b>

#### *Receivables and advances paid*

Receivables and advances paid as of December 31 are as follows:

	<b>2004</b>	<b>2003</b>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Accounts receivable — trade . . . . .	<b>18,741</b>	20,888
Prepayments to suppliers . . . . .	<b>6,321</b>	4,668
Receivables for treasury shares sold . . . . .	<b><u>24,754</u></b>	<u>—</u>
	<b><u>49,816</u></b>	<b><u>25,556</u></b>

#### *Term bank deposits*

Term bank deposits as of December 31 are as follows:

	<b>2004</b>	<b>2003</b>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Term bank deposits . . . . .	<b><u>305,418</u></b>	<u>—</u>

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements**

**Notes to consolidated financial statements — (Continued)**  
**December 31, 2004**

***Investments in unconsolidated subsidiaries and available-for-sale securities***

Available-for-sale securities and investment in unconsolidated subsidiaries as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Investment in unconsolidated subsidiaries .....	1,657	2,807
<i>Available-for-sale securities:</i>		
Shares of JSB Brokbusinessbank .....	—	10,218
Promissory notes of OJSC Stirolbiotech .....	5,972	2,676
Shares of OJSC Stirolbiotech .....	3,280	3,091
Other equity investments .....	387	387
	<u>11,296</u>	<u>19,179</u>

***Current investments***

Current investments as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Shares of JSB Brokbusinessbank .....	63,020	—
Other current investments .....	—	9,470
	<u>63,020</u>	<u>9,470</u>

***Trade and other payables***

Trade payables and advances received as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Advances received .....	44,270	105,225
Accounts payable — trade .....	12,471	9,353
	<u>56,741</u>	<u>114,578</u>

***Loans and borrowings***

Loans and borrowings as of December 31 are as follows:

	<u>2004</u>	<u>2003</u>
	<i>(in thousands of Ukrainian hryvnias)</i>	
Loans and borrowings .....	<u>20,250</u>	—

***Other related party transactions***

In October 2004, the Company sold 2,441,275 of its own shares which represent 9.00% of the authorized share capital for UAH 40,674 thousand to its shareholders. In December 2004, the Company sold 2,712,527 of its own shares which represent 10.00% of the authorized share capital for UAH 55,020 thousand to JSB Brokbusinessbank.

## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements

#### Notes to consolidated financial statements — (Continued) December 31, 2004

During 2004, the Company purchased 432,675 of its own shares which represent 1.60% of the authorized share capital for UAH 7,662 thousand from Stirolkhinvest IK Ltd, which is a shareholder.

In November 2004, the Company purchased 400,000 of its own shares which represent 1.47% of the authorized share capital for UAH 2,800 thousand from an unconsolidated subsidiary and from another related party.

In December 2004, the Group sold unsecured bonds for UAH 10,000 thousand to Stirolkhinvest IK Ltd, which is a shareholder.

As also disclosed in Note 5, in April and November 2004, the Group purchased an additional 698,934,206 shares (29% of the authorized share capital) of consolidated subsidiary Stirol Pack CJSC for UAH 19,140 thousand from Stirolkhinvest IK Ltd, which is a shareholder of the Company. Additional goodwill amounting to UAH 9,059 thousand was recorded in the consolidated financial statements in respect of this additional purchase of shares.

As also disclosed in Note 9, a 63% investment in a property holding company was sold to a shareholder of the Group in March 2004 for UAH 9,470 thousand.

#### 27 Commitments

##### (a) Capital commitments

The Group has commitments for the acquisition of property, plant and equipment amounting to UAH 40,189 thousand as of December 31, 2004 (2003: nil).

##### (b) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. Management expects that the Group will continue to fund these social programs through the foreseeable future. These costs are recorded in the year they are incurred.

##### (c) Purchase concentration

The Group purchased natural gas from one state owned gas distribution company amounting to UAH 618,602 thousand during 2004 (2003: UAH 498,217 thousand), which comprises 53% of the total amount of cost of production during 2004 (2003: 55%) and 100% of the total amount of gas purchases. Management plans to reduce the Group's dependence on this sole supplier of natural gas by entering into purchase agreements with alternative suppliers.

##### (d) Sales concentration

The Group sold urea, ammonia, ammonium nitrate and other products to a group of two entities, which are related parties, for a total of UAH 1,461,863 thousand during 2004, which comprises 77.7% of total revenue during 2004 (2003: UAH 724,839 thousand or 54.7%). As of December 31, 2004, advances received from these companies amounted to UAH 42,456 thousand (2003: UAH 105,225 thousand).

#### 28 Contingencies

##### (a) Environmental contingency

The Group has been operating in the chemical industry in Ukraine for many years. The normal activities of the Group may have resulted in damage to the environment. The enforcement of environmental regulation in Ukraine is evolving and the enforcement stance of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. If obligations are determined, they would be recognized immediately. If no current or future benefit is discernible the related costs would be expensed. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination would be capitalized. Potential liabilities, which might arise as a result of stricter enforcement of

**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements****Notes to consolidated financial statements — (Continued)  
December 31, 2004**

existing regulations, civil litigation or changes in legislation or regulation cannot be estimated. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that require accrual in the consolidated financial statements. The Group does not have any environmental accruals as of December 31, 2004.

**(b) Insurance**

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available or economically feasible. The Group has coverage only of its plant facilities that are pledged to secure loans and borrowings. The Group does not have full coverage for its other plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains additional insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

**(c) Litigation**

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the Group's financial position or results of operations.

**(d) Taxation contingencies**

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. No provisions for potential tax assessments have been made in these financial statements.

**29 Events subsequent to balance sheet date**

In 2005, the Group sold 5,000,000 shares of JSB Brokbusinessbank for an amount of UAH 63,020 thousand.

Ukrainian legislation in respect of free economic zones was changed in 2005. Following this change, preferential tax treatment enjoyed by the Company as described in note 24 will no longer be available from March 31, 2005. This change may also be applied retroactively to the Company from January 1, 2005.

April 27, 2005

Verevkin V.M.  
President

Salov A.N.  
Finance Director





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### Independent auditors' report

To the Board of Directors of  
Open Joint-Stock Company "Concern Stirol"

1. We have audited the accompanying consolidated balance sheet of Open Joint-Stock Company "Concern Stirol" and its subsidiaries (the "Group") as of December 31, 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. Except as described in paragraph 5, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As disclosed in note 2(a), the accompanying consolidated financial statements do not include disclosure of related party balances and transactions. Disclosure of such information is required by IAS 24, *Related Party Disclosures*.
4. As disclosed in note 2(a), the accompanying consolidated financial statements do not include a listing of significant subsidiaries. Disclosure of such information is required by IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*.
5. Because we were not appointed auditors of the Group until after December 31, 2003, we were not able to observe the counting of the physical inventories at that date or as of December 31, 2002 or satisfy ourselves concerning those inventory quantities at those dates by alternative means. The amounts of inventories as of December 31, 2003 and 2002 materially affect the determination of the financial position, results of operations, changes in shareholders' equity and cash flows.
6. In our opinion, except for the omission of the information described in paragraphs 3 and 4 and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to extend our auditing procedures to the carrying amounts of inventories as described in paragraph 5, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations, changes in shareholders' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.
7. The accompanying consolidated financial statements of the Group as of and for the year ended December 31, 2002 were compiled by us in accordance with the International Standard on Auditing applicable to compilation engagements. A compilation is limited to presenting in the form of financial statements information that is the responsibility of management. Our report thereon, dated November 14, 2003, stated that we did not audit or review those consolidated financial statements and, accordingly, we expressed no opinion or any other form of assurance thereon. Our report also indicated that the consolidated financial statements did not include disclosure of related party balances and transactions, which was required by IAS 24, *Related Party Disclosures*.

/s/ KPMG

KPMG Ukraine Ltd.  
Kiev, Ukraine  
August 10, 2004

KPMG Ukraine Ltd. KPMG Ukraine Ltd, a Ukrainian  
limited liability company, is a member of KPMG International,  
a Swiss cooperative

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated financial statements  
December 31, 2003**

*These consolidated financial statements contain 20 pages*

## Open Joint-Stock Company "Concern Stirol"

## Consolidated Financial Statements as of December 31, 2003

## Consolidated balance sheet as of December 31, 2003

	<u>Note</u>	<u>2003</u>	<u>2002</u>
			<i>(unaudited)</i>
			<i>(in thousands of Ukrainian hryvnias)</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	4	<b>404,576</b>	437,537
Prepayments for property, plant and equipment . . . . .		<b>1,413</b>	5,295
Intangible assets . . . . .	5	<b>9,504</b>	13,336
Non-current investments in unconsolidated subsidiaries . . . . .		<b>2,807</b>	3,087
Other non-current investments . . . . .	6	<b>21,829</b>	13,905
		<u><b>440,129</b></u>	<u>473,160</u>
<b>Current assets</b>			
Current investment in unconsolidated subsidiary . . . . .	7	<b>9,470</b>	—
Inventories . . . . .	9	<b>132,576</b>	80,635
Trade and other receivables . . . . .	10	<b>93,733</b>	63,414
VAT receivable . . . . .		<b>31,666</b>	61,692
Term bank deposits . . . . .	11	<b>191,553</b>	—
Cash and cash equivalents . . . . .	12	<b>6,973</b>	55,546
		<u><b>465,971</b></u>	<u>261,287</u>
<b>Total assets . . . . .</b>		<u><b>906,100</b></u>	<u>734,447</u>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity . . . . .</b>			
	13		
Issued capital . . . . .		<b>325,503</b>	325,503
Treasury shares . . . . .		<b>(7,685)</b>	(4,936)
Retained earnings . . . . .		<b>367,958</b>	200,535
		<u><b>685,776</b></u>	<u>521,102</u>
<b>Minority interest . . . . .</b>		<u><b>11,113</b></u>	<u>8,663</u>
<b>Non-current liabilities</b>			
Loans and borrowings . . . . .	14	<b>4,250</b>	6,319
Other . . . . .		<b>—</b>	377
		<u><b>4,250</b></u>	<u>6,696</u>
<b>Current liabilities</b>			
Loans and borrowings . . . . .	14	<b>32,225</b>	45,238
Trade and other payables . . . . .	15	<b>172,736</b>	152,748
		<u><b>204,961</b></u>	<u>197,986</u>
<b>Total shareholders' equity and liabilities . . . . .</b>		<u><b>906,100</b></u>	<u>734,447</u>

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-36 to F-51.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Consolidated income statement for the year ended December 31, 2003**

	<u>Note</u>	<u>2003</u>	<u>2002</u>
<i>(in thousands of Ukrainian hryvnias)</i>			
<b>Revenues</b> .....	16	<b>1,325,477</b>	620,694
Cost of revenues .....		<u><b>(879,222)</b></u>	<u>(442,836)</u>
<b>Gross profit</b> .....		<b>446,255</b>	177,858
Other operating income .....		<b>13,388</b>	17,803
Distribution costs .....		<u><b>(143,825)</b></u>	(120,287)
Administrative expenses .....	17	<u><b>(33,349)</b></u>	(31,781)
Other operating expenses .....	18	<u><b>(26,471)</b></u>	<u>(18,398)</u>
<b>Profit from operations</b> .....		<b>255,998</b>	25,195
Net financing income (costs) .....	19	<u><b>6,246</b></u>	<u>(5,128)</u>
<b>Profit before tax and minority interest</b> .....		<b>262,244</b>	20,067
Income tax expense .....	20	<u><b>(92,231)</b></u>	<u>(7,660)</u>
<b>Profit before minority interest</b> .....		<b>170,013</b>	12,407
Minority interest .....		<u><b>(1,590)</b></u>	<u>(323)</u>
<b>Net profit for the year</b> .....		<u><b>168,423</b></u>	<u>12,084</u>
Weighted average number of shares — in thousands .....		<b>26,557</b>	26,187
Basic earnings per share — in Ukrainian hryvnias .....		<b>6.34</b>	0.46
Diluted earnings per share — in Ukrainian hryvnias .....		<b>6.34</b>	0.46

*The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-36 to F-51.*

## Open Joint-Stock Company "Concern Stirol"

## Consolidated Financial Statements as of December 31, 2003

## Consolidated cash flow statement for the year ended December 31, 2003

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
<b>Operating activities</b>		
<b>Profit before tax and minority interest</b> .....	<b>262,244</b>	20,067
<i>Adjustments for:</i>		
Depreciation and amortization .....	<b>76,866</b>	73,138
Loss on sale of property, plant and equipment .....	<b>9,043</b>	5,602
Non-cash disposals of property, plant and equipment .....	<b>9,109</b>	10,894
Loss on sale of investments .....	<b>2,702</b>	2,189
Interest expense .....	<b>3,415</b>	12,197
(Increase) decrease in inventories .....	<b>(51,941)</b>	20,910
Increase in trade, VAT and other receivables .....	<b>(293)</b>	(49,873)
Increase in trade, other payables and other non-current liabilities .....	<b>22,367</b>	9,640
Interest paid .....	<b>(5,363)</b>	(8,856)
Income tax offset with VAT receivables .....	<b>(77,085)</b>	—
Income taxes paid .....	<b>(15,146)</b>	(7,980)
<b>Cash flows from operating activities</b> .....	<b><u>235,918</u></b>	<u>87,928</u>
<b>Investing activities</b>		
Proceeds from sale of investments .....	<b>31,061</b>	6,452
Purchase of investments .....	<b>(41,407)</b>	(7,474)
Placement of term bank deposits .....	<b>(191,553)</b>	—
Proceeds from sale of property, plant and equipment .....	<b>606</b>	—
Purchase of property, plant and equipment and intangible assets .....	<b>(64,419)</b>	(67,985)
<b>Cash flows used in investing activities</b> .....	<b><u>(265,712)</u></b>	<u>(69,007)</u>
<b>Financing activities</b>		
Proceeds from borrowings .....	<b>115,215</b>	113,397
Repayment of borrowings .....	<b>(130,298)</b>	(138,181)
Own shares acquired .....	<b>(30,682)</b>	(4,899)
Own shares sold .....	<b>27,933</b>	—
Dividends paid .....	<b>(947)</b>	(1,000)
<b>Cash flows used in financing activities</b> .....	<b><u>(18,779)</u></b>	<u>(30,683)</u>
<b>Net decrease in cash and cash equivalents</b> .....	<b>(48,573)</b>	(11,762)
Cash and cash equivalents at beginning of year .....	<b>55,546</b>	67,308
<b>Cash and cash equivalents at end of year</b> .....	<b><u>6,973</u></b>	<u>55,546</u>

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-36 to F-51.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Consolidated statement of changes in shareholders' equity for the year ended December 31, 2003**

	<u>Issued capital</u>	<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>			
Balances at January 1, 2003 (unaudited) . . . . .	325,503	(37)	189,451	514,917
Own shares acquired (unaudited) . . . . .	—	(4,899)	—	(4,899)
Net profit for the year (unaudited) . . . . .	—	—	12,084	12,084
Dividends to shareholders (unaudited) . . . . .	—	—	(1,000)	(1,000)
<b>Balances at December 31, 2002 (unaudited) . . . . .</b>	<b><u>325,503</u></b>	<b><u>(4,936)</u></b>	<b><u>200,535</u></b>	<b><u>521,102</u></b>
Own shares acquired . . . . .	—	(30,682)	—	(30,682)
Own shares sold . . . . .	—	27,933	—	27,933
Net profit for the year . . . . .	—	—	168,423	168,423
Dividends to shareholders . . . . .	—	—	(1,000)	(1,000)
<b>Balances at December 31, 2003 . . . . .</b>	<b><u>325,503</u></b>	<b><u>(7,685)</u></b>	<b><u>367,958</u></b>	<b><u>685,776</u></b>

*The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages F-36 to F-51.*



## Open Joint-Stock Company "Concern Stirol"

### Consolidated Financial Statements as of December 31, 2003

#### Notes to consolidated financial statements

#### 1 Background

##### (a) Organization and operations

Open Joint-Stock Company "Concern Stirol" (the "Company") is a Ukrainian open joint stock company. The original enterprise was established as a state owned enterprise in 1933. It was privatized on September 1, 1995, as part of the Ukrainian privatization program as an open joint stock company. The consolidated financial statements for the year ended December 31, 2003 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group's principal activity is the production of ammonia, urea, ammonia nitrate and organic products at a plant located in the city of Gorlivka, Ukraine. The Group also produces pharmaceuticals. These products are sold in Ukraine and abroad.

The average number of employees of the Group in 2003 was 3,273 (2002: 4,547).

##### (b) Ukrainian business environment

Ukraine has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These consolidated financial statements reflect management's current assessment of the possible impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

#### 2 Basis of preparation

##### (a) Statement of compliance

The Group maintains its accounting records in accordance with Ukrainian National Accounting Standards ("NAS"). These financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, except for IAS 24, *Related Party Disclosures* and certain aspects of IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*.

The Group did not apply the requirements of IAS 24, *Related Party Disclosures*, (IAS 24) in the preparation of these consolidated financial statements. As a result, disclosures of transactions and balances with related parties as required by IAS 24 have not been provided in these consolidated financial statements, including the disclosure of whether the related party transactions are conducted on an arm's length basis or not.

The consolidated financial statements do not include a listing of significant subsidiaries. The disclosure of such information is required by IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*.

##### (b) Historical cost basis

The consolidated financial statements are prepared on the historical cost basis except for financial instruments available-for-sale. Financial instruments available-for-sale are stated at their fair value, excluding those for which a reliable measure of fair value is not determinable.

##### (c) Measurement and reporting currency

The national currency of Ukraine is the Ukrainian hryvnia and the measurement and reporting currency for the purposes of these consolidated financial statements is the Ukrainian hryvnia, rounded to the nearest thousand.

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements as of December 31, 2003

#### Notes to consolidated financial statements — (Continued)

#### (d) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Management decided not to consolidate certain subsidiaries because the effect of non-consolidation is not material, or they were acquired with the intent to dispose of them in the near future.

##### (ii) Associates

Associates are those enterprises in which the Company has significant influence, but not control, over the financial and operating policies. Associates have not been accounted for under the equity method, as management believes that the effect of non-use of the equity method for the associates is not significant. Associates are accounted for as available-for-sale financial assets.

The listing of the Company’s associates as of December 31 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>2003 % of ownership</u>	<u>2002 % of ownership</u>
Stirolmash .....	Ukraine	Metal-Working	25	—
Stirolelectropribor .....	Ukraine	Equipment repair	25	—
Stirolautoservice .....	Ukraine	Transportation	25	—
Stirolcleaningservice .....	Ukraine	Cleaning	25	—
TEC Stirol .....	Ukraine	Utility services	25	—
Stirolstroyontaj .....	Ukraine	Construction	25	—
Stirol Audit .....	Ukraine	Audit	10	25

During 2003, the Company established several associate companies and transferred certain items of property, plant and equipment and some of its employees to these companies in order to dispose of non-core activities previously performed by the Company itself. The Company incurs charges for the services provided by these associate companies.

##### (iii) Jointly controlled entities

Jointly controlled entities are those enterprises over whose activities the Group has joint control. The consolidated financial statements include the Group’s proportionate share of the jointly controlled entity’s assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

The listing of the Company’s jointly controlled entities as of December 31 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Activity</u>	<u>2003 % of ownership</u>	<u>2002 % of ownership</u>
<b>Consolidated:</b>				
IBE Stirol JV .....	Ukraine	Production	50	50
<b>Non-consolidated:</b>				
Salyami JSC .....	Ukraine	Production	50	50

The non-consolidated jointly controlled entity has not been proportionally consolidated, as management believes that the effect of non-consolidation is not significant. The non-consolidated jointly controlled entity is accounted for as available-for-sale financial assets.

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements as of December 31, 2003

#### Notes to consolidated financial statements — (Continued)

#### (iv) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### (e) **Use of estimates**

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosures of the contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

#### (f) **Going concern**

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied with those of the prior year.

#### (a) **Foreign currency transactions**

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. The Group’s principal foreign currency is the US dollar (“USD”).

The principal UAH exchange rates used in the preparation of the consolidated financial statements as of December 31 are as follows:

<u>Currency</u>	<u>2003</u>	<u>2002</u>
US dollar . . . . .	<b>5.331</b>	5.332
Russian rouble . . . . .	<b>0.181</b>	0.168
EURO . . . . .	<b>6.662</b>	5.533

At the date of these financial statements, April 27, 2004, the exchange rate is UAH 5.329 to USD 1.00.

#### (b) **Inflation accounting**

With effect from January 1, 2001 the economy of Ukraine was no longer considered to be a hyperinflationary economy. Previously Ukraine was considered to be a hyperinflationary economy and in order to comply with IAS 29, *Financial Reporting in Hyperinflationary Economies*, financial statements were required to be expressed in terms of the measuring unit current at the balance sheet date. Amounts expressed in the measuring unit current at the end of 2000 have been used as the basis for the carrying amounts in these consolidated financial statements.

#### (c) **Financial instruments**

##### (i) *Classification*

*Financial instruments held-for-trading* are those that the Group principally holds for the purpose of generating a profit from short-term fluctuations in price.

*Originated loans and receivables* are loans and receivables created by the Group by providing money directly to a debtor, other than those created with the intention to be sold immediately or in the short term.

**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements as of December 31, 2003****Notes to consolidated financial statements — (Continued)**

*Held-to-maturity investments* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

**(ii) Recognition**

The Group recognizes financial assets in its consolidated balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

**(iii) Measurement**

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables, and held-to-maturity investments are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

**(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

**(d) Property, plant and equipment****(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation. Items of property, plant and equipment acquired prior to January 1, 2001 are carried at indexed cost (note 3(b)) less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

**(ii) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement as an expense as incurred.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

**(iii) Depreciation**

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

Buildings .....	50 years
Plant and equipment .....	10-20 years
Vehicles .....	5-10 years

**(iv) Construction in progress**

Construction in progress is stated at cost less impairment loss arising on interrupted construction works.

**(e) Goodwill**

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortization and impairment losses. Goodwill is amortized from the date on initial recognition on a straight-line basis over its estimated useful life of 8 years.

**(f) Other non-current investments**

Investments comprise equity participations in various companies in which the Group does not exercise significant influence. These equity instruments are classified as available-for-sale assets.

**(g) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of raw materials is determined using the weighted average method including acquisition costs incurred, such as transportation.

Work in progress and finished goods are stated at cost. Cost includes the cost of raw materials, labor and manufacturing overheads allocated proportionately to the stage of completion of the inventory.

**(h) Trade accounts receivable**

Trade accounts receivable are stated at their cost less impairment losses.

**(i) Advances to suppliers**

Advances to suppliers are stated at their cost less impairment losses.

**(j) Term bank deposits**

Term bank deposits comprise deposits with banks with an original maturity term of longer than three months.

**(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and deposits with banks with an original maturity term of three months or less.

**Open Joint-Stock Company “Concern Stirol”****Consolidated Financial Statements as of December 31, 2003****Notes to consolidated financial statements — (Continued)****(l) Impairment**

The carrying amounts of the Group’s assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets’ recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated income statement.

**(m) Share capital****(i) Repurchase of share capital**

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are presented as a deduction from total equity.

**(ii) Dividends**

Dividends are recognized as a liability in the period in which they are declared.

**(n) Promissory notes issued**

Promissory notes issued are stated at their amortized cost. Interest expense is accrued on interest-bearing promissory notes.

**(o) Loans**

Loans are recognized initially at cost, which is the fair value of consideration received, net of any transaction costs incurred. Subsequent to initial recognition, loans are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated income statement over the period of the borrowings.

When loans are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated income statement.

**(p) Trade accounts payable**

Trade accounts payable are stated at their cost.

**(q) Other liabilities and accrued expenses**

Other liabilities and accrued expenses are stated at their cost.

**(r) Advances received**

Advances received are stated at their cost.

**(s) Employee benefits**

The Group pays into the Ukrainian state pension fund an amount based on each employee’s wage. These amounts are expensed as incurred.

**(t) Income tax**

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.



**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements as of December 31, 2003****Notes to consolidated financial statements — (Continued)**

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(u) Revenues****(i) Goods sold**

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

**(ii) Interest income**

Interest income is recognized in the consolidated income statement as it accrues, taking into account the effective yield on the asset.

**(v) Net financing income (costs)**

Net financing income and costs comprise interest costs on borrowings, interest income on funds invested, dividend income, foreign exchange gains and losses.

Interest expense is recognized in the consolidated income statement on an effective interest rate basis. Dividend income is recognized in the consolidated income statement on the date that the dividend is declared.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

**4 Property, plant and equipment**

Property, plant and equipment as of December 31 is as follows:

	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>				
<i>Cost</i>					
At January 1, 2003 (unaudited) .....	98,255	785,152	80,033	2,543	965,983
Additions .....	11,826	35,803	—	19,211	66,840
Disposals .....	(9,974)	(23,534)	(1,055)	—	(34,563)
Transfers .....	—	6,640	—	(6,640)	—
<b>At December 31, 2003</b> .....	<b><u>100,107</u></b>	<b><u>804,061</u></b>	<b><u>78,978</u></b>	<b><u>15,114</u></b>	<b><u>998,260</u></b>
<i>Accumulated depreciation and impairment losses</i>					
At January 1, 2003 (unaudited) .....	20,062	461,684	46,700	—	528,446
Depreciation charge .....	2,585	55,569	13,422	—	71,576
Disposals .....	(269)	(5,379)	(690)	—	(6,338)
<b>At December 31, 2003</b> .....	<b><u>22,378</u></b>	<b><u>511,874</u></b>	<b><u>59,432</u></b>	<b><u>—</u></b>	<b><u>593,684</u></b>
<i>Net book value</i>					
At January 1, 2003 (unaudited) .....	78,193	323,468	33,333	2,543	437,537
<b>At December 31, 2003</b> .....	<b><u>77,729</u></b>	<b><u>292,187</u></b>	<b><u>19,546</u></b>	<b><u>15,114</u></b>	<b><u>404,576</u></b>

As of December 31, 2003 items of property, plant and equipment with a carrying amount of UAH 15,319 thousand (2002: UAH 23,293 thousand) were pledged to secure a loan amounting to UAH 3,750 thousand (2002: UAH 15,550 thousand).

**5 Intangible assets**

Intangible assets as of December 31 are as follows:

	<u>Goodwill</u>	<u>Other intangible assets</u>	<u>Total</u>
	<i>(in thousands of Ukrainian hryvnias)</i>		
<i>Cost</i>			
At January 1, 2003 (unaudited) .....	25,686	5,583	31,269
Additions .....	—	1,458	1,458
At December 31, 2003 .....	<u>25,686</u>	<u>7,041</u>	<u>32,727</u>
<i>Accumulated amortization and impairment losses</i>			
At January 1, 2003 (unaudited) .....	16,399	1,534	17,933
Amortization charge .....	1,327	3,963	5,290
At December 31, 2003 .....	<u>17,726</u>	<u>5,497</u>	<u>23,223</u>
<i>Net book value</i>			
At January 1, 2003 (unaudited) .....	<u>9,287</u>	<u>4,049</u>	<u>13,336</u>
<b>At December 31, 2003</b> .....	<b><u>7,960</u></b>	<b><u>1,544</u></b>	<b><u>9,504</u></b>

**6 Other non-current investments**

As of December 31, 2003, other non-current investments mainly consist of an investment in the unquoted shares of a domestic bank amounting to UAH 10,218 thousand, 8% of ownership (2002: UAH 1,508 thousand, 1% of ownership) and an investment in the unquoted shares of a domestic production company amounting to UAH

## Open Joint-Stock Company “Concern Stirol”

### Consolidated Financial Statements as of December 31, 2003

#### Notes to consolidated financial statements — (Continued)

9,085 thousand, 10% of ownership (2002: nil). There is no market for these investments and there have not been any recent transactions that provide evidence of fair value.

#### 7 Current investments in unconsolidated subsidiaries

As of December 31, 2003, the current investments in unconsolidated subsidiary consist of an investment in one legal entity, which has not been consolidated as management believes that control over this subsidiary is temporary. This investment was sold in March 2004 for an amount of UAH 9,470 thousand.

#### 8 Deferred tax assets and liabilities

As of December 31, 2003 the net deferred tax asset of UAH 78,254 thousand (2002: UAH 80,616) was fully provided based on management’s estimation of the availability of future taxable profits during a long-term period over which the majority of temporary differences will reverse. This net deferred tax asset is due to temporary differences mainly relating to property, plant and equipment, advances received and advances paid to suppliers.

#### 9 Inventories

Inventories as of December 31 are as follows:

	2003	2002
		<i>(unaudited)</i>
		<i>(in thousands of Ukrainian hryvnias)</i>
Raw materials and consumables . . . . .	73,583	43,005
Work in progress . . . . .	3,191	3,944
Finished goods and goods for resale . . . . .	55,802	33,686
	132,576	80,635

As of December 31, 2003 inventories with a carrying amount of UAH 25,606 thousand (2002: UAH 62,279 thousand) were pledged to secure loans and borrowings amounting to UAH 21,326 thousand.

#### 10 Trade and other receivables

Trade and other receivables as of December 31 are as follows:

	2003	2002
		<i>(unaudited)</i>
		<i>(in thousands of Ukrainian hryvnias)</i>
Accounts receivable — trade . . . . .	33,671	32,312
Prepayments to suppliers . . . . .	38,742	14,090
Other receivables . . . . .	21,320	21,189
Provision for bad debts . . . . .	—	(4,177)
	93,733	63,414

#### 11 Term bank deposits

Term bank deposits as of December 31, 2003 amounting to UAH 161,553 thousand were deposited with a domestic bank in which the Group has a non-current investment as described in Note 6. These deposits carry interest rates ranging from 10% to 16% and mature at various dates from February to December 2004.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

**12 Cash and cash equivalents**

Cash and cash equivalents as of December 31 are as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
Bank balances . . . . .	<b>4,619</b>	9,962
Short term bank deposits . . . . .	<b>2,354</b>	45,584
	<b><u>6,973</u></b>	<b><u>55,546</u></b>

**13 Shareholders' equity**

*Issued capital*

The authorized and issued share capital comprises 27,125,280 ordinary shares (2003: 27,125,280). All shares have a nominal par value of UAH 12.

The Company has accounted for its share capital in accordance with Ukrainian National Accounting Standards, using inflation indices during hyperinflation which differed from those that would have been applied had International Accounting Standard 29, *Financial Reporting in Hyperinflationary Economies*, been used. The share capital reported in these financial statements is UAH 61,044 thousand higher and retained earnings UAH 61,044 thousand lower than they would have been under IFRS. Management believes that this departure from IAS 29 is not significant for these consolidated financial statements.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Company.

*Treasury shares*

Treasury shares comprise the cost of the Company's shares held by the Company. At the balance sheet date the Group held 659,633 (2003: 476,518) of its own shares.

*Dividends*

Maximum dividends payable are restricted to the retained earnings of the Group, which are determined according to legislation in Ukraine. At December 31, 2003 retained earnings available for distribution amounted to UAH 188,938 thousand (unaudited).

Dividends per share amounted to UAH 0.04 in 2003 (2002: UAH 0.04 per share).

**14 Loans and borrowings**

This note provides information about the contractual terms of the Group's loans and borrowings. Refer to note 21 for more information about the Group's exposure to interest rate and foreign currency risk.

**Open Joint-Stock Company "Concern Stirol"**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

Loans and borrowings as of December 31 can be summarized as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
<i>Non-current</i>		
Unsecured bank loans .....	4,250	—
Secured bank loans .....	—	750
Unsecured bond issue .....	—	5,569
	<u>4,250</u>	<u>6,319</u>
<i>Current</i>		
Current portion of secured bank loans .....	21,326	20,892
Secured loan from the State Innovation Fund of Ukraine .....	3,750	15,550
Finance lease obligation .....	—	8,796
Unsecured bond issue .....	7,149	—
	<u>32,225</u>	<u>45,238</u>

***Terms and debt repayment schedule***

The terms and debt repayment schedule can be presented as follows:

	<u>Within</u>	<u>From</u>	<u>Total</u>
	<u>one year</u>	<u>one to</u>	
		<u>five years</u>	
	<i>(in thousands of Ukrainian hryvnias)</i>		
Unsecured bank loans:			
UAH — fixed at 8% .....	—	4,250	4,250
Secured bank loans:			
USD — LIBOR + 7.5% .....	21,326	—	21,326
Unsecured bond issue:			
UAH — fixed at 35% .....	7,149	—	7,149
Secured loan:			
UAH — fixed at 9% .....	3,750	—	3,750
	<u>32,225</u>	<u>4,250</u>	<u>36,475</u>

As of December 31, 2003 the bank loans are secured by inventory with a carrying amount of UAH 25,606 thousand (2002: inventory amounting to UAH 62,279 thousand).

The loan from the State Innovation Fund of Ukraine as of December 31, 2003 is secured by items of property, plant and equipment with a carrying amount of UAH 15,319 thousand (2002: 23,293 thousand).

The Group has no subordinated debt and no debt convertible into equity.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

**15 Trade and other payables**

Trade and other payables as of December 31 are as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of Ukrainian hryvnias)</i>
Accounts payable — trade . . . . .	34,294	56,610
Advances received . . . . .	112,477	64,476
Dividends payable . . . . .	1,097	1,869
Other taxes payable . . . . .	2,177	2,135
Other payables and accrued expenses . . . . .	<u>22,691</u>	<u>27,658</u>
	<u>172,736</u>	<u>152,748</u>

**16 Revenues**

Revenues for the year ended December 31 is as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of Ukrainian hryvnias)</i>
Urea . . . . .	534,763	184,726
Ammonia . . . . .	412,433	174,484
Ammonium nitrate . . . . .	131,401	121,890
Organic products . . . . .	94,003	74,523
Pharmaceuticals . . . . .	32,396	28,055
Other . . . . .	<u>120,481</u>	<u>37,016</u>
	<u>1,325,477</u>	<u>620,694</u>

The Group is engaged in the production and distribution of basic chemicals and related products. Basic chemicals include urea, ammonia, ammonia nitrate and organic products. The Group’s operations relating to products other than basic chemicals are not significant, and therefore business segment information is not presented. All of the Group’s products are either produced or purchased in Ukraine. Therefore, geographical segment information is not presented.

**17 Administrative expenses**

Administrative expenses for the year ended December 31 are as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of Ukrainian hryvnias)</i>
Salary and related charges . . . . .	15,955	15,822
Taxes . . . . .	3,896	3,787
Energy . . . . .	2,888	2,910
Consumables . . . . .	1,486	1,473
Depreciation . . . . .	3,351	4,196
Rent expenses . . . . .	2,703	1,249
Other . . . . .	<u>3,070</u>	<u>2,344</u>
	<u>33,349</u>	<u>31,781</u>



**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

**18 Other operating expenses**

Other operating expenses for the year ended December 31 is as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
Loss on disposal of property, plant and equipment .....	<b>9,043</b>	5,602
Research costs .....	<b>1,306</b>	7,153
Sponsorship .....	<b>3,991</b>	1,573
Loss on disposal of investments .....	<b>2,702</b>	2,189
Amortization of goodwill .....	<b>1,327</b>	1,327
Other .....	<b>8,102</b>	554
	<b><u>26,471</u></b>	<b><u>18,398</u></b>

**19 Net financing income (costs)**

Net financing costs for the year ended December 31 is as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
Interest income .....	<b>8,580</b>	7,439
Interest expense .....	<b>(3,415)</b>	(12,197)
Dividend income .....	<b>394</b>	229
Foreign exchange gain (loss) .....	<b>687</b>	(599)
	<b><u>6,246</u></b>	<b><u>(5,128)</u></b>

**20 Income tax expense**

Income tax expense for the year ended December 31 is as follows:

	<u>2003</u>	<u>2002</u>
		<i>(unaudited)</i>
		<i>(in thousands of</i>
		<i>Ukrainian hryvnias)</i>
Current tax expense .....	<b>92,231</b>	7,660
Deferred tax expense .....	<b>—</b>	—
<b>Total income tax expense in the income statement .....</b>	<b><u>92,231</u></b>	<b><u>7,660</u></b>

The Group's statutory income tax rate is 30% for 2003 (2002: 30%). Effective from January 1, 2004 the Group's statutory income tax rate was changed to 25%.

**Open Joint-Stock Company “Concern Stirol”**

**Consolidated Financial Statements as of December 31, 2003**

**Notes to consolidated financial statements — (Continued)**

*Reconciliation of effective tax rate*

	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
			<i>(unaudited)</i>	<i>(unaudited)</i>
			<i>(in thousands of Ukrainian hryvnias)</i>	
Profit before tax . . . . .	262,244		20,067	
Income tax at applicable tax rate . . . . .	78,673	30	6,020	30
Effect of change in tax rate on deferred tax position . . . . .	15,650	6		
Change in valuation allowance on deferred tax position . . . . .	(2,362)	(1)	2,460	12
Non-taxable items . . . . .	270	—	(820)	(4)
	<u>92,231</u>	<u>35</u>	<u>7,660</u>	<u>38</u>

**21 Financial instruments**

Exposure to credit, interest rate and currency risk arises in the normal course of the Group’s business.

**(a) Credit risk**

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At balance sheet date there was a significant concentration of credit risk to one domestic bank as described in note 11. There were no other significant exposures of credit risk as of December 31, 2003. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

**(b) Interest rate risk**

The Group’s policy is to manage interest rate risk by using a mix of fixed rate and variable rate borrowings.

**(c) Foreign currency risk**

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than hryvnias. The currencies giving rise to this risk are primarily USD, RUR, and EURO. Ukrainian legislation restricts the Group’s ability to hedge its exposure to foreign currency risk, and, accordingly, the Group does not hedge its exposure to foreign exchange risk.

**(d) Fair values**

Estimated fair values of the Group’s financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the estimated fair values. Accordingly, the estimates of fair values are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

A comparison of the book and fair values of the Group’s loans and borrowings that are not carried at fair value is as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Book value</u>	<u>Estimated fair value</u>	<u>Book value</u>	<u>Estimated fair value</u>
Loans and borrowings . . . . .	36,475	37,266	51,557	52,524

The fair value of the Group’s investments in shares of companies is not practicable to be determined with sufficient reliability due to the lack of a developed market for those products.

For all other financial assets and liabilities the carrying value is estimated to approximate the fair value as of December 31, 2003 and 2002.

**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements as of December 31, 2003****Notes to consolidated financial statements — (Continued)****22 Commitments****(a) Capital commitments**

The Group has no capital commitments as of December 31, 2003 and 2002.

**(b) Social commitments**

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. Management expects that the Group will continue to fund these social programs through the foreseeable future. These costs are recorded in the year they are incurred.

**(c) Purchase concentration**

The Group purchased natural gas from one state owned gas distribution company amounting to UAH 498,217 thousand during 2003, which comprises 55% of total amount of cost of production during 2003 and 100% of total amount of gas purchases. Management plans to reduce the Group's dependence on this sole supplier of natural gas by entering into purchase agreements with alternative suppliers.

**(d) Sales concentration**

The Group sold ammonia and its derivatives to one trader amounting to UAH 724,839 thousand during 2003, which comprises 55% of total revenue during 2003. As of December 31, 2003, advances received from this trader amounted to UAH 105,225.

**23 Contingencies****(a) Environmental contingency**

The Company has been operating in the chemical industry in Ukraine for many years. The normal activities of the Company may have resulted in damage to the environment. The enforcement of environmental regulation in Ukraine is evolving and the enforcement stance of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. If no current or future benefit is discernible the related costs are expensed. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Potential liabilities, which might arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation or regulation cannot be estimated. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that require accrual in the consolidated financial statements. The Group does not have any environmental accruals as of December 31, 2003.

**(b) Insurance**

The insurance industry in the Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available or economically feasible. The Group has only coverage of its plant facilities that are pledged to secure loans and borrowings. The Group does not have full coverage for its other plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Group obtains additional insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

**(c) Litigation**

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the Group's financial position or results of operations.

**Open Joint-Stock Company "Concern Stirol"****Consolidated Financial Statements as of December 31, 2003****Notes to consolidated financial statements — (Continued)****(d) Taxation contingencies**

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose extremely severe fines and penalties and interest charges. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. No provisions for potential tax assessments have been made in these financial statements.

**24 Events subsequent to balance sheet date**

In May 2004, the Group purchased 7,009,964 of its own shares which represent 25.84% of the authorized share capital for a purchase consideration of UAH 119,232 thousand.

August 10, 2004

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