



Management Presentation
H1 2015 Financial Results
28 August, 2015



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1. AVANGARDCO IPL at a glance

Business highlights

Avangardco remains the largest producer of shell eggs and dry egg products in Ukraine and one of the biggest producers globally*. It has:

- 36% share of the industrial production of shell eggs in Ukraine
- 75% share of the production of dry egg products in Ukraine
- 65% share of export of shell eggs and dry egg products from Ukraine
- Vertically integrated business model with facilities situated across all Ukraine
- State of the art poultry complexes Avis and Chornobaivske with total production capacity of 3.5 bn eggs and 11.2 mn laying hens
- Diversified high quality customer base and export sales to 37 countries
- Entered new markets of Bangladesh and the UK

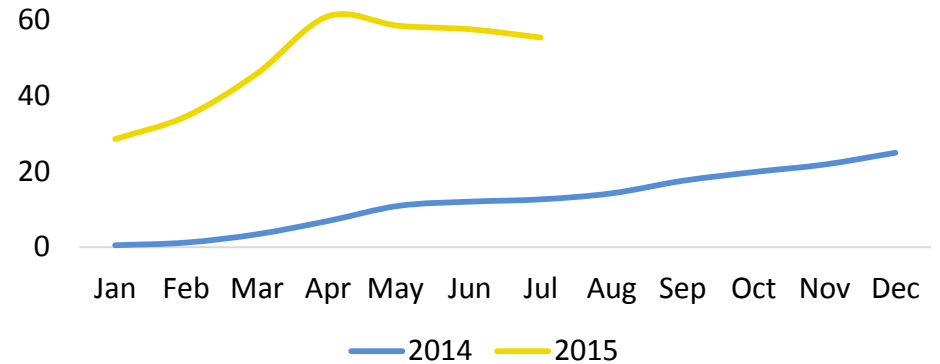
The ongoing instability in Ukraine coupled with weak demand for consumer goods and loss of sales in Crimea, the Lugansk and Donetsk regions continued to influence the Company's performance:

- H1 2015UAH/USD devaluation of 108% YoY**
- CPI in June increased by 57.5% YoY following further devaluation of the Ukrainian Hryvnia against the world currencies and an increase in utility rates
- Decrease in consumers' purchasing power resulting from high inflation and decrease in real income (in Q1 2015 down by 23.5% YoY)
- Production of shell eggs by households in May–June 2015 exceeded industrial production
- Retail trade turnover in Jan-Jun declined by 24.6% YoY

*According to data from SSCU, Pro-Consulting, Egg Industry Journal (www.WATTAgNet.com)

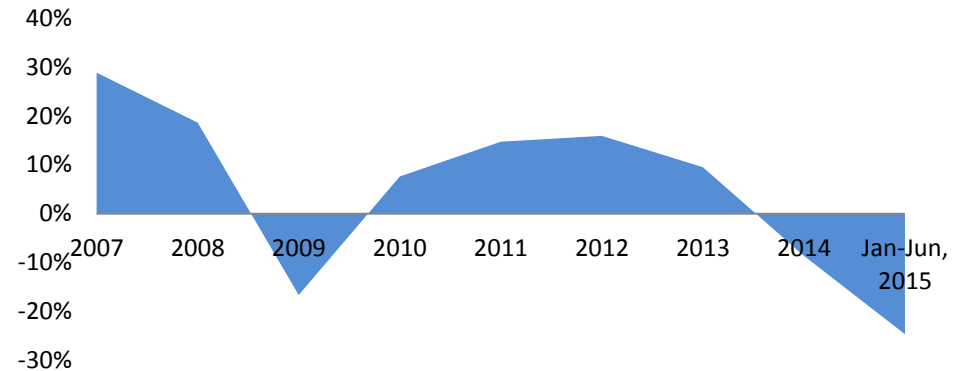
**Weighted average rate for the period

Inflation rate (CPI) YoY, %



Excluding the Autonomous Republic of Crimea, the city of Sevastopol and military conflict zone
Source: SSCU

Retail trade YoY, %

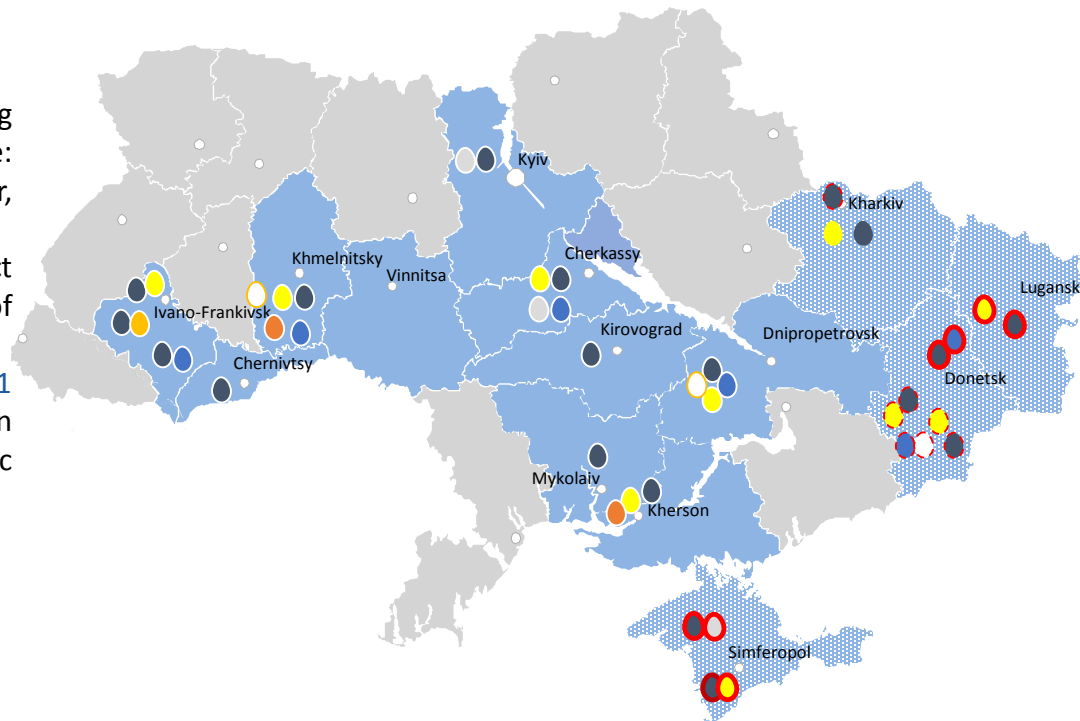


Excluding the Autonomous Republic of Crimea, the city of Sevastopol and military conflict zone
Source: SSCU

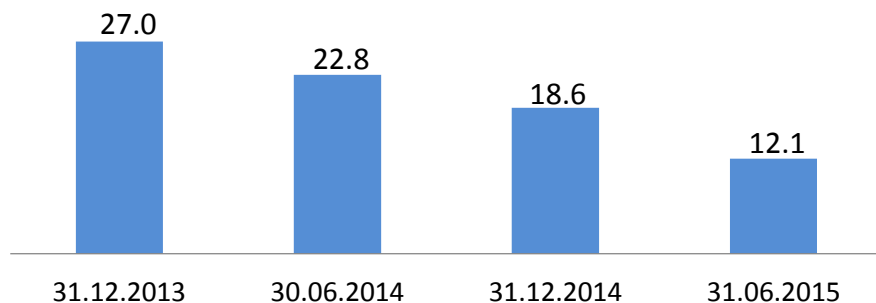
Facilities overview and poultry flock management

Capacity for laying hens declined from 30.1 mn to 21.7 mn:

- Suspension of operations and asset impairment of the laying farms in Crimea and the military conflict zone in Eastern Ukraine: Yuzhnaya-Holding, Ptytsecomplex, Chervonyi Prapor, Interbusiness with a total capacity of 3.7 mn hens
- Suspension of operations at the laying farms close to the conflict zone: Volnovaska, Donetska, Bohodukhivska with a capacity of 4.6.mn hens
- The actual population of laying hens declined by 47% YoY to 12.1 mn following the suspension of operations at the laying farms in the conflict zone, a decline in consumer demand due to economic instability and seasonal factors



Total number of laying hens, mn heads



- - 19 Laying farms
- - 10 Rearing farms
- - 6 Feed mills
- - 3 Hatcheries
- - 3 Long-term storage facilities
- - 2 New poultry complexes: Avis and Chornobaivske
- - Imperovo Foods egg processing plant
- - Temporarily suspended facilities due to ongoing military conflict in Eastern Ukraine and annexation of the Crimea
- - Temporarily suspended facilities close to the conflict zone

Operational and financial performance

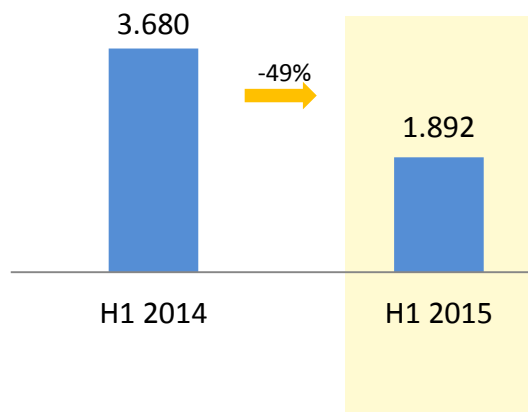
Operational performance

- Total flock (-48%YoY): **16.0 mn heads** as at 30 June 2015
- Number of laying hens (-47%YoY): **12.1 mn heads** as at 30 June 2015
- Shell eggs production (-49%YoY): **1.892 bn pcs**
- Sales of shell eggs to third parties (-29%YoY): **1.700 bn pcs**
- Export sales of shell eggs (-33%YoY): **207 mn pcs**
- Average shell egg sales price (+59%YoY): **1.08 UAH/egg (excl. VAT)**
- Production of dry egg products (-75%YoY): **3,562 th tonnes**
- Sales of dry egg product (-54% YoY): **5,691 th tonnes**
- Export of dry egg products (-60%): **4,049 th tonnes**
- Average sales price of dry egg products (-19%YoY): **5.40 USD/kg**

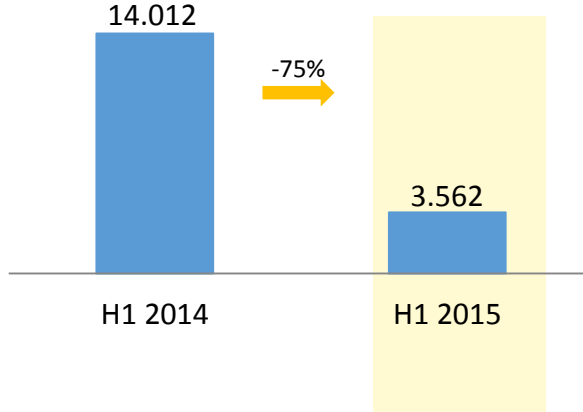
Financial performance

- Revenue (-54%YoY): **USD121.4 mn**
- Export revenue (-57%YoY): **USD44.2 mn** or **36%** of total revenue
- Gross profit (-91%): **USD7.5 mn**
- Negative EBITDA: **USD98.2 mn**
- Net loss of **USD152.4 mn**, incl. FX losses of USD31.7 mn

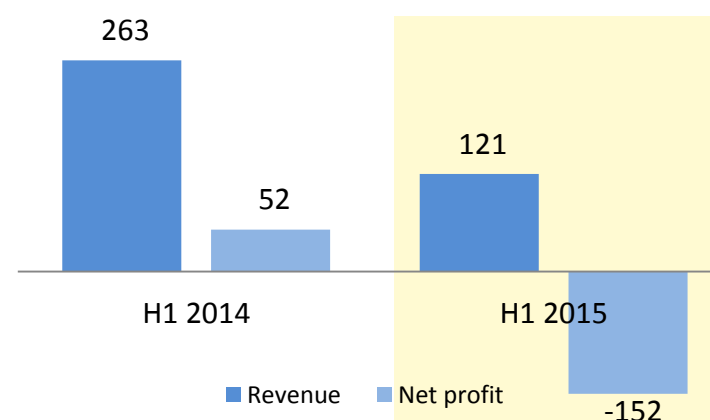
Production of shell eggs, bn pcs



Production of dry egg products, th tonnes



Key financial indicators, USD mn





2. Sales overview

Diversification of sales channels

Shell eggs:

Sales to third parties declined by 29% YoY due to the decrease in production volumes and reduced consumer demand

Focus on shell egg sales for export and retail:

- Partnership with the largest supermarket chains across Ukraine
- Share of sales through retail increased to 39%
- Sales of Kvochka-branded eggs decreased by 56% YoY due to a decrease in consumer purchasing power
- Export of shell eggs decreased by 33% YoY to 207 mn due to increased competition between domestic egg producers for export markets

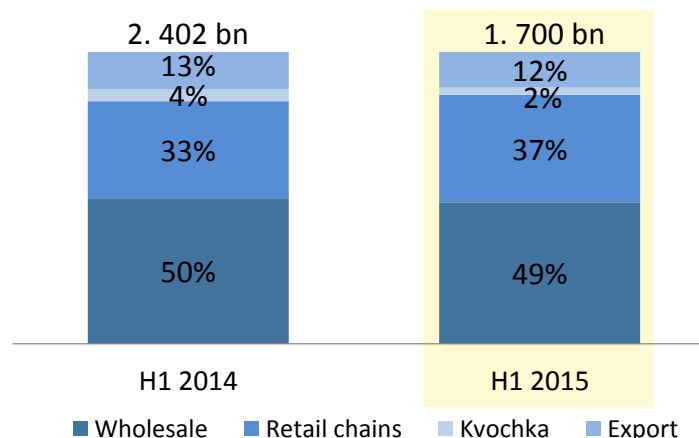
Dry egg products:

71% of dry egg products exported: entry into new export markets

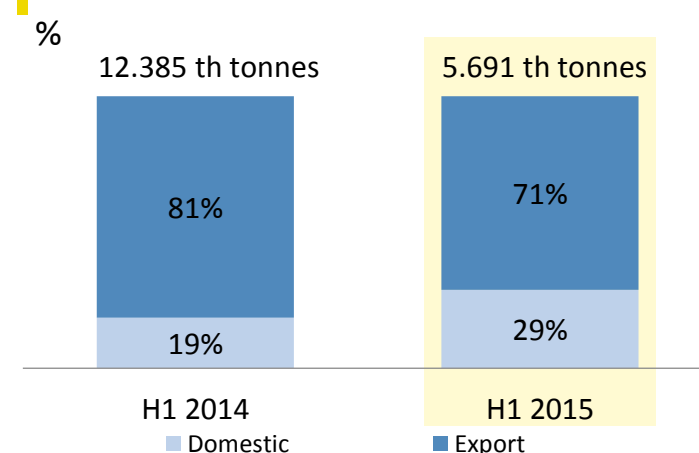
Production and sales declined as a result of the Company's strategy to balance sales mix and dispose of inventories:

- Production and sales of dry egg products based on existing orders
- Albumin sales formula: albumin+% of egg yolk powder (by-product of albumin)

Sales of shell eggs to third parties by volume, %



Sales of dry egg product by volume, %

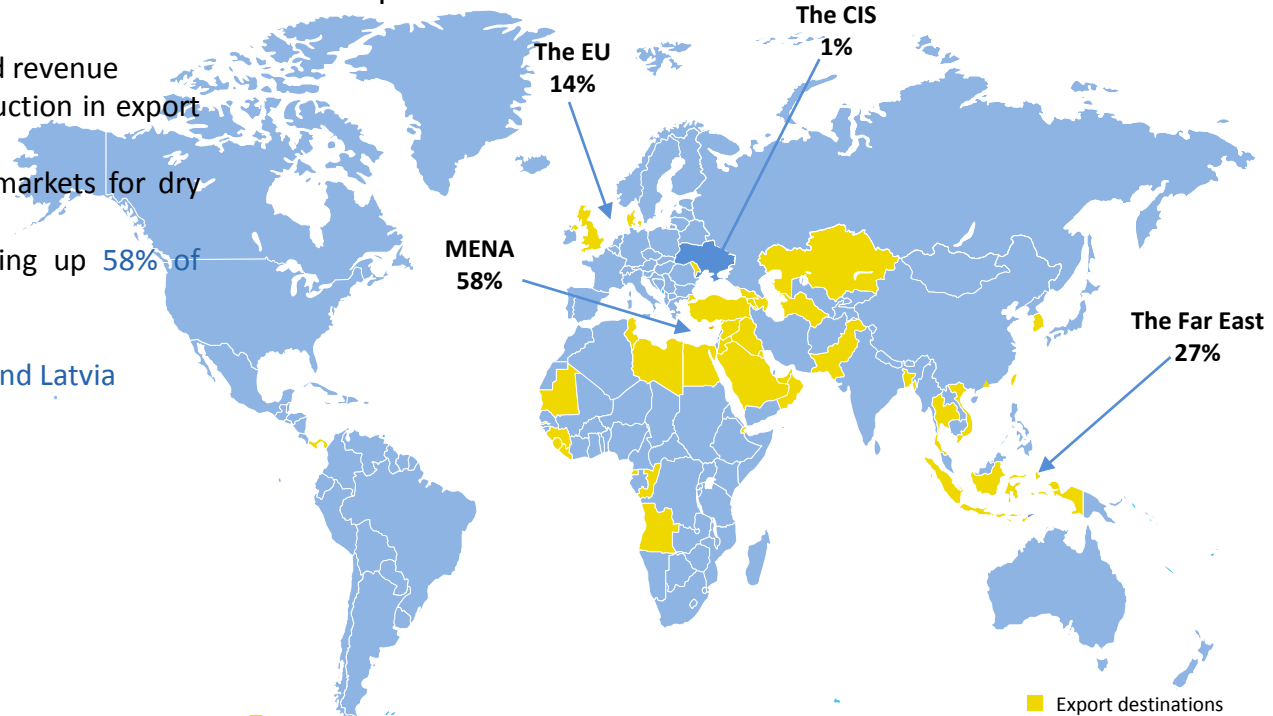


Export strategy

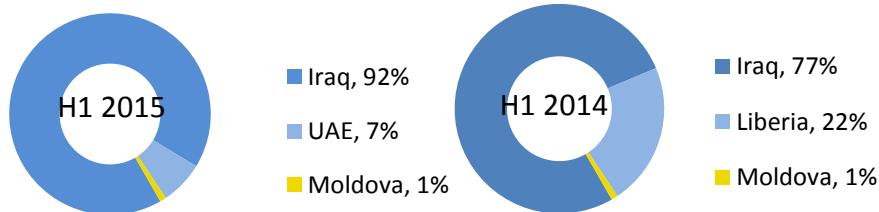
One of the largest exporters of shell eggs and dry egg products from Ukraine:

- Export revenue of **USD 44 mn** or **36%** of consolidated revenue
- Export revenue decreased by **57% YoY** due to a reduction in export volumes of shell eggs and dry egg products
- Export portfolio of **37 countries** with new export markets for dry egg products of **Bangladesh and the UK**
- **MENA** remains the main export destination, making up **58%** of exports
- Growing share of sales to **the EU**
- In the process of signing export contracts with **Italy and Latvia**

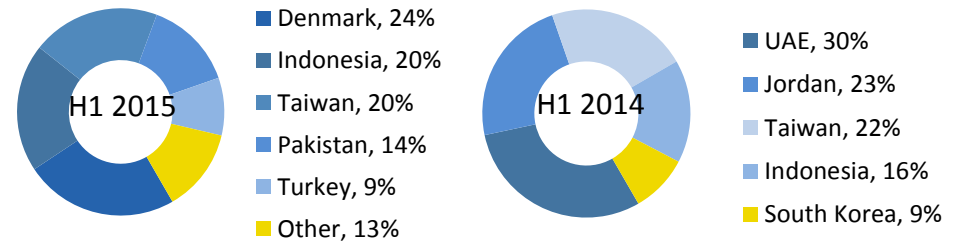
H1 2015 export by region, % of export revenue



Top egg export markets, % of revenue



Top-5 egg product export markets, % of revenue






3. Financial performance

Revenue and EBITDA

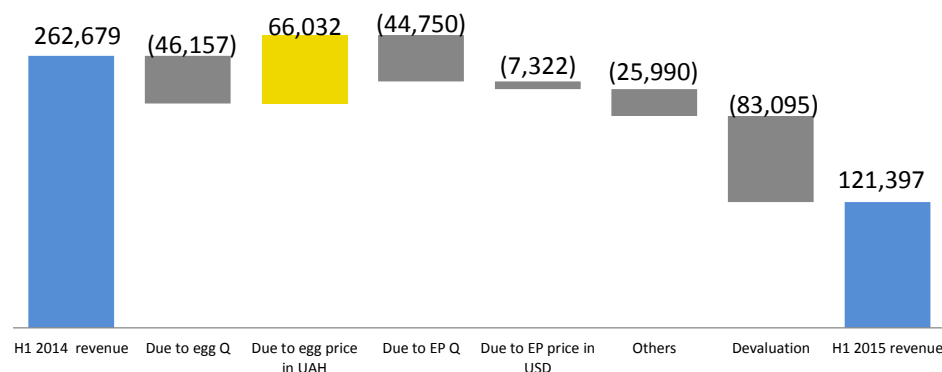
The decline in revenue by 54% YoY was primarily due to:

- 108%YoY devaluation of the Ukrainian Hryvnia against the US dollar
- 29%YoY and 54%YoY decrease in sales of shell eggs and egg products respectively resulting from reduced consumer demand
- Decrease in the average sales price in dollar terms for dry egg products due to the increased sales of cheaper egg products and domestic sales
- Decrease in revenue from the non-core segments "Poultry" and "Other" resulting from the reduction in production volumes
- Decline in the Company's revenue was partially offset by an increase in the average sales price of shell eggs in Ukrainian Hryvnia by 59% YoY
- The average shell egg price in US dollars decreased by 24%YoY to USD0.050/egg.

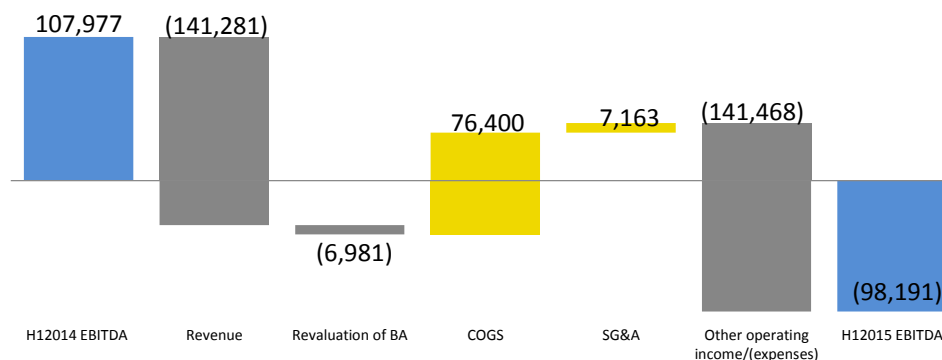
Negative EBITDA of USD98 mn resulted from:

- 54%YoY decrease in revenue mainly as a result of devaluation
- 77%YoY decrease in profit from the revaluation of biological assets due to reduced poultry flock
- Other operating expenses attributed to a USD37.5mn write down of sub-standard raw material inventories and inventories of finished goods with an expired shelf life, USD46.1 mn provisions for doubtful debts as well as loss of USD28.9 mn, which was held at the Financial Initiative bank. The bank has since been declared insolvent by the National Bank of Ukraine and is in administration.

Revenue bridge, USD'000



EBITDA bridge, USD'000



Average FX UAH/USD

2013	2014	Δ	H1 14	H1 15	Δ	Q2 14	Q2 15	Δ	Q1 15	Q2 15	Δ
7.993	11.910	+49%	10.287	21.365	+108%	11.696	21.611	+85%	21.116	21.611	+2%

Source: Company data, NBU

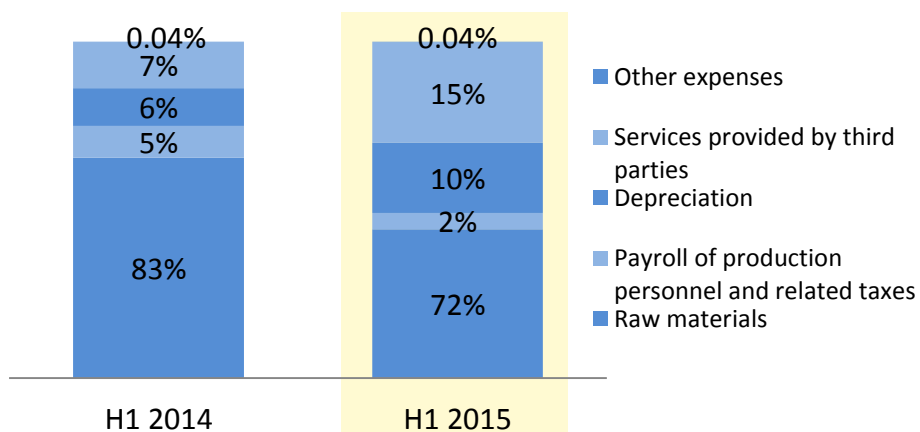
Cost of sales

- Cost of sales in US dollar terms decreased by **39% YoY** as a result of the devaluation of the Ukrainian Hryvnia
- Cost of sales in Hryvnia terms increased as the price of over **70%** of its components (grain, veterinary medicines, and packaging materials) is linked to other major currencies
- The cost of services provided by third parties (utilities, warehouse lease, veterinary services) increased by **33% YoY** due to the devaluation of the Ukrainian Hryvnia against the US dollar and the tariff revision

Cost of sales by elements, USD '000

	H1 2014	H1 2015	%
Raw materials	157,364	83,436	(47%)
Payroll of production personnel and related charges	8,908	2,817	(68%)
Depreciation	10,664	12,086	(13%)
Services provided by third parties	12,994	17,292	33%
Other	80	52	(35%)
Total COGS	190,010	115,683	(39%)

Cost of sales structure, %

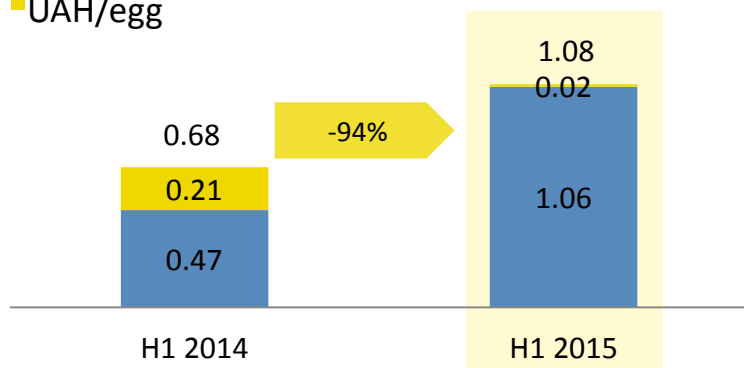


Cost of sales per unit

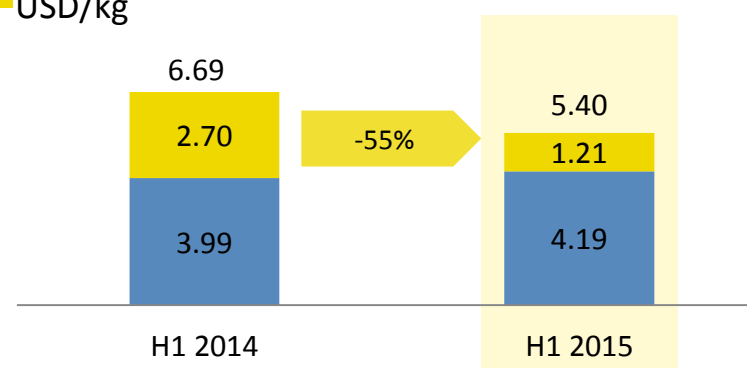
- Cost per egg in the Ukrainian hryvnia increased by **127% YoY** and in US dollars by **9%YoY** due to higher prices for feed and other components, increased cost of imported raw materials and rise in utility rates
- The increase in the average shell egg price in the Ukrainian hryvnia was not sufficient to cover **the increased costs per unit**
- In Q1 2015 the Company sold inventories of its dry egg products produced from shell eggs at the average cost of the previous periods of **UAH0.80/egg**, which lead to a 40%QoQ increase in cost per kg of dry egg products.
- **Decrease in the average sales price of dry egg products** was due to the increased share of sales of cheaper egg products as well as increase in the share of domestic sales
- As a result of the decrease of shell egg and dry egg product gross margins, gross profit decreased by **91%YoY** to USD8 mn
- **Net loss amounted to USD152 mn** and included FX losses of USD32 mn

\$'000	Q1 2015	Q2 2015	%	H1 2014	H1 2015	%
Revenue	72,426	49,248	(32%)	262,680	121,397	(54%)
Average shell egg price, UAH/egg	1.07	1.09	2%	0.68	1.08	59%
Average shell egg price, USD/egg	0.051	0.051	0%	0.066	0.050	(23%)
Average egg products price USD/kg	5.24	5.67	8%	6.69	5.40	(19%)
Cost of sales						
Cost per egg, UAH/egg	1.01	1.15	14%	0.47	1.06	127%
Cost per egg, USD/egg	0.048	0.053	11%	0.046	0.050	9%
Cost per egg products, USD/kg	3.59	5.03	40%	3.99	4.19	5%
Gross profit	14,609	(6,847) *	-	80,797	7,512	(91%)
Net Profit/(Loss)	(52,179)	(99,821)*	-	51,991	(152,432)	-

Average shell egg gross margin, UAH/egg



Average dry egg product gross margin, USD/kg



* Recalculated at UAH/USD average rate for the quarter, see sl.12

Breakdown of cost of sales for shell eggs

Breakdown of cost of sales for shell eggs, UAH/egg

	Q1 2015	Q2 2015	%
Feed*	0.74	0.80	8%
<i>Grains</i>	0.15	0.16	7%
<i>Oils</i>	0.43	0.47	9%
<i>Other</i>	0.15	0.18	20%
Labor	0.04	0.05	25%
Depreciation	0.03	0.03	0%
Packing, veterinary medicines	0.08	0.09	13%
Other	0.12	0.19	58%
Total	1.01	1.15	14%

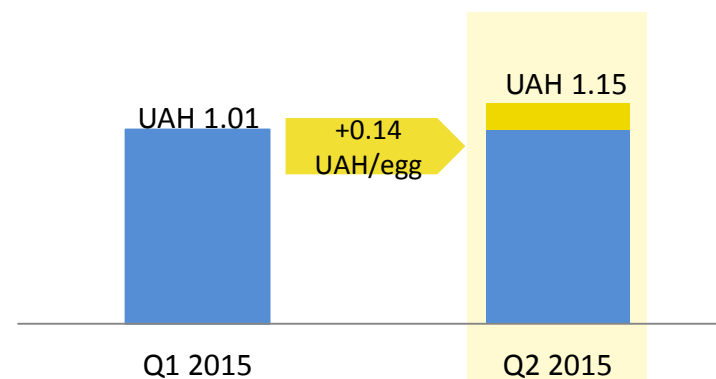
Cost of sales for shell eggs grew by 14%QoQ or by UAH 0.14/egg due to the Hryvnia devaluation against major currencies:

- UAH 0.06/egg increase in feed costs as price of its components directly tied to global commodity prices in US dollars as well as an increase in cost of imported pre-mixes
- UAH 0.01/egg increase in cost of packing materials and veterinary medicines (mainly imported)
- UAH 0.07/egg increase in other expenses resulting from growth in utility costs in Ukraine, increase in gas, oil and transportation costs

Price of feed components, UAH/tonne

	Q1 2015			Q2 2015		
	Avangard	Market	%	Avangard	Market	%
Feed	5,924	6,219**	(5%)	6,438	6,631**	(3%)
<i>Grains</i>	2,441	2,604	(6%)	2,559	2,583	(1%)
<i>Oils</i>	7,754	8,232	(6%)	8,122	8,515	(5%)
<i>Other</i>	24,824			28,932		

Shell egg cost of sales, UAH/egg



*In volume terms average receipt of feed consists of grains (50%), oils (41%) and others (9%)

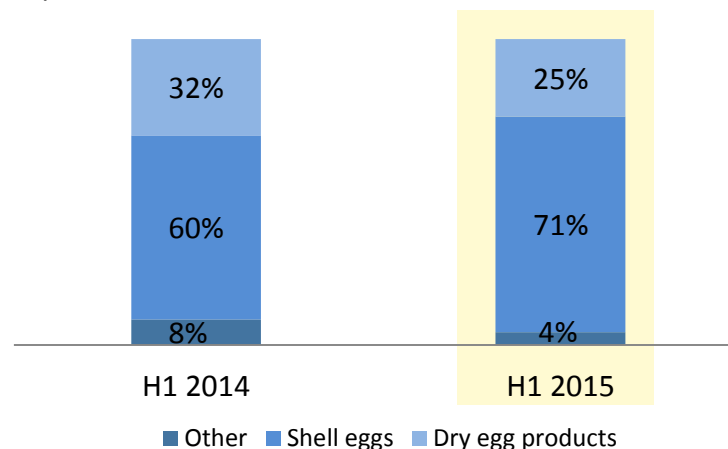
** Average receipt, volume terms

Source: Company data, APK inform

Key segment results

- Two main segments of shell eggs and dry egg products contributed to **96% of consolidated revenue**
- Revenue in the shell egg segment decreased by **46%YoY** mainly as a result of the devaluation of the Ukrainian Hryvnia against the US dollar, as approximately 79% of its revenue comes from domestic sales
- Revenue in the dry egg products segment decreased by **63%YoY** as a result of a decrease in sales and average sales price of dry egg products
- Following the changes in the sales strategy for the dry egg products, the share of revenue generated by the segment decreased to **25%**

Sales revenue structure by segment, %



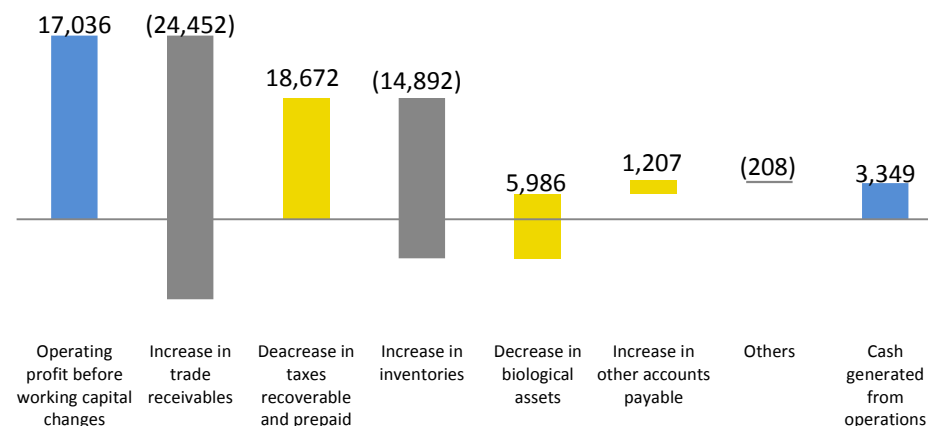
USD '000	Shell eggs			Egg products			Consolidated		
	H1 2014	H1 2015	%	H1 2014	H1 2015	%	H1 2014	H1 2015	%
Revenue	158,058	85,675	(46%)	82,797	30,726	(63%)	262,680	121,397	(54%)
Export sales, %	22%	21%		81%	86%		39%	36%	
Revenue contribution, %	60%	71%		32%	25%		100%		
Gross profit	46,083	820	(98%)	33,414	6,875	(79%)	80,797	7,512	(91%)
Gross profit contribution, %	57%	11%		41%	92%		100%		
Gross profit margin, %	29%	1%		40%	22%		31%	6%	

Working capital and cash flow

Changes in net working capital of USD12 mn:

- Increase in trade receivables due to extended turnover period to up to 120 days from H2 2014 to account for the challenging economic situation
- Decrease in export VAT reimbursement due to declining exports
- Decrease in biological assets due to a 48%YoY reduction in poultry flock

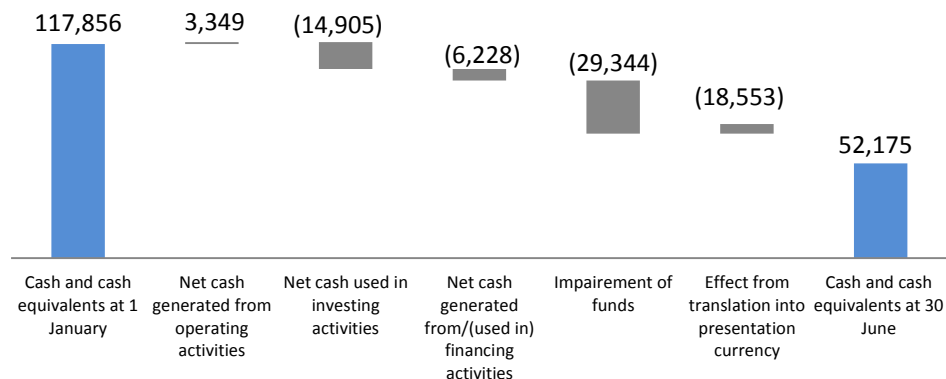
Operating profit before NWC* to net cash from operations bridge, USD'000



Cash and cash equivalents:

- Cash and cash equivalents decreased to USD52 mn as cash outflow from financing and investing activities exceeded the funds inflow from operating activities.
- Loss of USD29 mn on the accounts held in the bank Financial Initiative
- Most of cash and cash equivalents are held on the accounts in the European banks

Cash flow, USD'000



*Net working capital

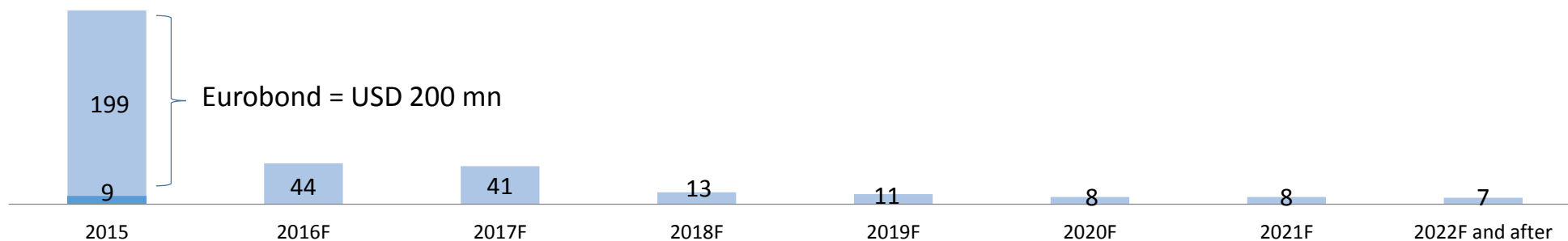
Debt structure

- As at 30 June, 2015 total debt amounted to **USD340 mn**, net debt of **USD288 mn**
- The **Eurobond issue** with a maturity date of 29 October 2015 amounted to **59%** of the total debt
- Loan portfolio structure:
 - USD – 73%
 - EUR – 26%
 - UAH – 1%

Debt structure

USD '000	31.12.2014	30.06.2015
Total Debt	343,757	340,249
Long-term loans	79,844	72,759
Current portion of long-term debt	15,190	17,983
Long-term bond liability	0	0
Long-term finance lease (incl. VAT)	88	64
Short-term bond liability	198,635	199,443
Short-term loans	50,000	50,000
Cash and cash equivalents	117,856	52,175
Net Debt	225,901	288,074

Loan portfolio servicing schedule, USD mn*



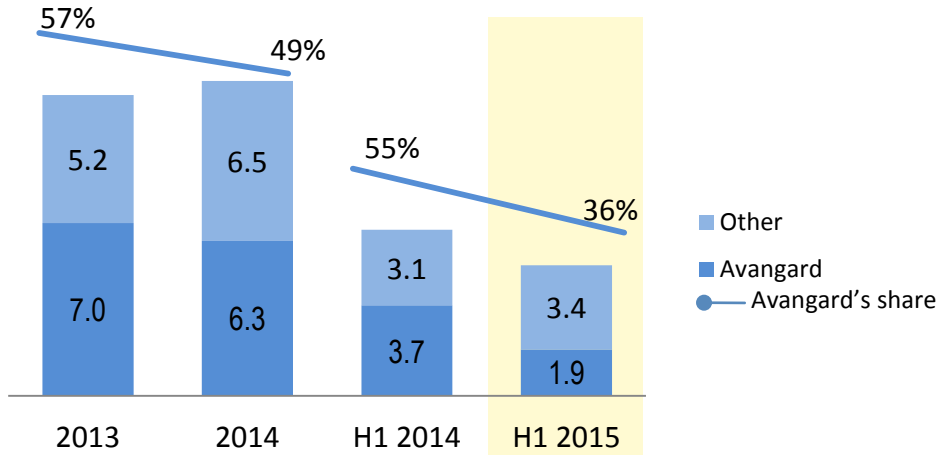
*Excluding interest



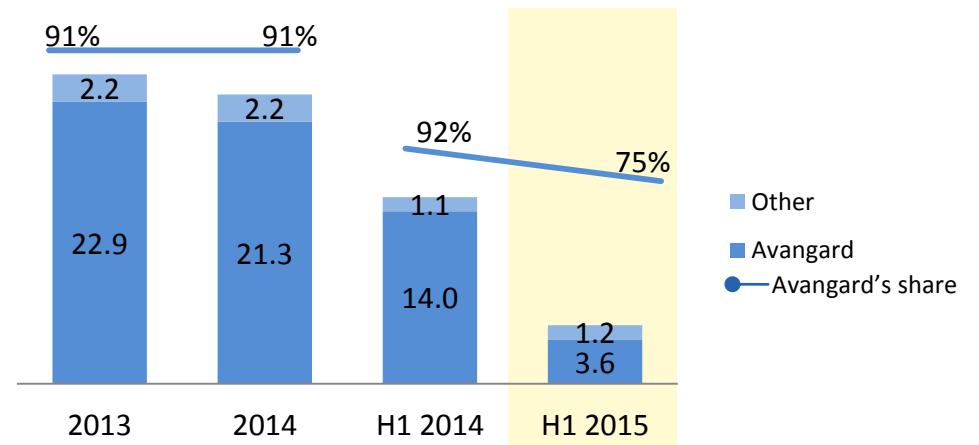
Appendix

Industry leader in Ukraine

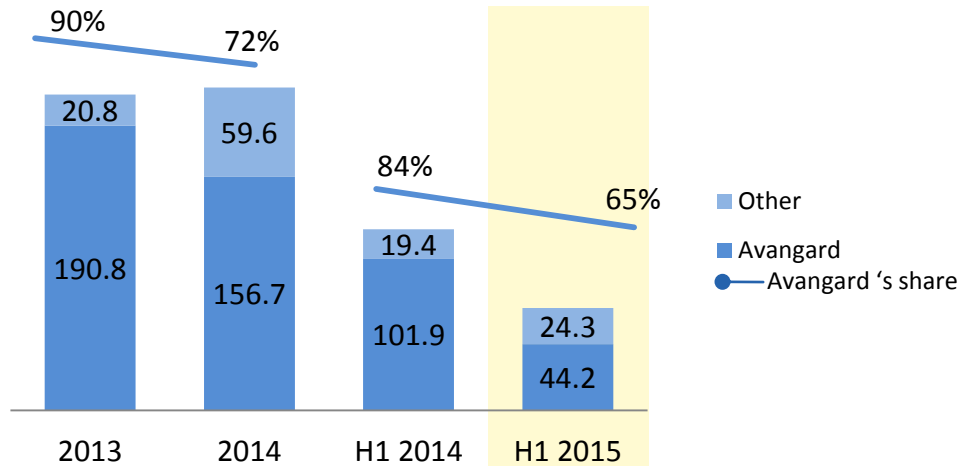
Industrial production of shell eggs, bn pcs



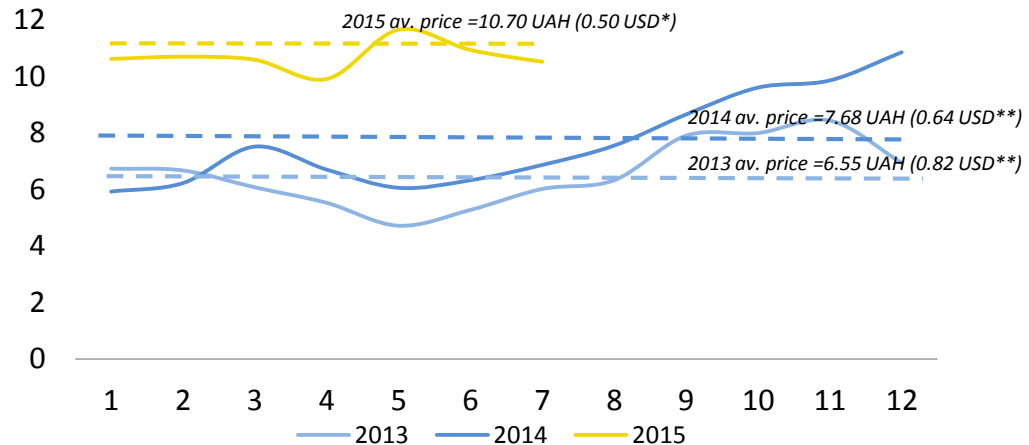
Industrial production of dry egg products, th tonnes



Export of shell eggs and egg products from Ukraine, USD mn



Egg price in Ukraine, UAH / 10 eggs



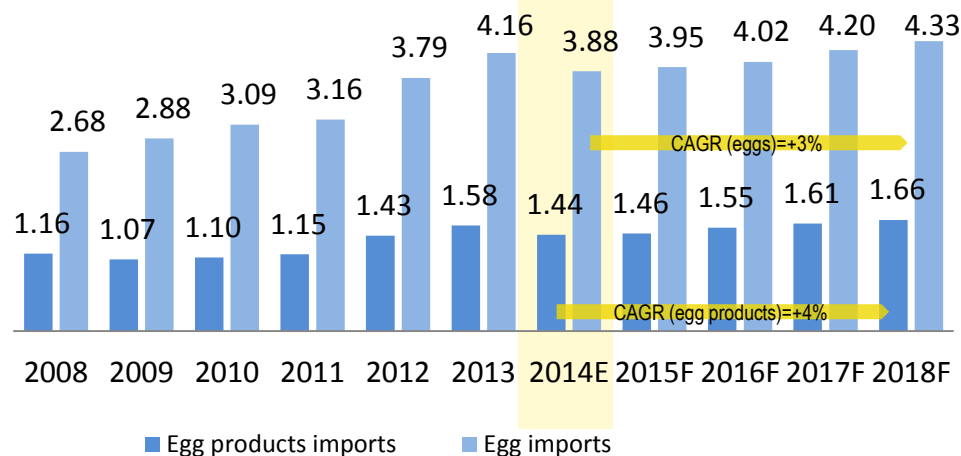
Source: Pro-Consulting, Company data

* Recalculated at UAH/USD average rate for the period at 21.42

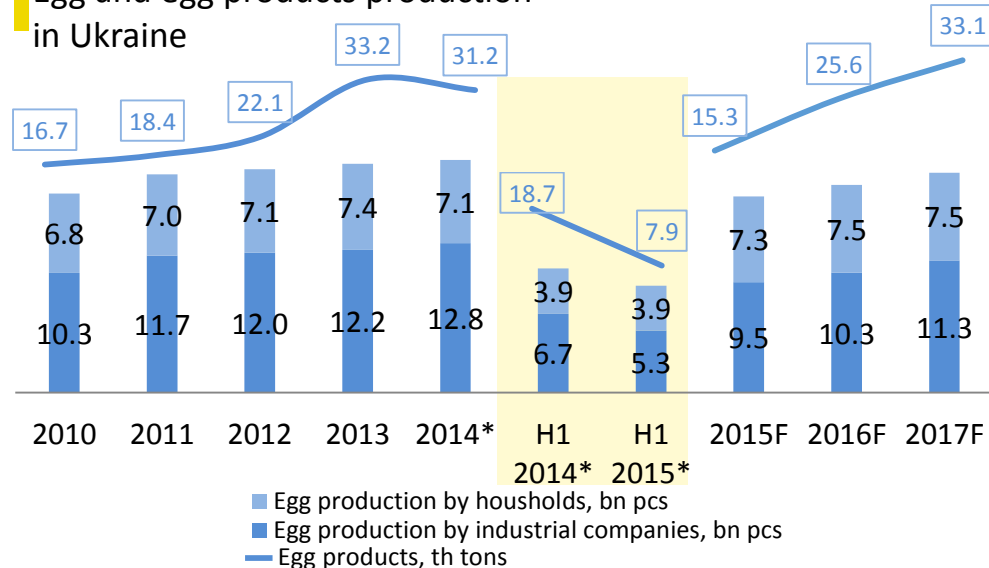
** Recalculated at UAH/USD average rate for the quarter, see sl.12

Growth potential for eggs and dry egg products

World imports of eggs and egg products, USD bn

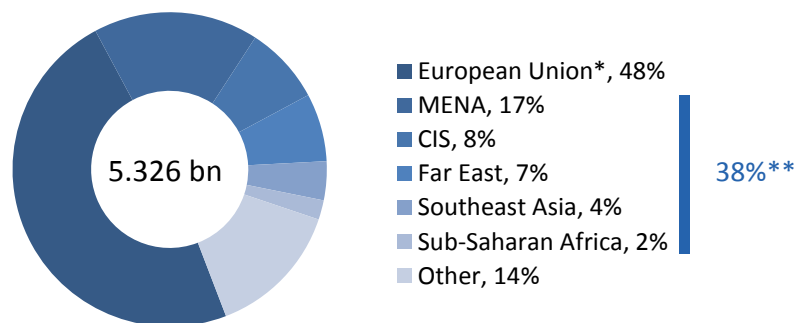


Egg and egg products production in Ukraine



*Ukraine excl. Crimea

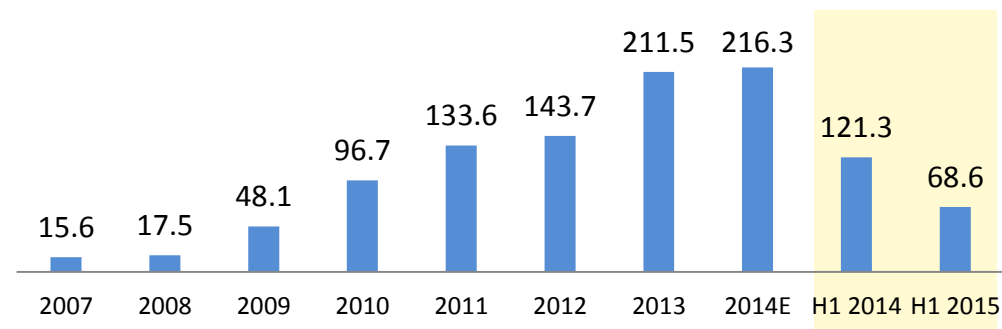
Breakdown of world imports of eggs and egg products in 2014E, USD mn



* Share of EU imports from non-EU countries is 4%

** Key destinations for Avangard export

Export of eggs and egg products from Ukraine, USD mn



Source: SSCU, International Trade Center, European Commission, Pro-Consulting, Company data

Balance Sheet

\$'000	2014	H1 2015	%
NON-CURRENT ASSETS	622,035	467,356	(25%)
Property, plant and equipment	579,922	440,065	
Non-current biological assets	21,637	10,782	
Deferred tax assets	2,489	4,440	
Held to maturity investments	17,959	12,048	
Other non-current assets	28	21	
CURRENT ASSETS	416,292	221,138	(47%)
Inventories	115,896	64,030	
Current biological assets	28,228	22,590	
Trade accounts receivable, net	79,221	55,172	
Prepaid income tax	48	64	
Prepayments and other current assets, net	29,094	9,133	
Taxes recoverable and prepaid	45,949	17,974	
Cash and cash equivalents	117,856	52,175	
TOTAL ASSETS	1,038,327	688,494	(34%)
TOTAL EQUITY	645,888	300,820	(53%)
NON-CURRENT LIABILITIES	82,178	74,454	(9%)
CURRENT LIABILITIES	310,261	313,220	(1%)
Short-term bond liabilities	198,635	199,443	
Current portion of non-current liabilities	15,368	18,115	
Short-term loans	50,000	50,000	
Trade accounts payable	6,907	4,599	
Other payables	39,351	41,063	
TOTAL LIABILITIES	392,439	387,674	(1%)
TOTAL EQUITY AND LIABILITIES	1,038,327	688,494	(34%)
NET DEBT at the date	225,901	288,074	28%

Income Statement

\$'000	2014	H1 2014	H1 2015	YoY %
REVENUE	419,618	262,680	121,397	(54%)
Income from revaluation of biological assets at fair value	15,364	9,049	2,068	
Cost of sales	(314,001)	(190,932)	(115,953)	
GROSS PROFIT	120,981	80,797	7,512	(91%)
General administrative expenses	(10,772)	(6,907)	(3,188)	
Distribution expenses	(20,532)	(10,798)	(7,187)	
Income from government grants and incentives	218	118	48	
Impairment of non current assets	(23,589)	-	-	
Income from special VAT treatment	36,490	33,341	4,575	
Other operating income/expenses, net	18,680	425	(112,206)	
OPERATING PROFIT/(LOSS)	84,116	96,976	(110,446)	-
Financial income	3,176	83	2,121	
Financial expenses	(44,101)	(16,651)	(14,908)	
Gains/(losses) on exchange	(71,284)	(29,027)	(31,717)	
PROFIT BEFORE TAX	(28,093)	51,381	(154,950)	-
Income tax credit	1,175	610	2,518	
PROFIT/(LOSS) FOR THE PERIOD	(26,918)	51,991	(152,432)	-
EBITDA	129,497	107,978	(98,191)	
EBITDA margin	31%	41%	-	

Cash Flow Statement

\$'000	H1 2014	H1 2015
PROFIT BEFORE INCOME TAX	51,381	(154,950)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	102,492	17,036
(Increase)/decrease in net working capital	8,761	(11,758)
Interest paid	(5,005)	(1,884)
Income tax paid	(41)	(45)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	106,207	3,349
Purchases of PP&E	(33,686)	(16,092)
Interest received	83	1,187
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	(33,603)	(14,905)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	12,131	(6,228)
NET INCREASE/(DECREASE) IN CASH	84,735	(17,784)
Cash at the beginning of the year	156,804	117,856
Impairment of funds	-	(29,344)
Effects of translation into presentation currency	(5,459)	(18,553)
Cash at the end of the period	236,080	52,175