

Letter from CEO



Iryna Marchenko
CEO,
Board member

Dear Shareholders,

AVANGARDCO IPL is in the midst of the most difficult time in its history, as it faces a number of challenges in the domestic and global markets, such as reduced consumer demand and lower price for its products due to the unfavourable exchange rates between the Ukrainian Hryvnia and other major currencies. AVANGARDCO IPL therefore had to adjust its production processes to help minimise the impact on the Company's assets and its financials and make them more streamlined for domestic and global demand.

AVANGARDCO IPL continues to be one of the world's largest producers of shell eggs and dry egg products. We remain a leading exporter of these products from Ukraine with a diverse global client portfolio. Vertical integration of the business and its modern production infrastructure place the Company in a strong position to return to profitability and bring its performance to pre-crisis levels once the situation in Ukraine starts to stabilise.

Outlook for H2 2015

In light of the continuing political and economic uncertainty in Ukraine and the reduction in demand for shell eggs in the domestic market, the Company has a conservative outlook for H2 2015 and expects to maintain production and sales at the current level. We expect a partial recovery in demand from late summer due to the seasonal decline in household production; the shell egg price in Ukrainian Hryvnia will continue to rise. The main priority for the next six months is to ensure the profitability and liquidity of the Company in the current volatile operating environment through optimisation of production costs and diversification of sales

Press-Releases-

[17.09.2015] - [Results of AGM](#)
 [28.08.2015] - [Financial Results for the First Half of 2015](#)
 [26.08.2015] - [Notification of First Half 2015 Financial Results and Conference Call](#)
 [24.08.2015] - [AGM Notification](#)
 [29.05.2015] - [Financial Results for the First Quarter of 2015](#)
 [27.05.2015] - [Notification of First Quarter 2015 Financial Results and Conference Call](#)
 [30.04.2015] - [2014 Annual Report Publication](#)
 [29.04.2015] - [AVANGARDCO IPL Makes USD 10 Million Coupon Payment on its Eurobonds](#)
 [31.03.2015] - [Audited Financial Results for 2014](#)
 [27.03.2015] - [Notification of Full Year 2014 Financial Results and Call](#)
 [05.02.2015] - [Notice of EGM](#)
 [29.01.2015] - [Update on Declaration of Dividend Distribution](#)

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Business Description -

Industry leader:

- 36% share in the industrial production of shell eggs in Ukraine
- 75% share in the production of dry egg products in Ukraine
- 65% share in 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 sales channels:

- 36% of the consolidated revenue derived from export
- Export sales to 37 countries
- Main export destinations: MENA, the Far East, the CIS, the EU
- New markets of Bangladesh and the UK
- Shell egg sales to supermarket chains increased to 39% of the total sales to third parties

Macroeconomics: key metrics

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

*Weighted average for the period
 Source: SSCU, the Company data

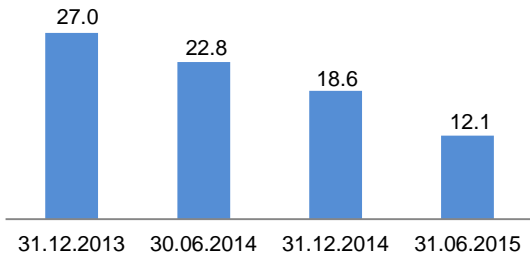
Poultry Flock Management

Available capacity for laying hens declined from 30.1 mn to 21.7 mn:

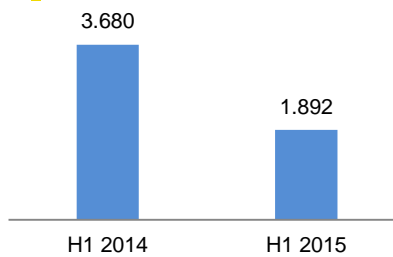
- Suspension of operations and asset impairment of the laying farms in Crimea and the military conflict zone in Eastern Ukraine: Yuzhnaya-Holding, Ptytsecomplex, Chervonyi Prapor, Interbusiness with a total capacity of 3.7 mn hens
- Suspension of operations at the laying farms close to the conflict zone: Volnovaska, Donetsk, 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

Production Results

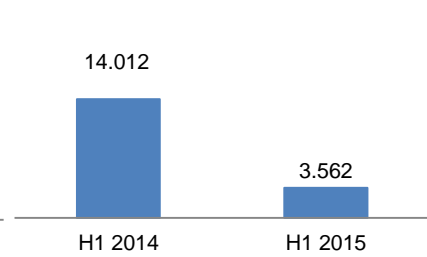
Total number of laying hens, mn heads



Production of shell eggs, bn pcs

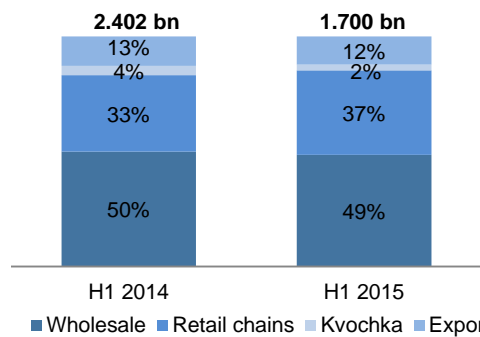


Production of egg products, th tonnes

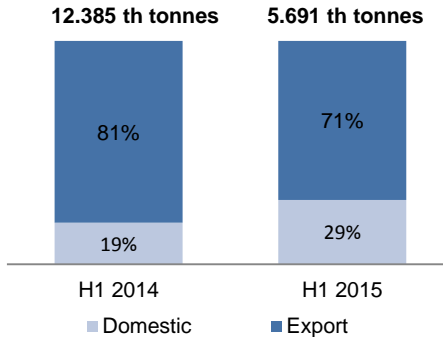


Diversified Sales Structure

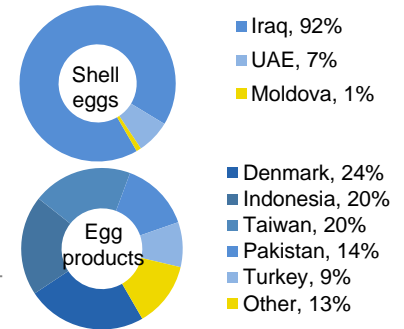
Sales of shell eggs to third parties by volume, %



Sales of dry egg product by volume, %



Top-5 export markets, % of revenue



Financial Results

\$'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)	-

- Consolidated revenue decreased by **54% YoY** due to the sharp devaluation of the Ukrainian Hryvnia against the US dollar and a 29%YoY and 54%YoY reduction in sales volumes of shell eggs and egg products respectively, as well as a 19%YoY decrease in the average sales price of dry egg products in dollar terms
- 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**
- 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

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%

Reasons to invest

- The largest producer of shell eggs and dry egg products in Ukraine and number one producer in Europe
- Vertically integrated business model ensures effective cost control
- Production facilities situated across all Ukraine improving logistics and access to customers
- Economies on scale support competitiveness on domestic and foreign markets
- High quality and diversified customer base and export to 37 countries
- State of the art poultry complexes Avis and Chornobaivske with total production capacity of 3.5 bn eggs and 11.2 mn laying hens
- Technologically-advanced egg processing plant Imperovo Foods with a processing capacity of 6 mn eggs per day
- Employment of high level of biosecurity standards
- Experienced management team and adherence to the best standards of corporate governance

Securities Information

GDR/ADR's

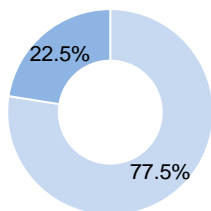
Ticker	AVGR
Stock Exchange	LSE
Deal Size	1,437,500 new ordinary shares in the form of GDRs
Use of Proceeds	Finalization of new capacity expansion programs
Proceeds	US\$ 208 mn
Offer Price	US\$15.0 per GDR

Bonds

Format	Reg S
Amount	US\$200 mn
Maturity	29 October 2015
Coupon	10%, payable semi-annually in arrears on 29 Apr and Oct
Listing	LSE

Shareholder Structure -

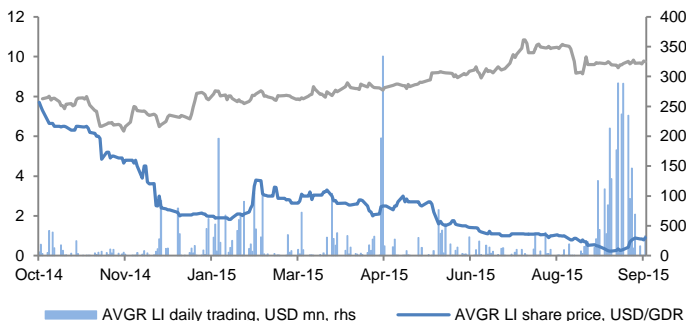
Share Capital Structure



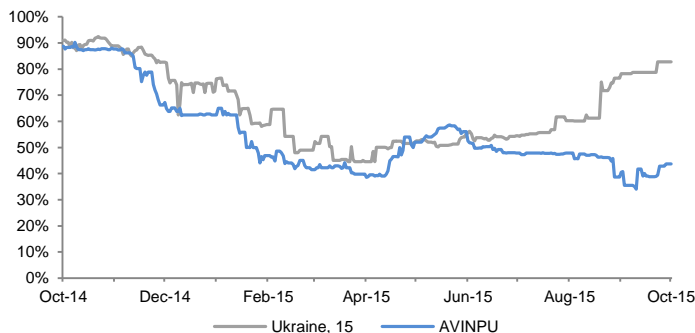
■ Ukrlandfarming PLC ■ Free Float



GDR Performance -

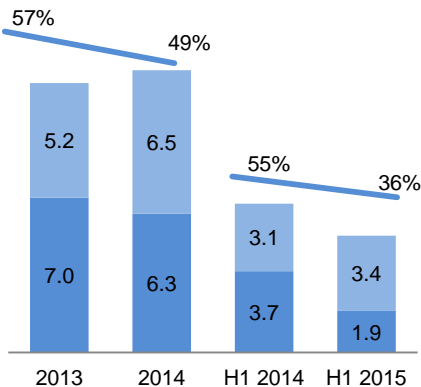


Bond Price -

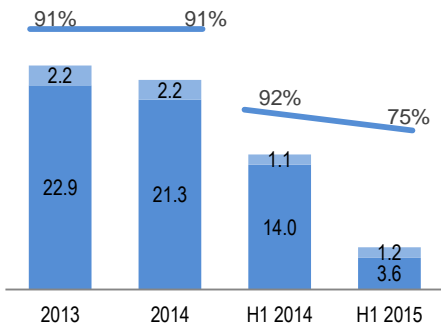


Industry Leader in Ukraine

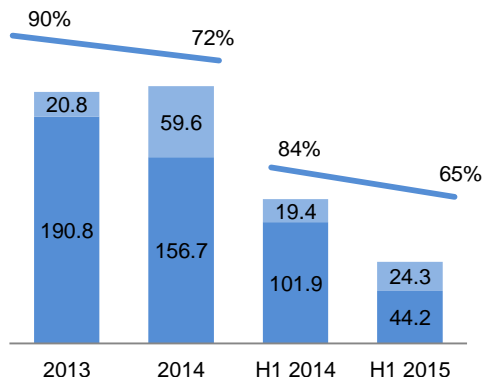
Industrial production of shell eggs, bn pcs



Industrial production of dry egg products, th tonnes



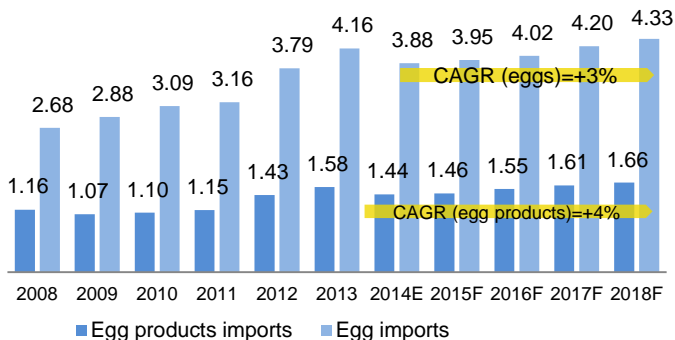
Export of shell eggs and egg products from Ukraine, USD mn



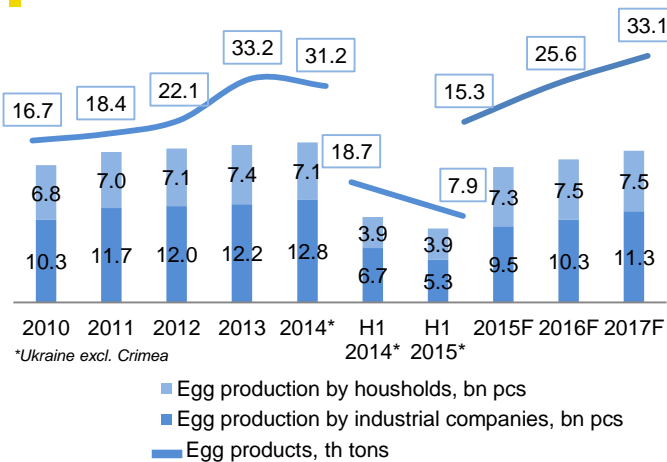
■ Avangard ■ Other ● Avangard's share

Growth potential for eggs and dry egg products

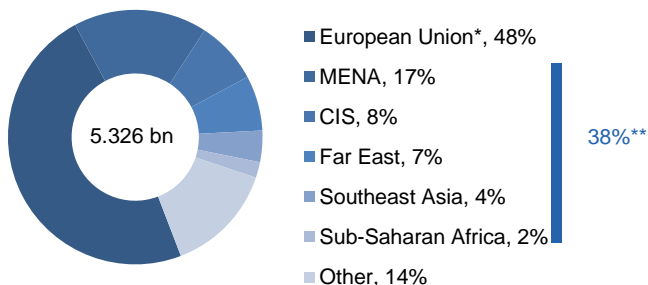
World imports of eggs and egg products, USD bn



Egg and egg products production in Ukraine



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

