

Letter from CEO



Iryna Marchenko
CEO,
Board member

Dear Investor,

In 2014, Ukraine faced the hardest political and economic challenges in the history of its independence. This had an inevitable impact on the financial performance of the Ukrainian business, and in particular, on AVANGARDCO IPL, which operates its assets throughout Ukraine and is the leader in the egg industry.

As 63% of the Company's revenue comes from sales of products in Ukraine, the devaluation of the Ukrainian hryvnia against the US dollar negatively impacted the Company's profitability in dollar terms, and led to significant FX losses.

For the first time since its inception, in 2014 the Company incurred a loss of US\$27 million, while the production of shell eggs and dry egg products declined. This was a result of the suspension of operations at its poultry farms in Crimea and Eastern Ukraine and the impairment of these assets as well as reducing capacity of poultry farms close to the conflict zone. Conversely, the utilisation rate of new, more efficient poultry farms "Avis" and "Chornobaivske" is 92% and 86%, respectively. Despite the decrease in production volumes, the Company continues to broaden the distribution methods for its products.

In 2014, the share of sales of shell eggs to supermarket chains increased, as did export sales, with plans to continue to expand AVANGARDCO IPL's customer base further across retail and export channels. In the dry egg products segment the Company changed its inventory management strategy and now produces only pre-contracted volumes. At the same time, the military conflict in the Middle East had a negative impact on export sales in the segment. To reduce its risk in this area, the Company will look to diversify its export channels, targeting increasing sales of dry egg products in Africa, Asia and Oceania. In 2014, we opened new sales routes for dry egg products to the EU and Panama.

AVANGARDCO IPL continues to be the biggest producer of shell eggs and dry egg products in Ukraine and Europe, providing its customers with products of the highest quality. Whilst the conflict in Ukraine continues, the Company's management is taking all reasonable and necessary measures to maximise operational efficiency and support financial stability.

Press-releases



- [31.03.2015] - [Audited financial results for 2014](#)
- [27.03.2015] - [Notification of full year 2014 financial results and conference call](#)
- [05.02.2015] - [Notice of EGM](#)
- [29.01.2015] - [Update on Declaration of Dividend Distribution](#)
- [28.11.2014] - [Financial results for the 9 months of 2014](#)
- [25.11.2014] - [Notification of 9 months 2014 results and conference call](#)
- [29.10.2014] - [the 8th USD 10 million coupon payments on its Eurobonds](#)
- [24.10.2014] - [Operational results for the 9 months of 2014](#)
- [01.10.2014] - [Results of AGM](#)
- [30.09.2014] - [Imperovo Foods receives EU approval to export egg products](#)
- [09.09.2014] - [AGM Notification](#)
- [29.08.2014] - [Financial results for the 1st half of 2014](#)
- [27.08.2014] - [Notification of 1st half 2014 financial results and conference call](#)
- [19.08.2014] - [AVANGARDCO IPL poultry farm in the Crimea to be purchased by compulsory order](#)
- [08.08.2014] - [TRADING UPDATE FOR THE FIRST HALF OF 2014](#)
- [18.07.2014] - [Avangardco suspends production at Vyhlehirskiy feed mill after occupation](#)
- [23.05.2014] - [Financial and operational results for the 1st quarter of 2014](#)
- [22.05.2014] - [Notification of 1st quarter 2014 financial and operational results and conference call](#)
- [30.04.2014] - [2013 Annual Report Publication](#)
- [29.04.2014] - [the 7th USD 10 million coupon payments on its Eurobonds](#)
- [11.04.2014] - [Audited financial results for 2013](#)
- [07.04.2014] - [Notification of full year 2013 financial results and conference call](#)
- [12.02.2014] - [2013 full year trading update](#)

Company news

- [18.08.2014] - [Avangardco receives Kosher certificate for its shell eggs and dry egg products](#)
- [28.07.2014] - [AVANGARDCO IPL wins second place in annual reports competition](#)
- [31.01.2014] - [AVANGARDCO IPL's website ranks among the top IR-websites in Ukraine](#)

GDR's & Bond's Performance

Detailed information about GDR's and Bond's performance could be viewed at the related sections of the Company's web site. [\[GDR'S\]](#) [\[BOND'S\]](#)

Egg and Egg Products – Key Charts

- [World & Ukraine Egg Market Trends – Key Charts – at pages 4 and 5](#)

Source: SSCU, NBU, Pro-Consulting, Company data

Key business highlights in 2014

Macroeconomics – key metrics

- GDP – \$134.9 bn* (decrease by 24% YoY)
 - Inflation – 12.1% (2013: -0.3%)
 - Currency devaluation:
 - ✓ UAH/USD: average 49%;
 - ✓ UAH/EUR: average 48%
 - Refinancing rate:
 - ✓ 13.11.2014 – 14.00%
 - ✓ 17.07.2014 – 12.50%
 - ✓ 15.04.2014 – 9.50%
 - ✓ 31.12.2013 – 6.50
 - Agriculture remains key economic driver (10% of GDP in 2013, 9% in 2012) with growth about 3% in 2014 due to crop production increasing by 3.1% against 2013.
 - Harvest reached record level – 64 mn tonnes of crops
- * Estimated by the World bank

Industry update

- Reduced demand for consumer goods due to decline in population's living standards
- Partial loss of market for products in the Crimea, Lugansk and Donetsk regions (Crimea totalled up to 5% of Ukrainian consumer market and Donbass and Lugansk regions amounted to 15%)
- Growth in power of households on shell eggs market in Ukraine
- Decelerating the increase in egg prices as a basic consumer goods due to the limited ability of producers to raise prices in proportion to cost inflation

Avangardco's business – key metrics

Avangardco IPL's core business remains strong:

- Industry leader in Ukraine and one of the leading producers globally:
 - ✓ 49% share in the industrial production of shell eggs (57% in 2013)
 - ✓ 91% share in the production of dry egg products (91% in 2013)
 - ✓ 72% share in export of eggs and dry egg products in Ukraine (90% in 2013)
- **Diversification of sales channels** by increasing share of export and retail chains:
 - ✓ export constituted 37% of the Company's total revenue
 - ✓ Company exported to 35 countries, including new markets. Main export destinations: MENA, Asia, SSA and the CIS.
 - ✓ increase in share of retail sales with the five-fold increase in the sales of packaged eggs "Kvochka" to 200 mn pieces vs 2013
- Production of **high quality products**:
 - ✓ on September 30, 2014 the "Imperovo Foods" egg processing plant received an EU certificate for the export of its egg products and made the first shipment to the EU
 - ✓ on August 18, 2014 the Company received Kosher certification of its shell eggs and egg products

Business outlook for 2014:

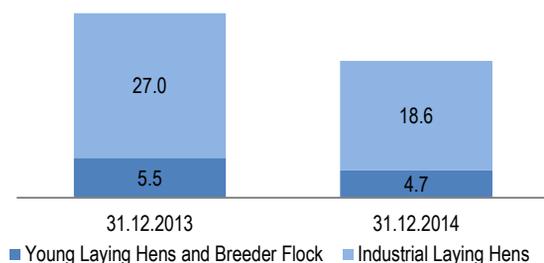
The current situation in Ukraine directly and indirectly influences business activities in the country. Based on uncertainty surrounding developments in the military conflict, the Company is preparing for a number of different scenarios of its activities. The Company's current focus is the preservation of its operational assets, retaining its domestic market share and expanding its presence in foreign markets. The Company remains committed to fulfilling its financial obligations.

In 2015, the Company is not planning to increase its number of laying hens, due to the limitations in the use of its facilities resulting from the military conflict in Eastern Ukraine and the annexation of the Autonomous Republic of Crimea. Accordingly, it is expected that the production of shell eggs and dry egg products will decrease. The average sales price for shell eggs is likely to continue to grow due to the increased cost of sales and inflation. The average sales price for dry egg products is expected to remain flat year-on-year.

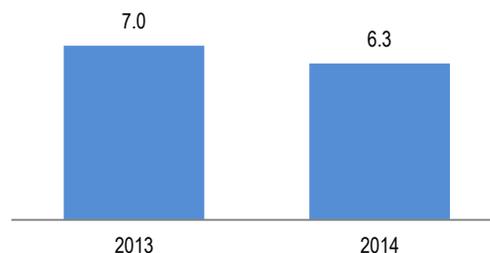
The Company's management team will restart production in Eastern Ukraine and introduce its assets back into the operating cycle as soon as the conflict is resolved

Production Results – Key Charts

Total flock, mn heads



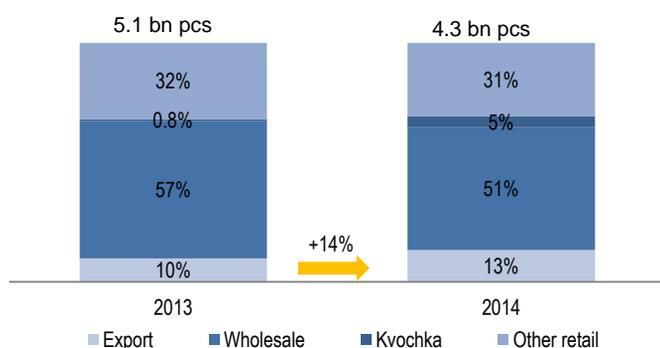
Eggs output, bn pcs



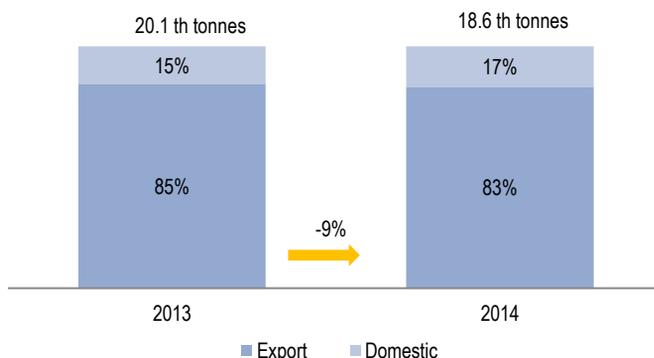
Diversified sales structure

Source: Company data

Eggs sales to third parties by volume, %



Egg products sales by volume, %



Financial Results – Key Figures

\$'000	2013	2014	change, %
Revenue	661,202	419,618	(37%)
Average shell egg price, UAH/egg	0.69	0.77	12%
Average shell egg price, USD/egg	0.086	0.065	(24%)
Average egg products price USD/kg	7.64	6.29	(18%)
Cost of sales	(429,695)	(314,001)	(27%)
Cost per egg, UAH/egg	0.42	0.55	31%
Cost per egg, USD/egg	0.053	0.047	(11%)
Cost per egg products, USD/kg	4.57	4.12	(10%)
Gross profit	266,665	120,981	(55%)
Net Profit/Loss	238,084	(26,918)	(111%)
EBITDA	303,616	129,497	(57%)
EBITDA margin	46%	31%	

- the decrease in the consolidated revenue was primarily due to the Ukrainian hryvnia devaluation against the US dollar by 49% in 2014, decrease in sales volumes of eggs and egg products as well as the decline in the sales price of dry egg products by 18% YoY. However, the average sales price of shell eggs in the Ukrainian hryvnia increased by 12% YoY to 0.77 UAH per unit (excl. VAT), the national currency devaluation offset this positive effect on financial result. The increase in export sales of shell eggs coupled with growth of sales to retail chains has partially offset the decline in the Company's consolidated revenue;

- the influence of the devaluation factor resulted to decrease in total cost of sales in the US Dollars by 27%, cost per egg by 11% and cost per egg product by 10%, however the cost per egg in the Ukrainian hryvnia increased by 31% due to higher fodder prices and other components;

- net loss includes a one-off impairment charge on assets in Crimea and Eastern Ukraine with write-off of trade accounts receivables and inventories of these facilities, reserves on doubtful debts and other of US\$42.3 mn, losses on foreign exchange of US\$71.3 mn and other

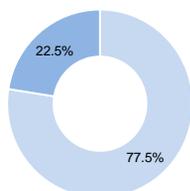
1Q13	1Q14	Δ	2Q13	2Q14	Δ	3Q13	3Q14	Δ	4Q13	4Q14	Δ	2013	2014	Δ
7.993	8.863	+11%	7.993	11.696	+46%	7.993	12.577	+57%	7.993	14.434	+81%	7.993	11.910	+49%

Why to Invest in Avangard

- #1 eggs producer in Eurasia by poultry flock*
- #1 in Ukraine: 49% share in the industrial production of shell eggs in 2014; 91% share in the production of dry egg products in 2014
- Vertical integration ensures effective cost control
- State-of-the-art poultry facilities with production facility to 30.1 mn laying hens and 8.2 bn eggs per year
- Eggs processing plant Imperovo with processing capacity of 6 mn eggs per day
- Export to 35 markets during 2009-2014
- Received permission to export to EU

* by World Poultry Magazine

Shareholder Structure -



Uklandfarming PLC Free Float



- In September 2011, with the goal to restructure and rationalize his ownership in agricultural assets Mr. Bakhmatyuk made a decision to transfer his 77.5% shareholding in Avangardco IPL to Uklandfarming PLC.

GDR's Performance -



Securities - General Information

GDR's\ADR's	
Receipts outstanding, as of 30/06/11, pcs.	1,437,500
Avg trading volume per day, in H1 2011 pcs.	67,334
Market Cap as of 30/06/11, \$mln	1,067
Free float, %	22.5

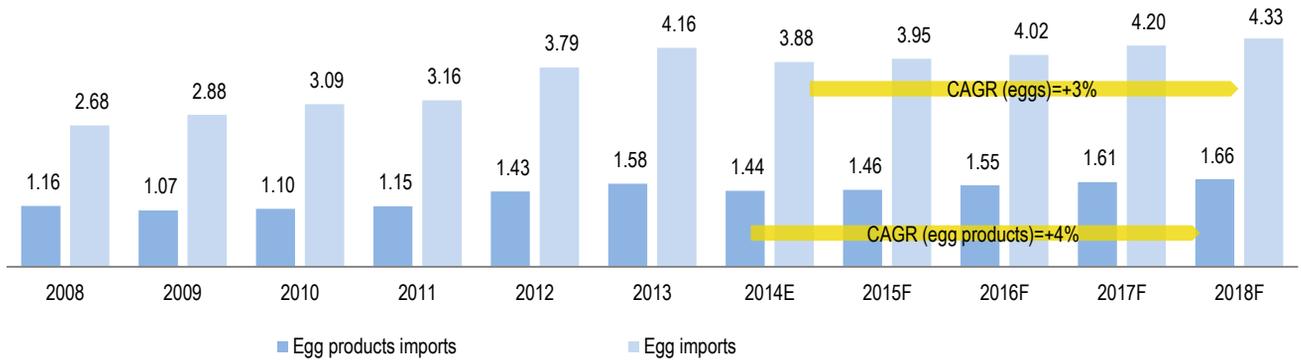
GDR\ADR's		Bonds	
Ticker	AVGR	Format	Reg S
Stock Exchange	LSE	Amount, \$ mln	200
Deal Size	1,437,500 new ordinary shares in the form of GDRs	Maturity	29 October 2015
Use of Proceeds	Finalization of new capacity expansion programs	Coupon	10%, payable semi-annually in arrears on 29 Apr and Oct commencing on 29 Apr 2011
Proceeds	USD 208 m	Listing	LSE
Offer Price	\$15.0 per GDR	Issue Rating	B (Fitch Ratings)

Bond's Performance -

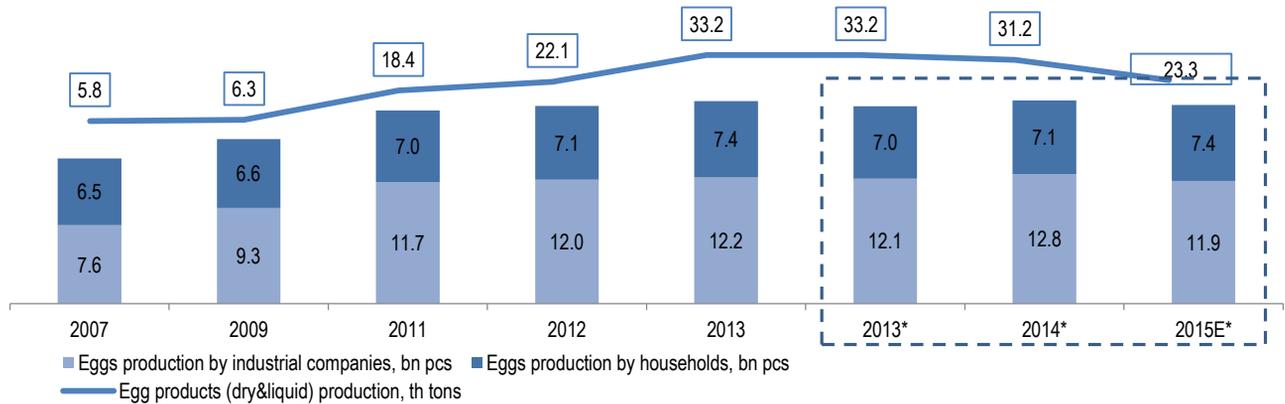


World Egg Market Trends – Key Charts

World Imports of Eggs and Eggs Products, US\$ mln

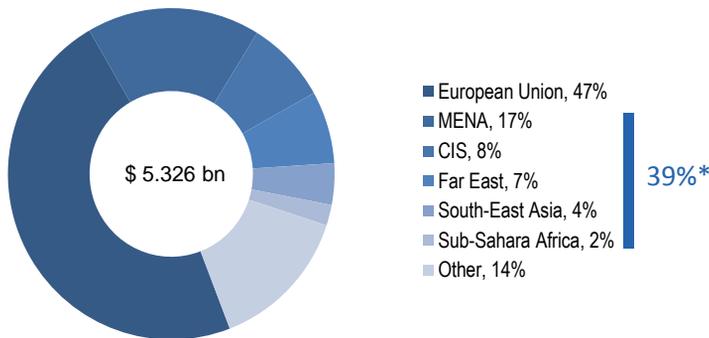


Egg and egg products production in Ukraine



*Ukraine excl. Crimea. In 2013 share of Crimea in total production of eggs was 3%.

Structure of World Imports of Eggs and Egg Products in 2014E, \$ mn

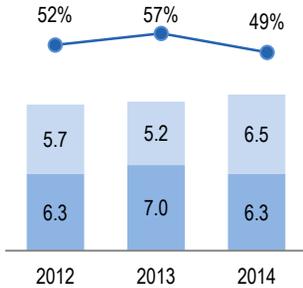


* Key destinations for Avangard export

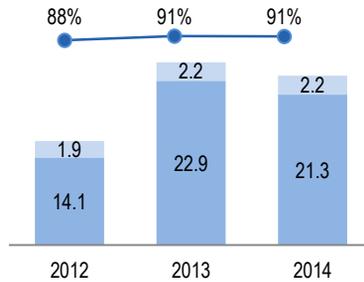
- Growing world eggs and egg products market
- Growth in egg products trade is driven by demand from food, confectionary and bakery industries globally
- Emergence of middle class in MENA and Asia will further drive consumption of eggs/egg products in the region
- In 2009-2014 the Company exported to 35 markets in MENA, the Far East, SSA and the CIS, which represent 39% of total global consumption potential
- Export strategy aimed to expand key markets: MENA, Asia, Africa, the CIS and enter the EU

Ukrainian Egg Market – Key Charts

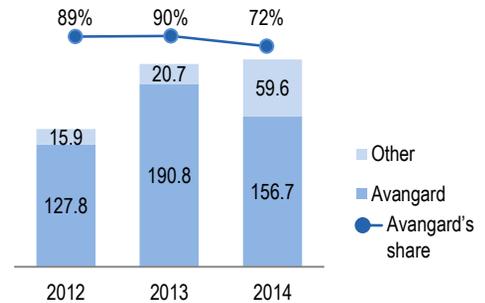
Industrial production of shell eggs, bn pcs



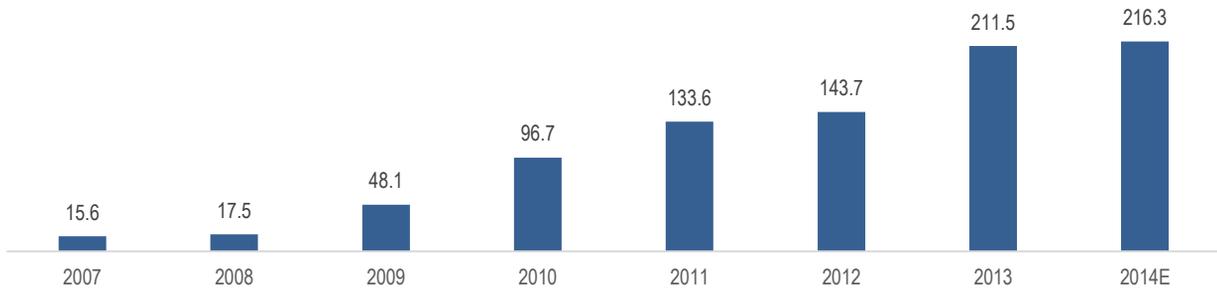
Industrial production of dry egg products, th tonnes



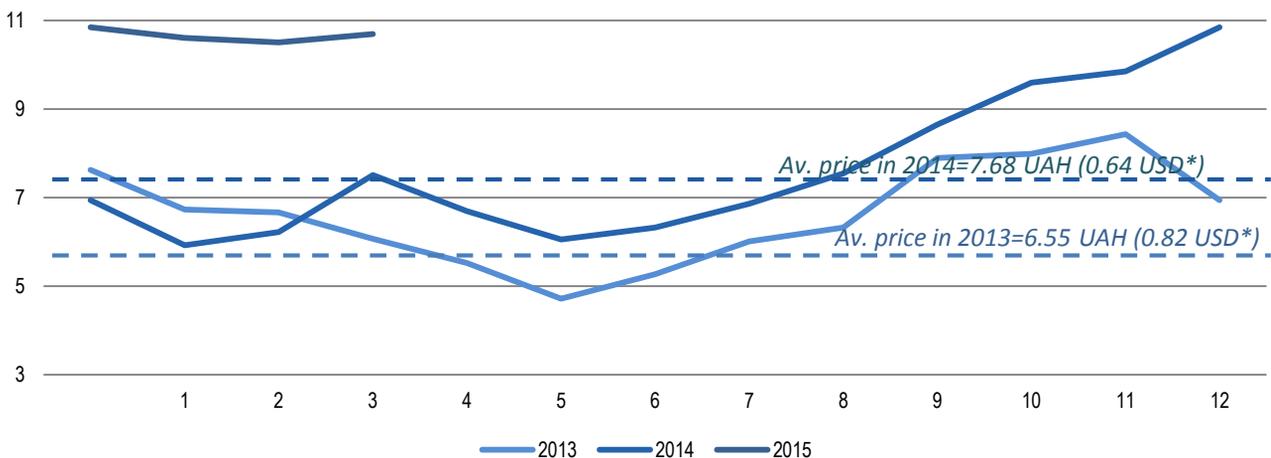
Export of shell eggs and egg products from Ukraine, USD mn



Export of eggs and egg products from Ukraine, USD mn



Egg price in Ukraine, UAH/10 eggs



*recalculated from UAH to USD per average FX rate for the period, see sl.15