

DOING AGRIBUSINESS IN UKRAINE 2016





Dear colleagues and friends!

The situation of the agricultural market is difficult and deals with the same problems as last year. We all started 2015 with great expectations, with a new government, with new perspectives for reforms and economic growth in Ukraine. Despite some positive deregulation changes, fundamental reforms in agriculture have not been finalized and presently a list of complicated questions is not clearly answered.

The access to capital markets and finances has not improved in 2015. Unfortunately, investors have not begun financing of Ukrainian economy more actively. Experts still see enough complexity in banking services industry as credit and other financing operations have slowed down notably narrowing also options for agro entities to finance production activities properly. Furthermore we continue to observe a negative trend on international stock exchanges. All the above-mentioned restrains agricultural companies from investing in technology and resources which in turn decreases profitability of crops.

Policy makers have been discussing agricultural taxation of Ukraine already 15 years in a row. Unfortunately, at the end of last year changes in taxation were implemented which poorly reflected real socio-economic conditions. As a result, Ukraine's agriculture has problems with taxation as more and more conflicts with fiscal authorities arise.

In the nearest future situation in agribusiness will remain complicated. Restricted access to capital markets and banking services, minimal margins in plant production segment, zero or negative profitability of animal breeding restrict the possibilities of businesses to seriously invest in infrastructure, machinery and storage.

Therefore, a transparent and fair taxation reform is hoped for by agricultural producers as a first priority. Second, land market and infrastructure issues have to be solved, in particular the construction and maintenance of roads, further deregulation, access to finance, and finally reform of science and education in agriculture.

Association "Ukrainian Agribusiness Club" is now more than ever willing to support agribusiness and to contribute to reforms on all levels. UCAB takes joins all reform processes and takes actively part in all forms of cooperation. We always were and continue to be a link between business and the government and serve as a platform for dialogue between investors, producers and processors. We provide information to the government, ministries as well as investors. We believe that in light of the current conditions in Ukraine the only way to come out of the crisis are structural reforms and the willingness to change. Therefore, I wish you primarily real reforms, a successful year, high yields and sizable investments.



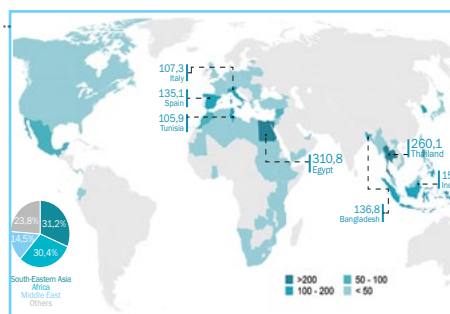
With best wishes for achieving your objectives!

Alex Lissitsa

President of the association
«Ukrainian Agribusiness Club»

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UKRAINE AND THE WORLD

% OF AGRICULTURE IN GDP

WORLD LEADERS



CAR
55,8%



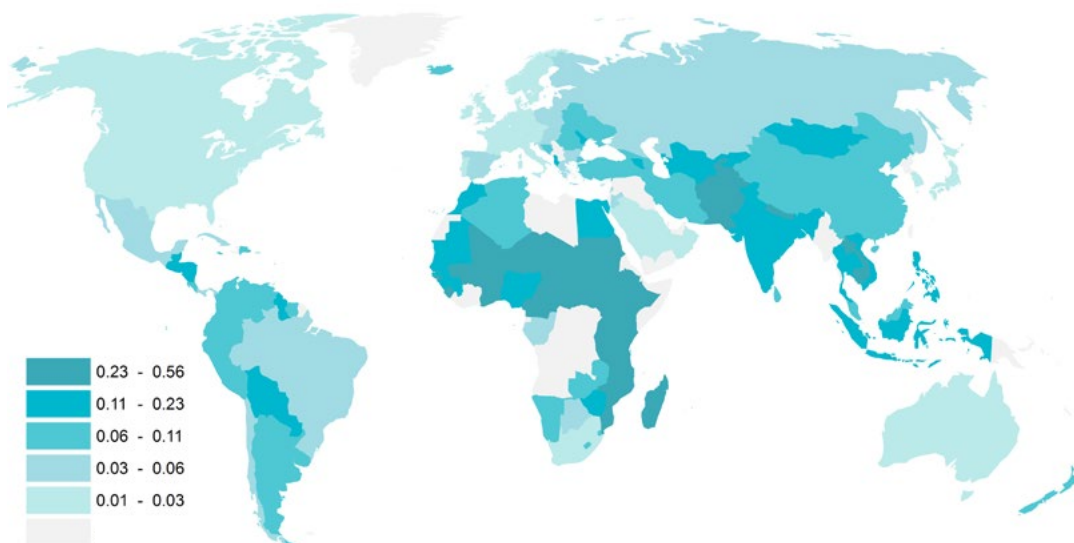
Sierra Leone
54,7%



Chad
53,2%



78/178
Position of Ukraine



Source: World Bank, UCAB calculations, average values for 5 years

VALUE ADDED PER ONE AGRICULTURAL WORKER, USD

WORLD LEADERS



Slovenia
\$141 245



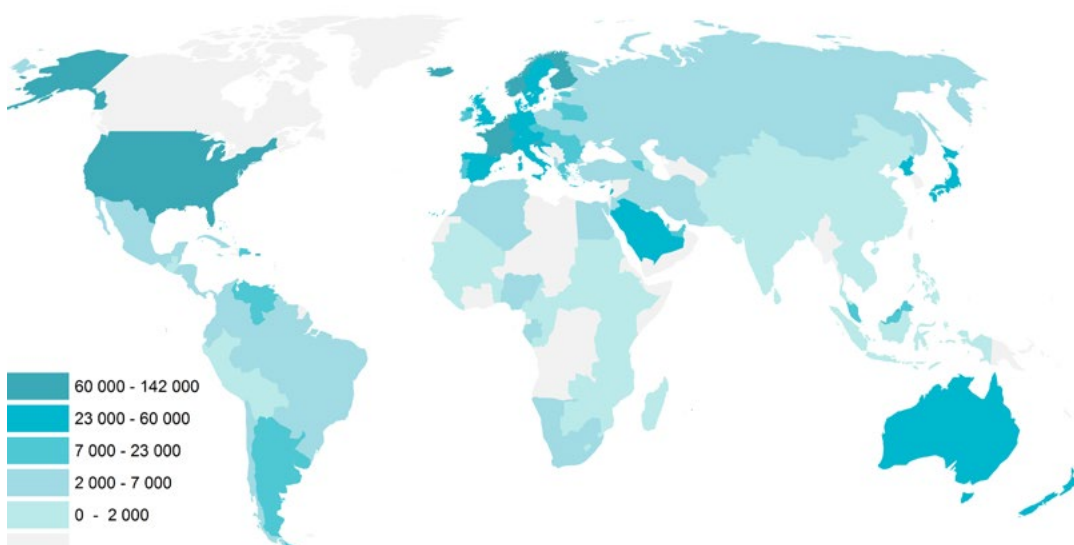
Brunei
\$82 037



France
\$75 030



67/165
Position of Ukraine



Source: World Bank, UCAB calculations, average values for 5 years

EMPLOYMENT IN AGRICULTURE (% OF TOTAL EMPLOYMENT)

WORLD LEADERS



Madagascar
75%



Rwanda
75%

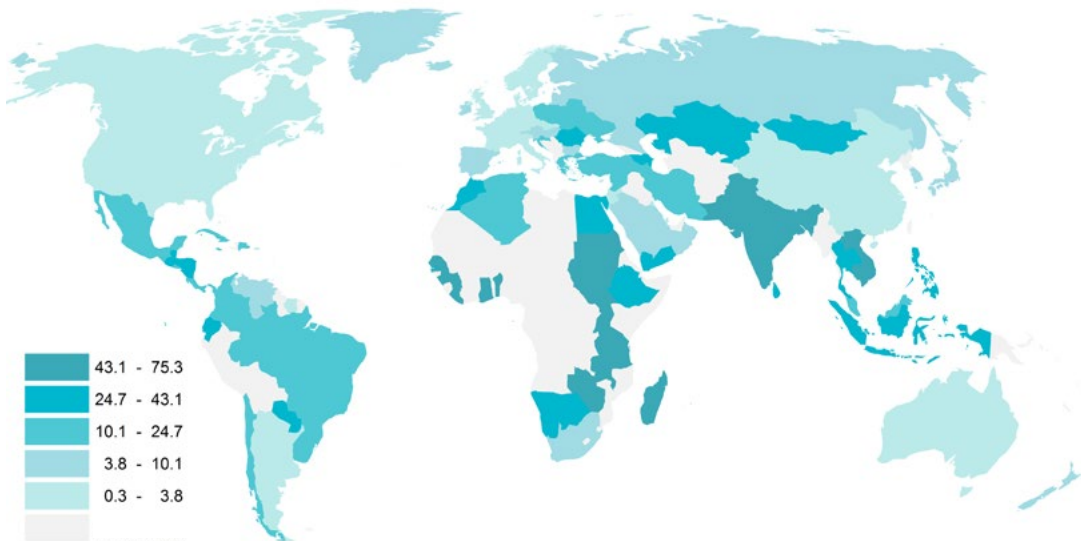


Guinea
75%



19%
Value in Ukraine

54/138
место Украины в рейтинге



Source: World Bank, UCAB calculations, average values for 5 years

STATE SUPPORT OF AGRICULTURE IN OECD COUNTRIES, % TO GROSS FARM RECEIPTS

WORLD LEADERS



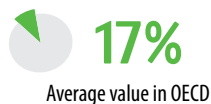
Norway
58%



Switzerland
57%

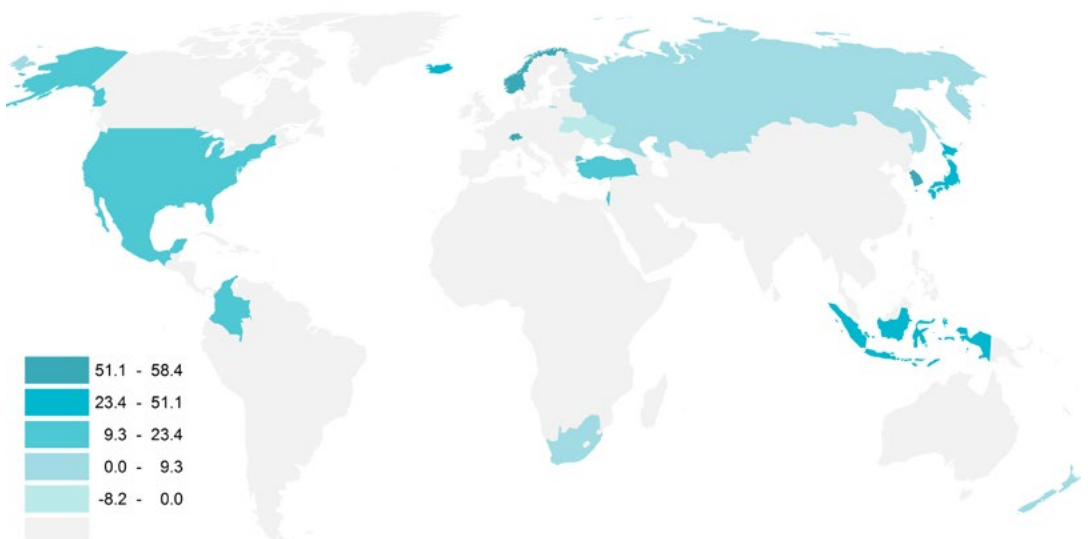


South Korea
51%



-8%
Value in Ukraine

23/23
Position of Ukraine



Source: OECD, 2014



PRODUCERS' PROTECTION LEVEL IN OECD

OECD LEADERS



South Korea
1.97



Japan
1.82



Norway
1.78

1,04

Average value in EU-28

1,10

Average value in OECD

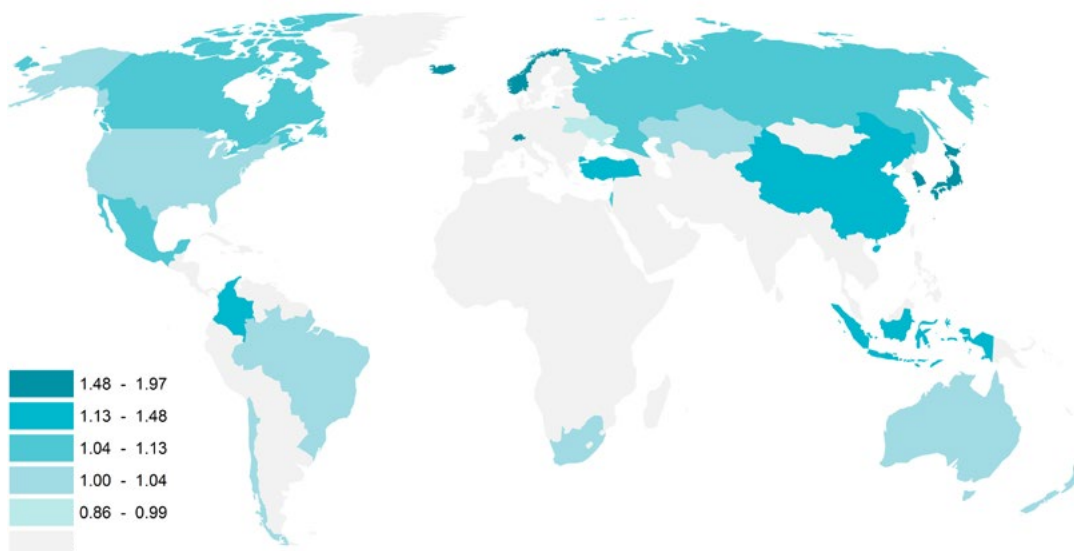


0,87

Value in Ukraine

21/21

Position of Ukraine



Source: OECD, 2014

WHEAT YIELD, DT/HA

WORLD LEADERS



Ireland
103 dt/ha



New Zealand
85dt/ha



Germany
81 dt/ha

56 dt/ha

Average value in EU-28

32 dt/ha

Average value in the world

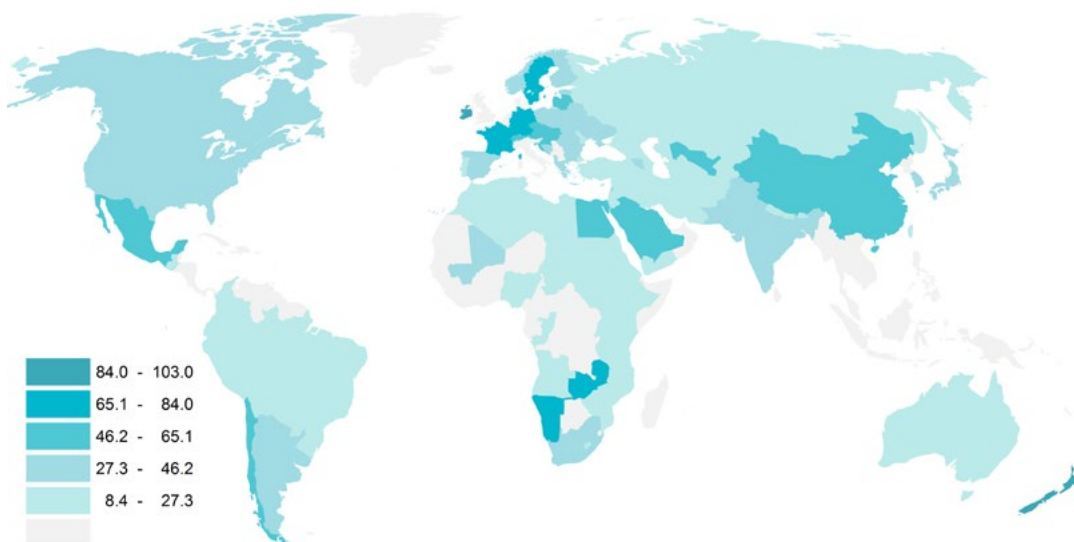


35 dt/ha

Value in Ukraine

36/101

Position of Ukraine



Source: USDA, Eurostat, average values for 5 years

CORN YIELD, DT/HA

OECD
LEADERS



Jordan
120 dt/ha



Greece
113 dt/ha



Chile
112 dt/ha

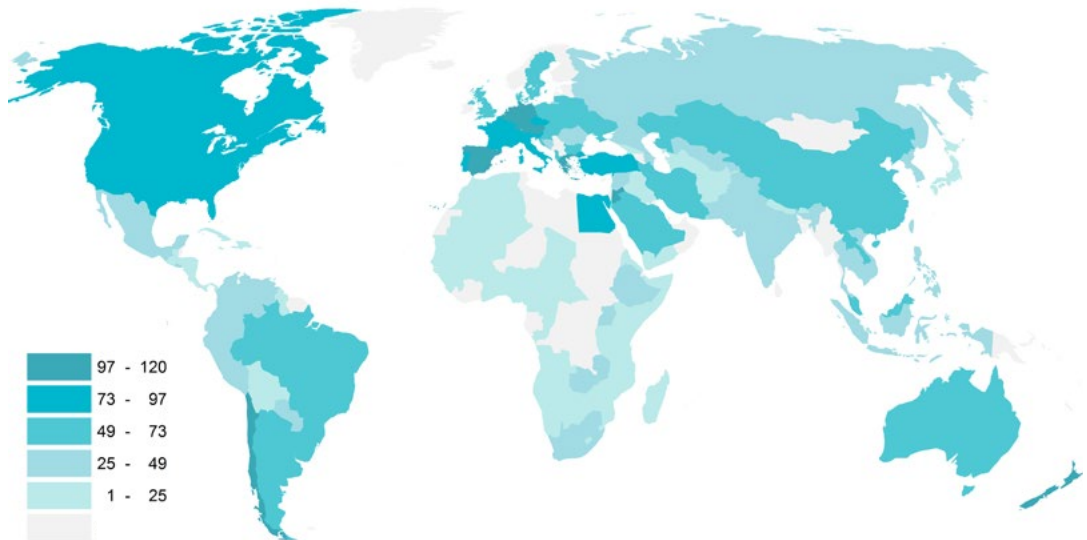
69 dt/ha
Average value in EU-28

53 dt/ha
Average value in the world



59 dt/ha
Value in Ukraine

31/137
Position of Ukraine



Source: USDA, Eurostat, average values for 5 years

SOYBEAN YIELD, DT/HA

OECD
LEADERS



Turkey
38 dt/ha



Italy
36 dt/ha



Greece
32 dt/ha

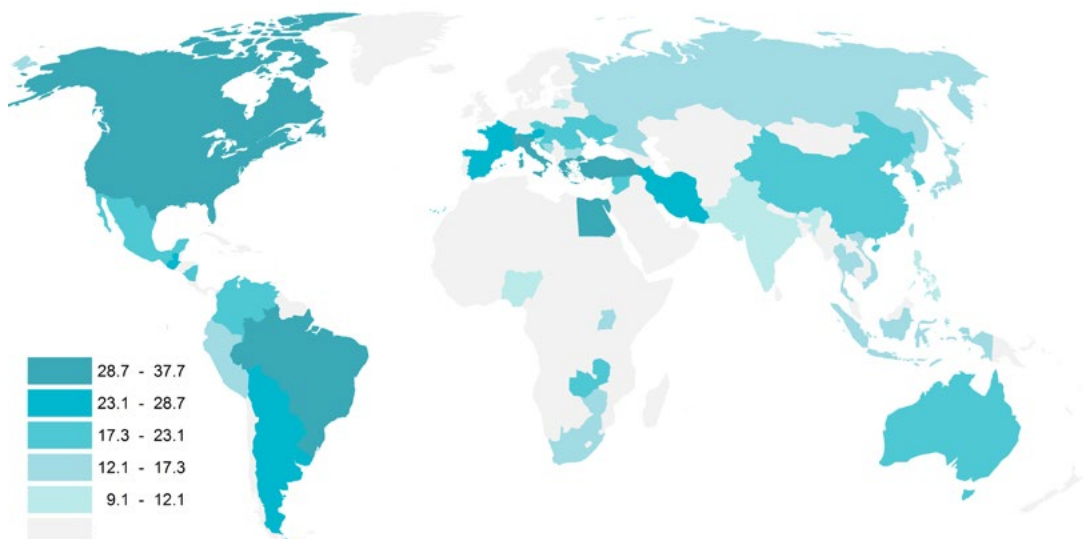
27 dt/ha
Average value in EU-28

25 dt/ha
Average value in the world



20 dt/ha
Value in Ukraine

28/62
Position of Ukraine



Source: USDA, Eurostat, average values for 5 years



INSTITUTIONAL ENVIRONMENT

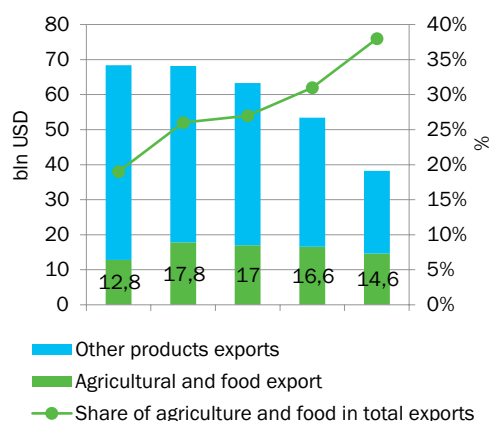
ENTERING THE WORLD MARKET

FOREIGN TRADE RESULTS

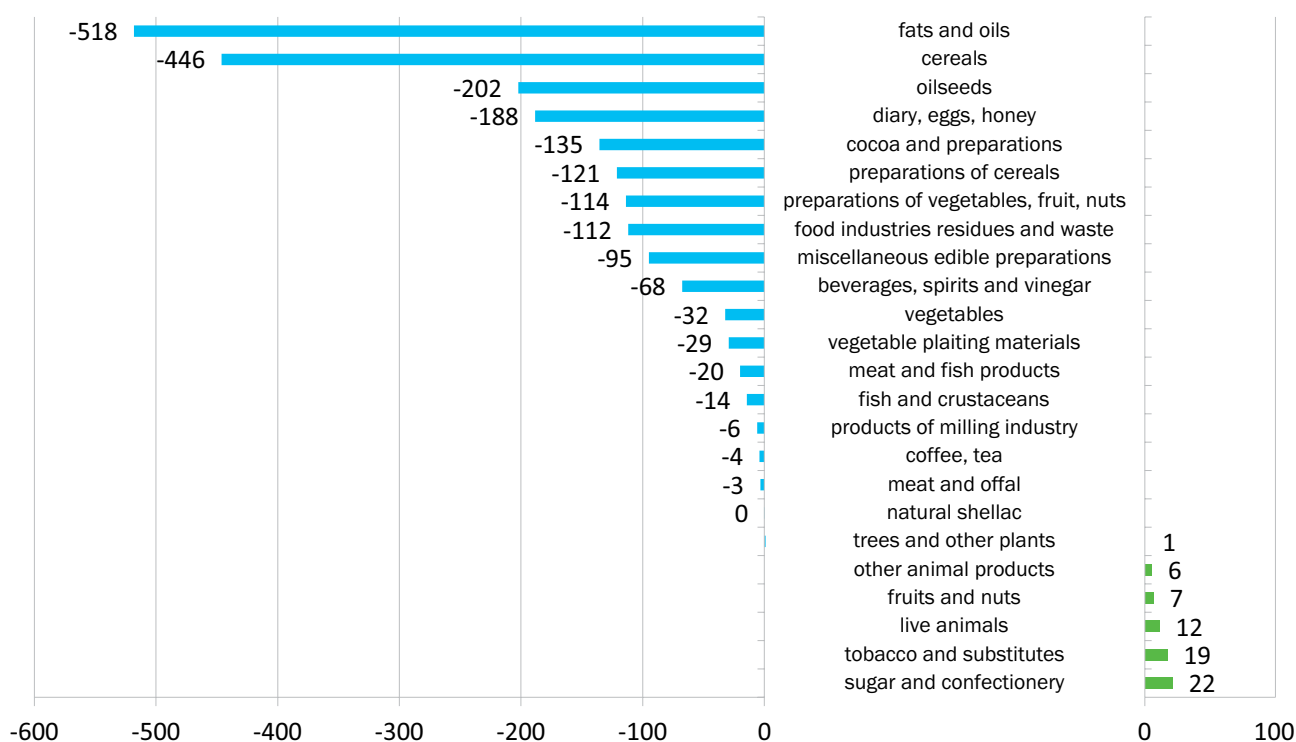
Export earnings in general as well as in agriculture have declined over the past three years. However, exporters of the ladder group show better results: the volume of agricultural exports decreased by 18% (or by 3.2bn USD) for this period, while for other goods – by 53% (-26.9bn USD). At the same time the main reduction is observed during the last year (-2bn USD for agriculture and food industry, -13.3bn USD - for other products).

The share of agricultural commodities in total exports significantly increased due to abovementioned disproportionate changes: from 19% in 2011 to 38% in 2015. This fact becomes a matter of public relations at the political arena, as it demonstrates the importance of the agricultural sector. At the same time we should remember that the results of this branch significantly depend on factors that are outside of human control (e.g. weather conditions). This means that in case of negative circumstances macroeconomic stability may be threatened.

EXPORT REVENUE AND SHARE OF AGRICULTURAL PRODUCTION IN EXPORTS

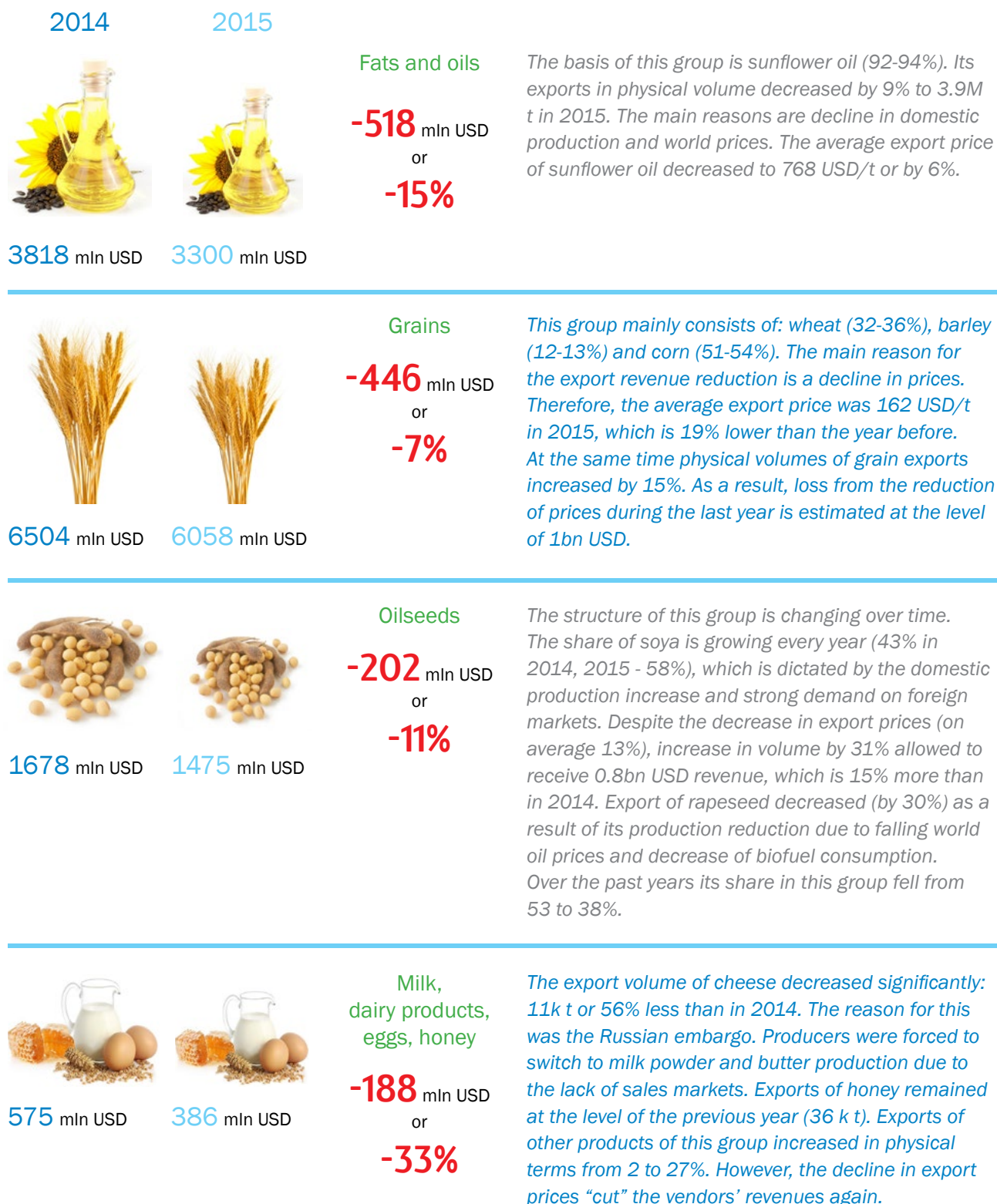


CHANGES IN EXPORT BY GROUPS OF AGRICULTURAL COMMODITIES IN 2015 TO 2014, MLN USD



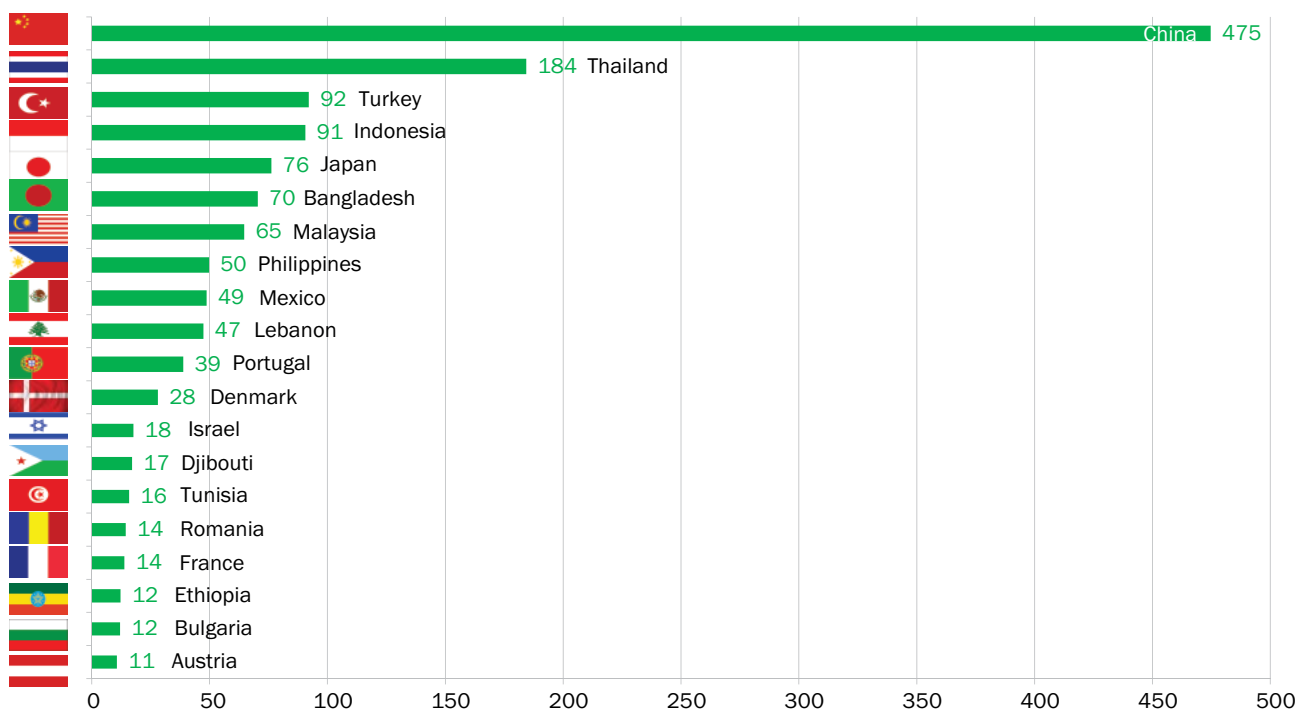
The decline is mainly due to decreased exports of fats and oils, cereals, oilseeds and dairy products. The revenue reduction of these commodity groups amounts to 1.4 bn USD, which is 66% of the total decline.

CHANGES IN AGRICULTURAL COMMODITIES EXPORT REVENUES IN 2015 TO 2014, MLN USD



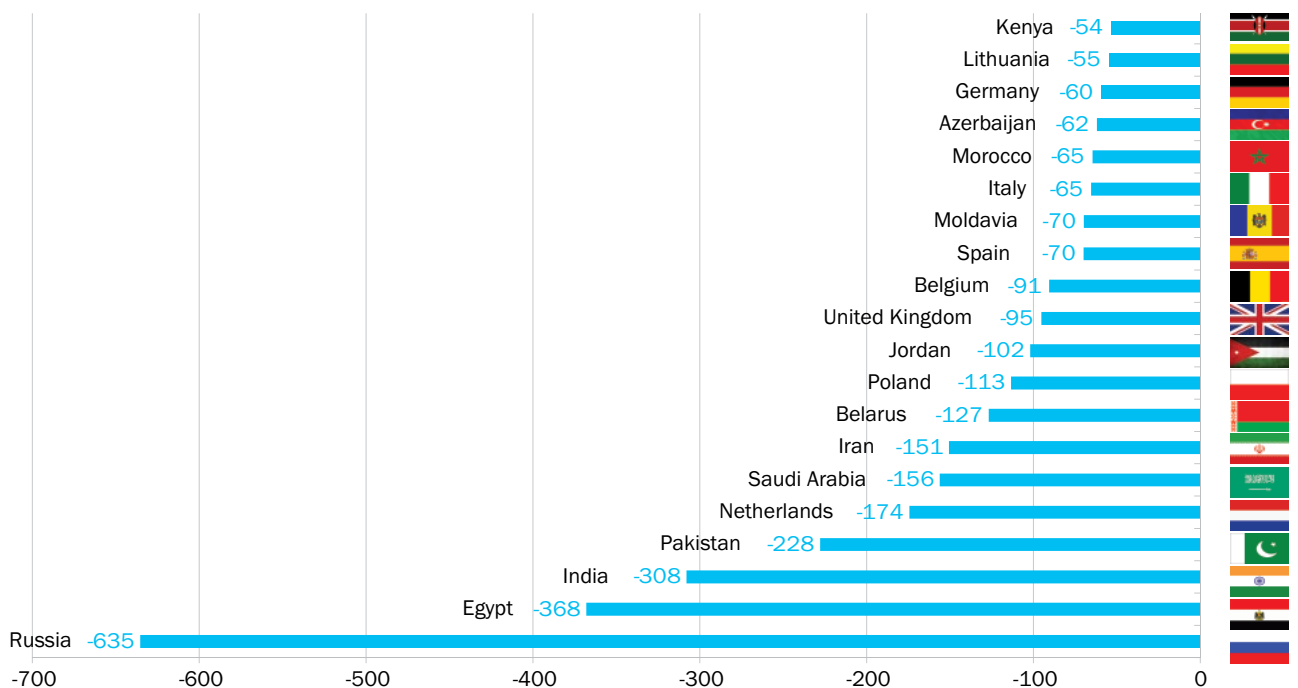


TOP-20 COUNTRIES BY INCREASE OF AGRICULTURAL GOODS SUPPLY FROM UKRAINE IN 2015, MLN USD



The share of grains and oilseeds in agricultural exports continues to grow despite the decrease of their exports. This share has increased from 39 to 52% for last five years. This fact confirms a raw-material orientation of domestic exports yet again. The increase in exports was observed towards Asian countries (+98.7M USD or +1.5%), as well as towards America, but this growth was negligible.

TOP-20 COUNTRIES BY DECREASE OF AGRICULTURAL GOODS SUPPLY IN 2015, MLN USD



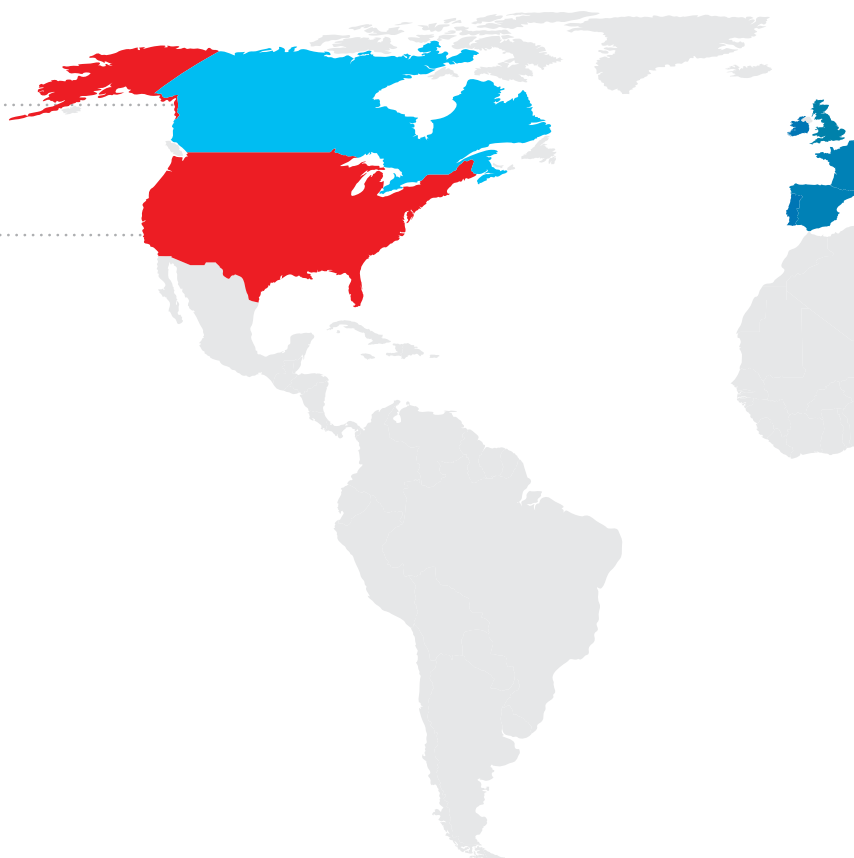
CANADA

Ukraine has been negotiating a free trade area with Canada (Canada-Ukraine Free Trade Area, or CUFTA) since 2010. According to the ex-Prime Minister of Ukraine, Arseniy Yatsenyuk, the corresponding document will be signed in 2016. Trade relations with Canada are similar to the United States, but the volumes of agricultural exports are even smaller. During 2010-2015 Ukrainian exporters delivered to this market agricultural goods for 2-7M USD annually.

In 2015 Ukrainian exporters supplied to this country agricultural products for 3.4 million USD, among them:

- ➔ Honey - 238 t (0.7 mln USD);
- ➔ Water, beer, wine, vodka - 0.9 tsd. t (0.5 mln USD);
- ➔ Corn - 1.8 tsd. t (0.4 mln USD);
- ➔ Wheat - 3 tsd. t (0.3 mln USD);
- ➔ Processed vegetables, fruits and nuts - 338 t (0.3 mln USD);
- ➔ And small batches of other products: buckwheat (40t), milk powder (12.6t), butter (25t), 1.4kg of cheese etc.

At the same time, Canada sells us products for 22-90 mln USD annually.



USA

The announcement of the possible establishment of a free trade area came as a surprise to many experts of the agricultural sector in Ukraine. Although export of agricultural commodities to this country has doubled over the last five years, it still remains irrelevant (42M USD in 2015).

What do we export to the USA?

- ➔ Honey - 7.6 tsd. t (19 mln USD);
- ➔ Processed vegetables, fruits and nuts - 5.4 tsd. t (5.1 mln USD);
- ➔ Sunflower oil - 4 tsd. t (4.6 mln USD);
- ➔ Water, beer, wine, vodka - 6.5 tsd. t (3.6 mln USD);
- ➔ Biscuits, waffles, crackers - 1.1 tsd. t (2.5 mln USD);
- ➔ Chocolate - 0.6 tsd. t (2.5 mln USD).

The share of the abovementioned products in agricultural exports to the U.S. was 89% in 2015.

At the same time, agricultural imports from the United States are several times larger. Before the devaluation (in 2013), US exporters of agricultural products supplied to the Ukrainian market products for 0.4bn USD. In 2015 imports fell to 0.1bn USD or by 67%. The main products that this country sells us are: sunflower seeds for sowing (23-27%), fish and crustaceans (22-23%), chicken eggs (5-10%), meat and meat products (1-14%) etc.

Advantages of the FTA with the United States:

- + Increasing presence on the global market
- + Ability to deliver products with reduced or no tariffs

Disadvantages:

- Domestic market opening for goods from the United States
- Increasing competition on the domestic market
- High logistics costs
- Supply of a narrow range of goods (mainly long-term storage products) only
- Necessity to harmonize standards

ASIA

Domestic exporters lose markets of CIS countries because of political difficulties, but see potential at Asian markets. Since 2010, exports to this area have increased by more than two times, and this is not the end. According to the results of last year we can confidently call Asian countries main trade partners of Ukraine with agricultural goods – total exports of its amount to to 6.9bn USD or 47% of total agricultural exports. It should also be noted that the number of partners is increasing - today it is already 39 countries. The TOP-5 of them imported from Ukraine goods for 4bn USD or 58% of the total exports to Asia from Ukraine.

CHINA

In 2010 this country was not even one of the TOP-10 Asian agricultural trading partners of Ukraine. Last year it became the first. Agricultural exports reached almost 1bn USD (18% of exports to Asia) and its annual growth rate is almost 100%.

The potential of Ukraine on the Chinese market is big enough. This country imports agricultural products for more than 100bn USD each year and this figure is continuing to increase. It is already seven times higher than the overall Ukrainian agricultural exports.

In our opinion, export of the following products from Ukraine to China is likely to increase in future:

- ➔ Oilseeds: soybeans (annual imports by China - 70-80 mln t), rapeseed (3-5 mln t), linseed (0.2-0.3 mln t);
- ➔ Fats and oils: soybean oil (1-2 mln t), rapeseed oil (1-2 mln t), margarine (0.2-0.3 mln t);
- ➔ Dairy products: milk powder (0.8-0.9 mln t), whey (0.4 mln t);
- ➔ Grains: sorghum (5-7 mln t), barley (3-5 mln t), wheat (3-6 mln t);
- ➔ Meat: pork offal (0.8-0.9 mln t), frozen pork (0.3-0.4 mln t), frozen chicken parts (0.4-0.5 mln t), frozen beef parts (0.2 mln t) and others.

TURKEY

At the end of 2015 representatives of the Ministry of Economic Development and Trade of Ukraine announced the resumption of negotiations on the FTA with Turkey in 2016. This country can be described as stable contractor. Every year it imports agricultural products for 0.6-0.9bn USD from Ukraine.

Imports of food products by this country increase every year on average by 13% and already amount to 12bn USD. More than 50% are imports of grains, oilseeds, fats and oils, which are the key export commodities for Ukraine. Potential have also the following products: walnuts (27-40k t annual imports), mineral water, alcoholic beverages (up to 150k t), infant food, butter (50-100k t), sugar and residues of sugar industry (80-110k t) and so on.

ISRAEL

At the end of 2015, the President of Ukraine, Petro Poroshenko, said that several documents on economic cooperation should contribute to the subsequent signing of the FTA with Israel. Ukrainian exporters supply to this country agricultural products for 0.3-0.5bn USD annually.

Israel's agricultural import is estimated at the level of 4-6bn USD annually. Among the main potential products for Ukraine are: sugar (Israel's annual import is about 500k t), walnuts (3-5k t), mineral water, alcoholic beverages (up to 200k t), pasta (up to 40k t) and so on.

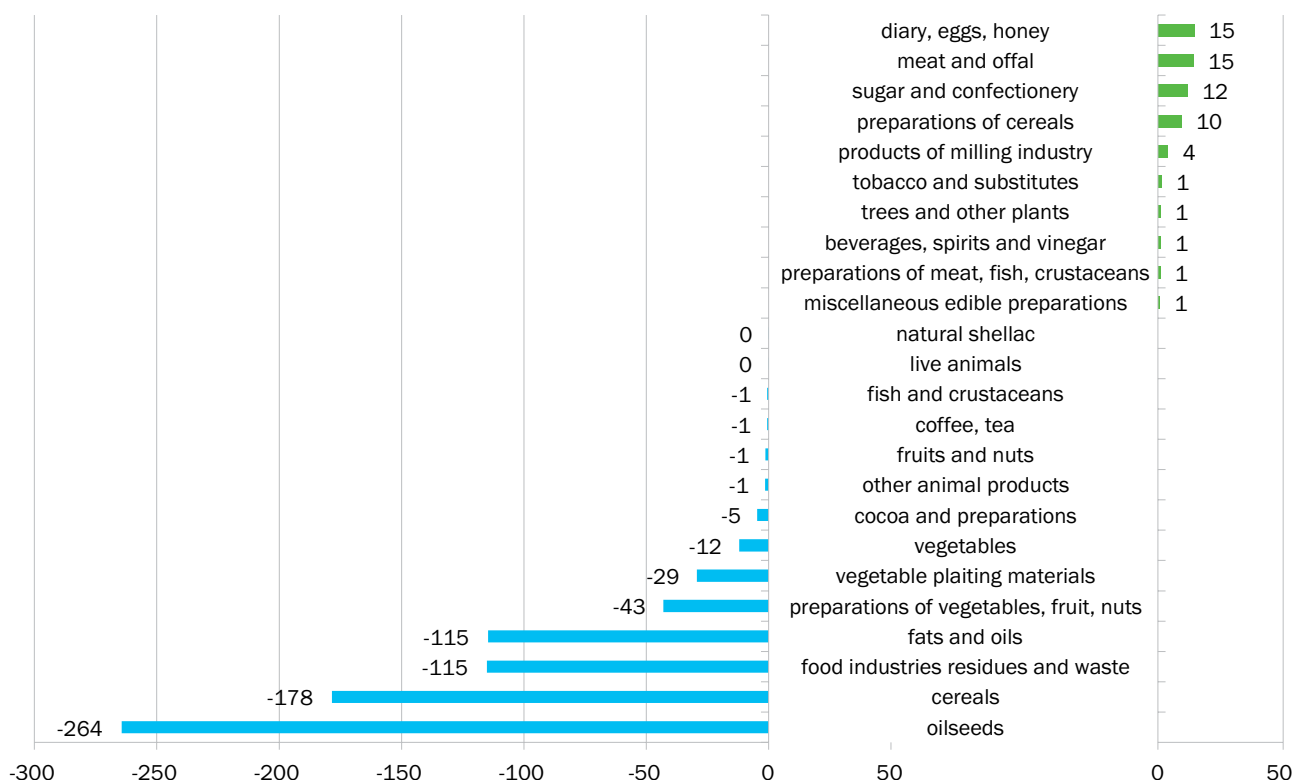
EUROPEAN UNION

These 28 countries rank second among geographical regions by volumes of exports from Ukraine. In 2015, agricultural export was at the level of 4 billion USD (28% from total agricultural exports from Ukraine), which is 15% less than the year before, despite the autonomous trade preferences, according to which the EU has unilaterally reduced the import duties on goods from Ukraine and granted quotas. The most active supply of Ukrainian agricultural products is observed to Spain, Netherlands, Italy, Poland and France. These countries account for 69% of exports to the EU.

The decrease in exports is mainly due to a price decline. Accordingly, production and export of several commodities decreased. However, exporters of eggs, meat, sugar, grain products and some others increased their supply to the EU. We should also mention that tariff-rate quotas (TRQs) have been used more actively. In total, Ukrainian suppliers of agricultural products used 18 quotas, eight of them were fully used, sugar at 99%, and two others at more than 70%.

According to UCAB’s calculations, Ukrainian producers earned in 2014-2015 only in two categories little more than 0.5bn euro. As of February 22, 2016 four TRQs were fully used (honey, sugar, apple and grape juices, corn) and four more at a high percentage (barley groats and meal – 77%, wheat – 67%, processed tomatoes – 59% and oats – 45%).

CHANGES IN EXPORTS TO THE EU BY GROUPS OF COMMODITIES, MLN USD



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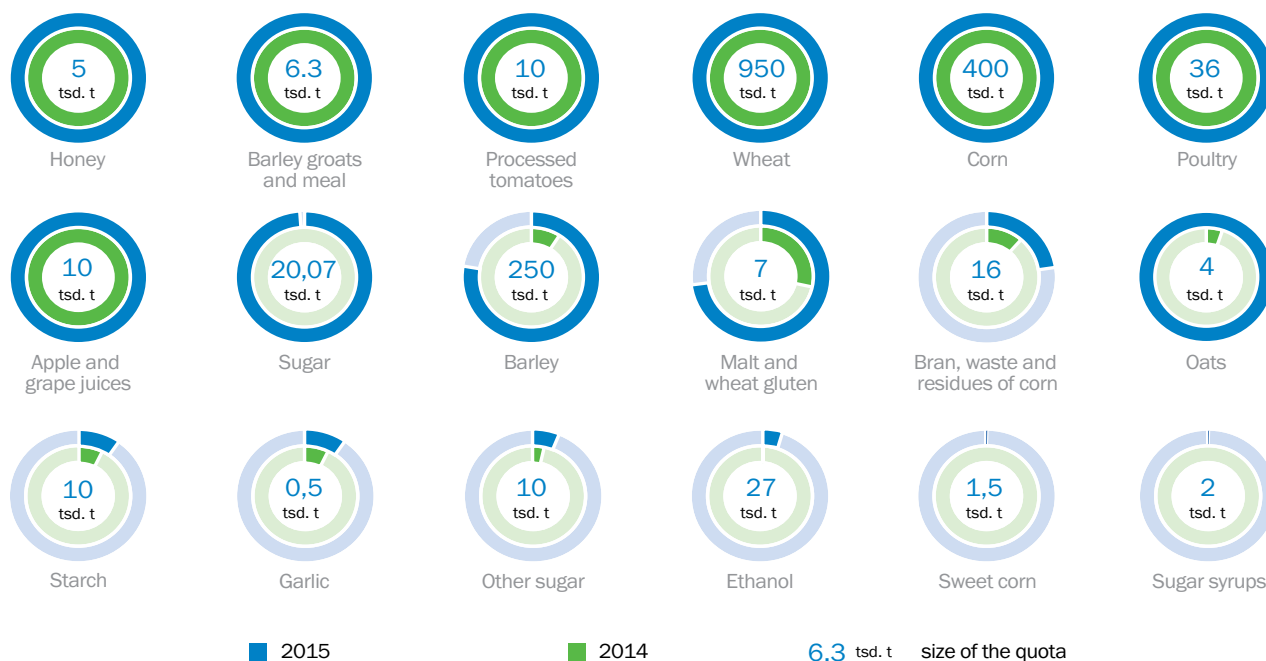
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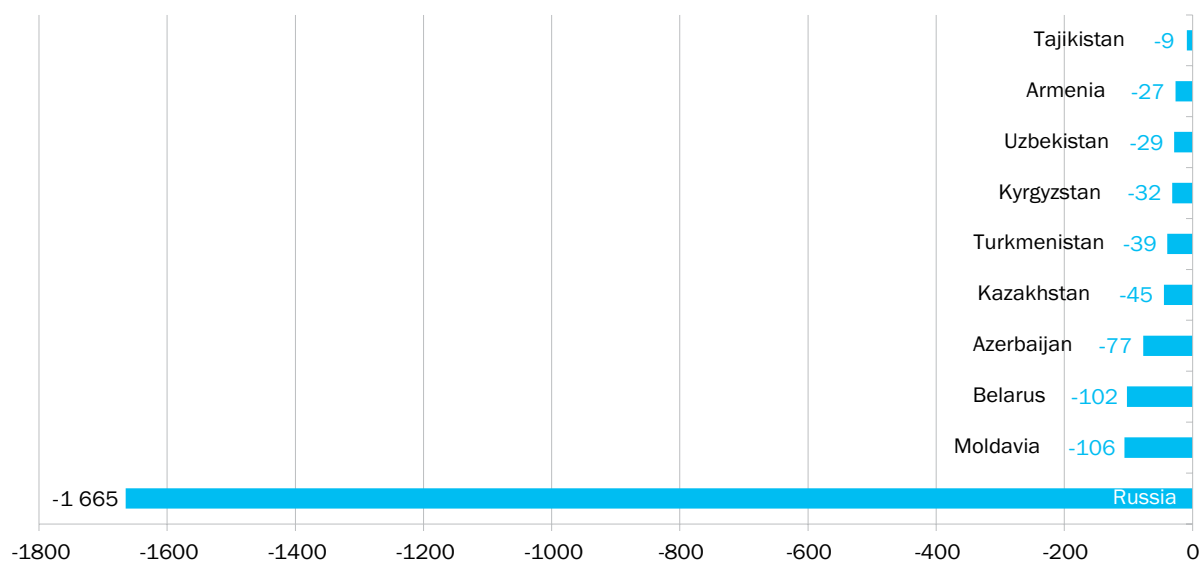
USE OF QUOTAS



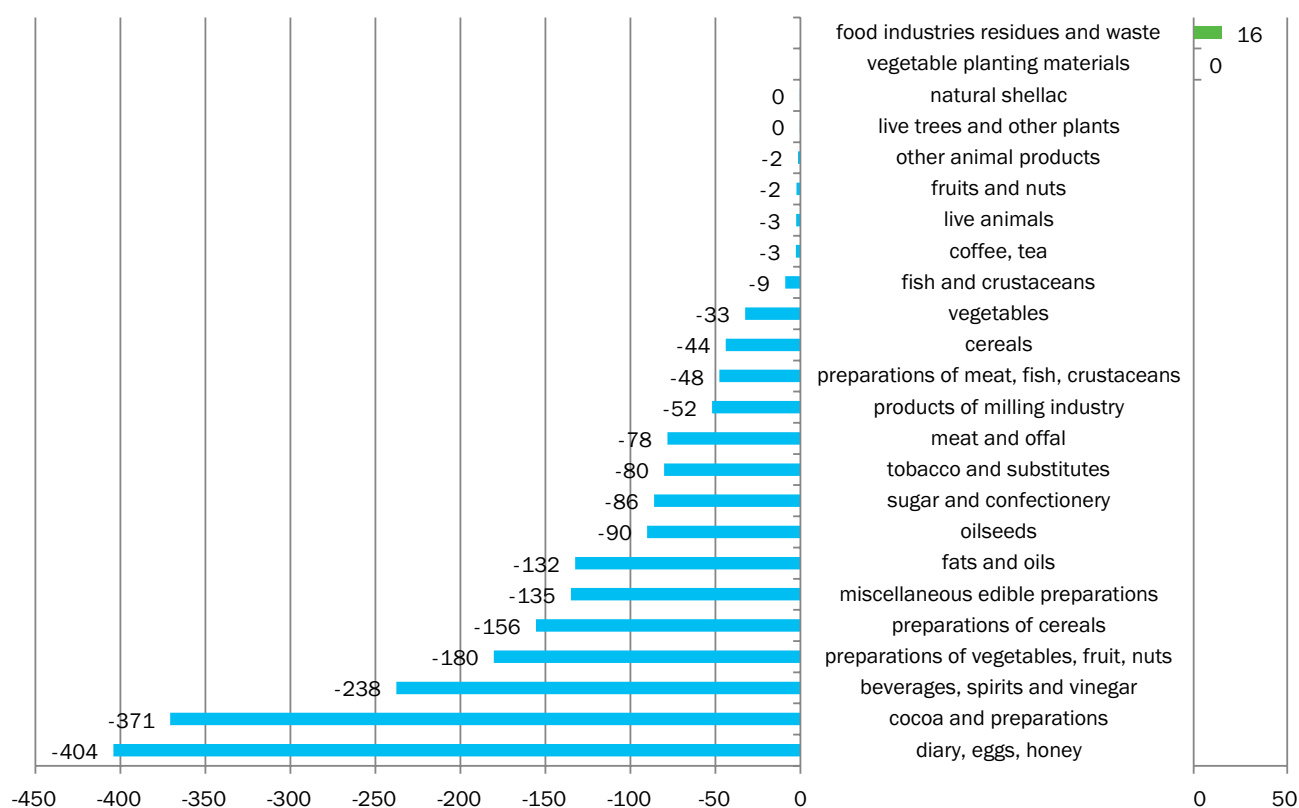
CIS

Ukraine has historical relations with these markets, but the decision for a “European future” worsened relations with Russia. This led to decreasing trade volumes due to trade barriers (embargos, restrictions on transit and so on). During the last years the share of agricultural and food products in exports to CIS countries has gradually decreased: from 33% in 2010 to 10% in 2015. Ukrainian exports to these countries decreased from 3.6 to 1.5 billion USD (-59%) during 2014-2015. The main drop was observed in trade with the Russian Federation – by 1.7 billion USD or 86% for last two years.

CHANGES IN EXPORTS TO CIS BY COUNTRIES, MLN USD



CHANGES IN EXPORTS TO CIS BY GROUPS OF COMMODITIES, MLN USD



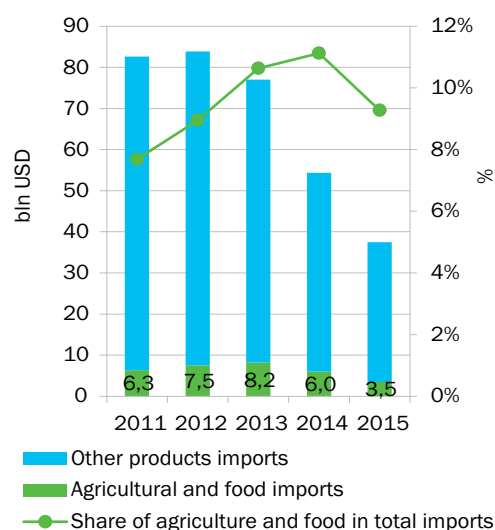
IMPORTS

During the last year we have observed the continuation of rapid decrease in imports: non-agricultural commodities fell by 30% last year, and agricultural by 42% or 2.6 billion USD.

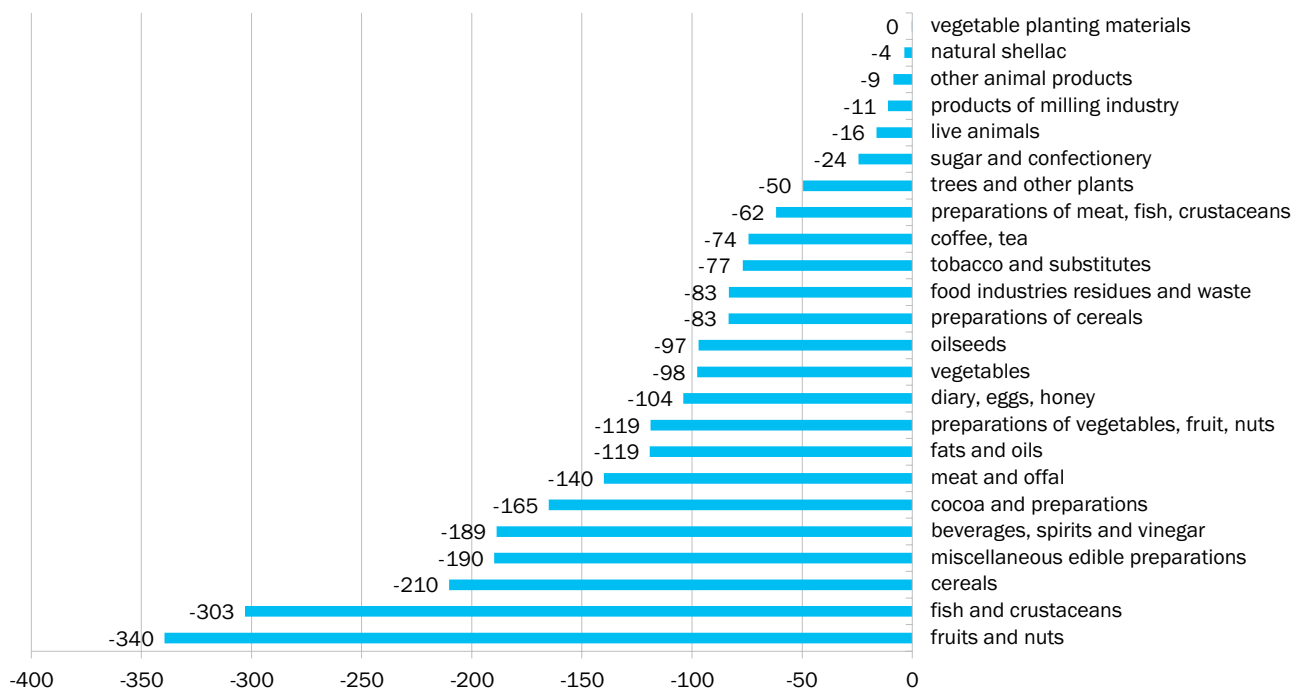
Among the main groups were: fruits and nuts (-340M USD or -42%), fish (-303M USD or -51%) and grains (-210M USD or -58%). In general, imports of each group to the Ukrainian market decreased from 12 to 72%.

Main reasons were the decrease of purchasing power of population and business due to national currency devaluation and also introduction of additional import duties (10% for food products).

SHARE OF AGRICULTURE IN TOTAL IMPORTS



CHANGES IN IMPORTS BY GROUPS OF COMMODITIES IN 2015, MLN USD



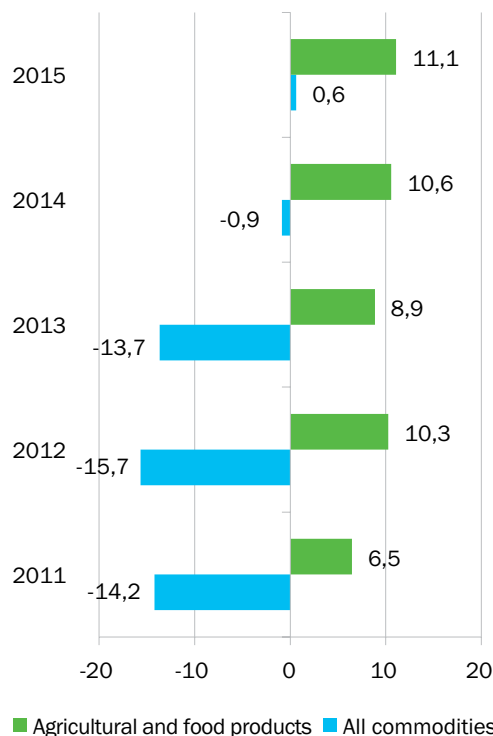
SUMMARY

We can say that foreign trade results in 2015 are positive from the point of macroeconomic stability. For the first time in many years, domestic exports exceeded imports (in our case - by 0.6bn USD). The agricultural trade balance was record-high - 11.1bn USD. However, this was not achieved by strengthening the country's position in the world market, but through the use of legislative and regulatory power: internal market protection (additional import duties) and restrictions on foreign currency purchase. In 2016 additional duties are already not applied and, in addition, the Deep and Comprehensive Free Trade Agreement between the EU and Ukraine entered into force. These may lead to an increase in imports, but low purchasing power yet exists and is the strongest barrier on the way of imports to our country.

One of the most influential factors that will determine the direction of Ukraine's foreign trade development will be the UAH exchange rate. According to forecasts of international banks (e.g. JPMorgan, Goldman Sachs etc.), national currency will fall to 30 UAH per 1 USD in 2016. In this case, the situation regarding the export of agricultural products may deteriorate due to high content of imported inputs in their production.

We should also remember the price decline on world commodity markets. As of now, there are no significant signs for the recovery of prices to previous levels. This means that even in case of physically growing exports, the inflow of foreign currency could decrease.

BALANCE OF FOREIGN TRADE, BLN USD



INSTITUTIONAL ENVIRONMENT

FINANCE AND INVESTMENT

The question "where to find additional funds?» for sure can be called one of the most problematic and frequently asked questions in the agricultural sector. Dependence on different factors, such as international prices for raw materials, prices for imported inputs, foreign exchange rate and weather conditions only creates additional worries for producers.

2015 was one of the most difficult ones in economic terms for the country's economy in general and agriculture in particular. The political crisis in the light of empty gold and foreign currency reserves, increasing external debts, an economy on the verge of default and general panic among the population resulted in the fall of the national currency's exchange rate. Growth of the exchange rates and foreign exchange restrictions applied by the National Bank in February 2015, right before the start of the spring sowing campaign, ultimately influenced the size of cultivated areas, the purchase of imported inputs and gross harvest. Funds for the sowing campaign were searched for by all companies: from small farms to large agricultural holdings. Options on the Ukrainian market were limited due to stricter banking rules, high credit rates and the real possibilities of farmers to "pay the bills".

CLASSIC TOOLS

Bank lending

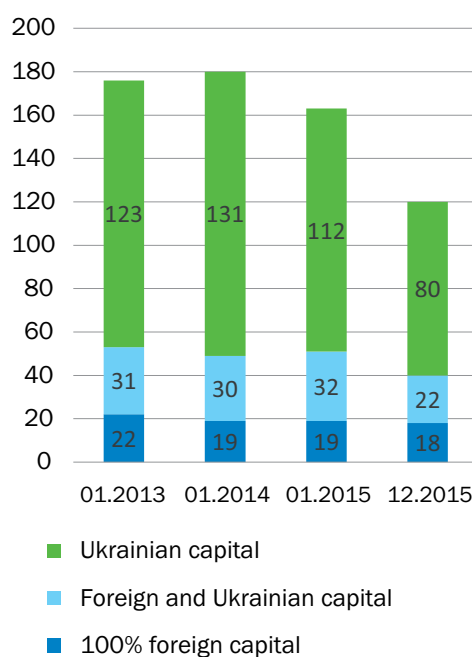
In connection with the consolidation of the banking system, more than 50 banks have ceased to operate over the past three years. According to the NBU, this is not the end. Among the closed banks were those that actively financed the agricultural sector. Now only a few agriculturally-oriented banks are left. Among them are international as well as Ukrainian banks.

Analysing volumes of loans issued for 2014/2015 MY, we can surely say that in the past marketing year the Ukrainian agricultural sector was credited: the total amount of allocated credits for the agribusiness sector increased by 6.7% in comparison to the previous marketing year (+4 bln. UAH), although this increase is rather nominal than real. Adjusting the figures to the level of devaluation of the national currency, the reduction in the amount of loans granted by financial institutions to the agricultural sector is obvious. Furthermore, the share of foreign currency loans in the total structure of funds provided to agricultural companies increased from 35% in 2013/2014 MY up to 44% in 2014/2015 MY (+6.5 bln UAH).

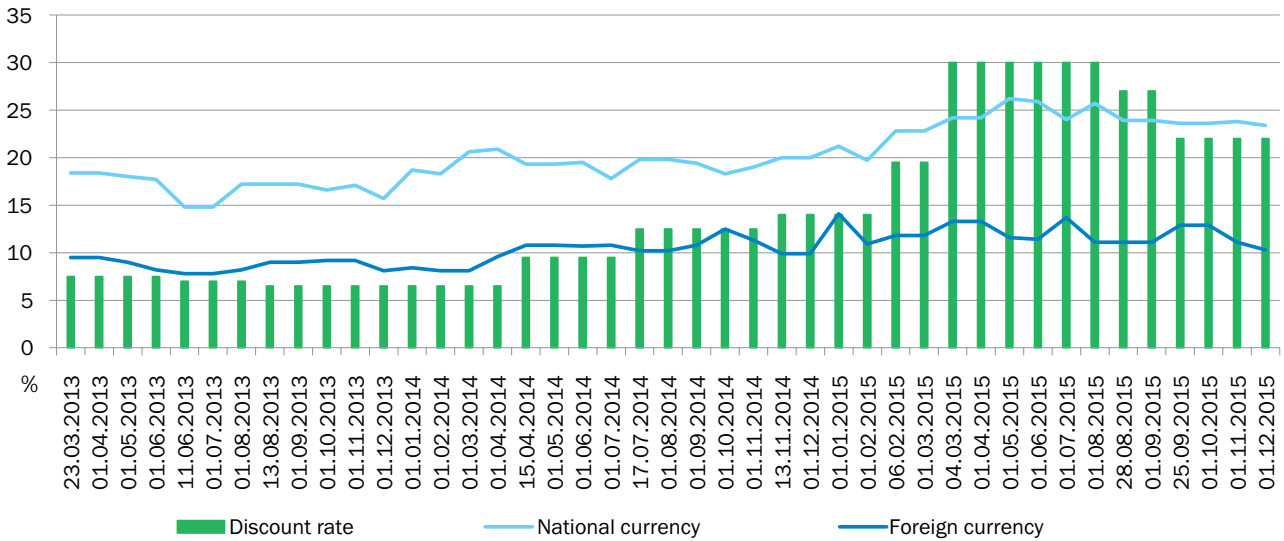
In 2015 the following options to raise additional funds were available for agricultural enterprises

- Bank lending;
- Investments;
- Agricultural receipts;
- Commodity credits;
- Bill financing.

THE NUMBER OF BANKS ON THE UKRAINIAN MARKET



TIMELINE OF INTEREST RATES



Investing in agriculture

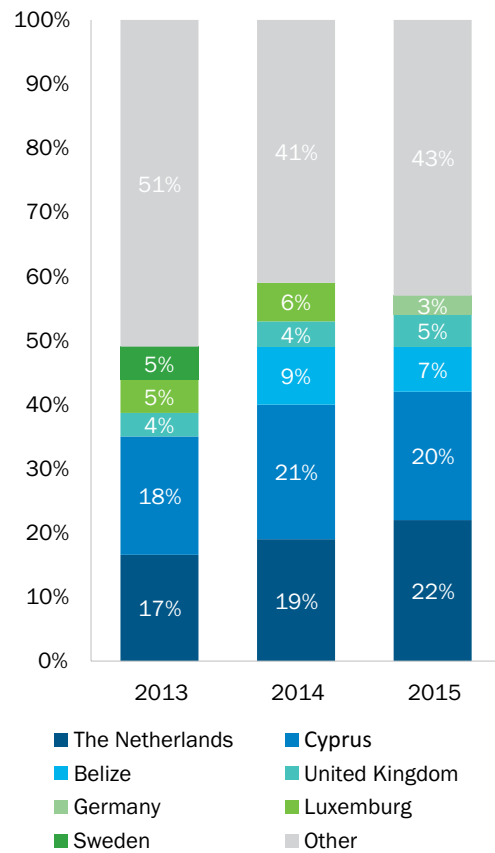
Any crisis within the country, especially unexpected ones, greatly affect the attractiveness of the country. After the revolution which took place in 2013/2014 MY Ukrainian economy lacked nearly 4.5 bln USD of investments. The agricultural sector of Ukraine during the 2015/2016 MY lost more than a billion dollars of foreign capital. Still, Ukrainian black soil and its potential is highly valued by investors around the world. According to results of 2014/2015 MY the sector earned 1.4 bln USD more than the previous years. The total amount reached 19.2 bln USD.

It cannot be ruled out that investors noticed the pace of deregulation in the agricultural sector – it was much faster than in other industries. The introduction of a simplified procedure for the clearance of goods at sea ports also had positive influence on the willingness of investors to place their funds in the agricultural sector of the country.

At the same time, an ability to raise additional capital at international financial markets over the last year did not pay off. At the end of 2014/2015 MY shares of 14 Ukrainian agricultural holdings were traded at international financial markets. Their total capitalization amounted to almost 2.7 bln USD, which is 40% less than at the end of 2013/2014 MY. At the same time, in connection with the default, trade of the by landbank third largest Ukrainian agro holding “Mriya” was suspended on international stock exchanges.

Many Ukrainian companies, not waiting for external sources of funding, implement innovative technologies, for which resources are allocated based on the financial results of

COUNTRIES-INVESTORS IN AGRIFOOD SECTOR OF UKRAINE



the company. Often, such decisions can only be afforded by medium and large agricultural enterprises. Small businesses have to look for other options for attracting additional resources.

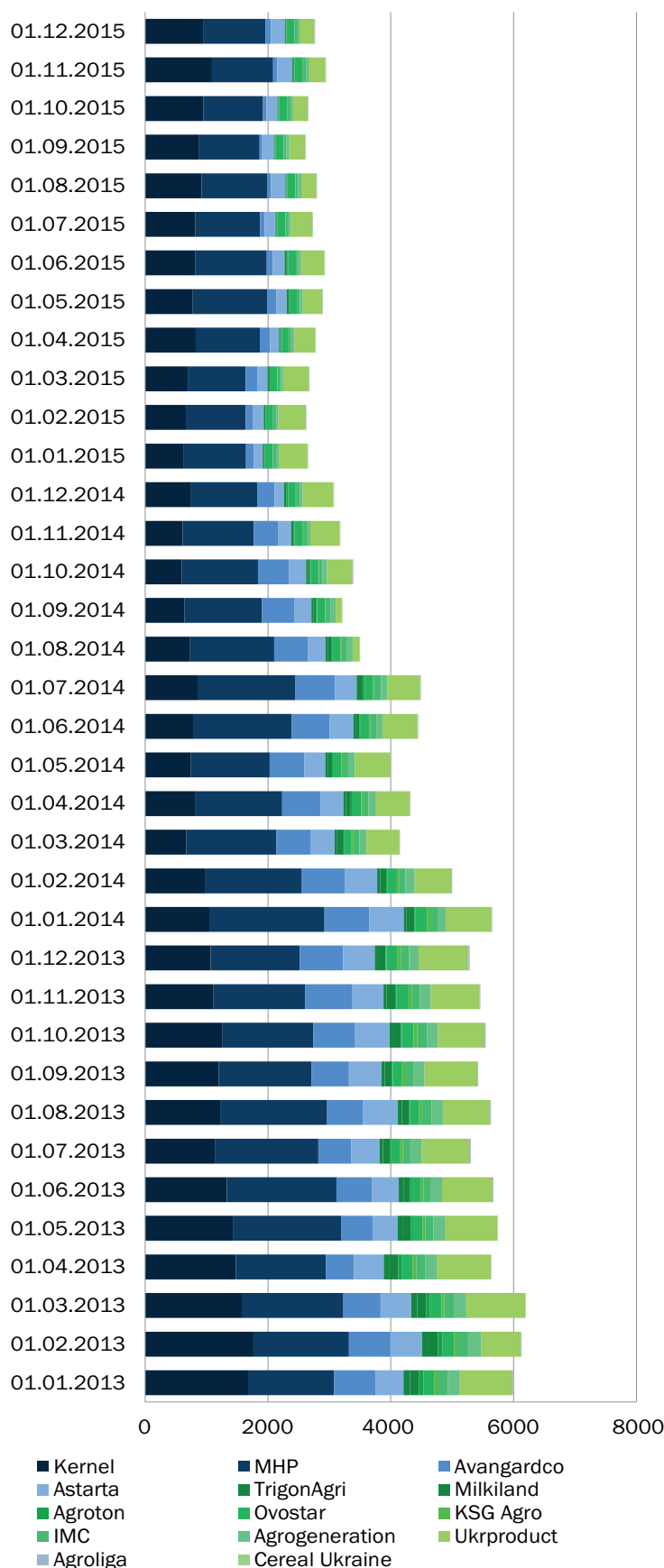
MAIN INVESTMENT TRENDS IN 2015

If in the previous marketing years investment resources were allocated for management of operating capital of the agricultural enterprises or for the purchase of equipment, recent trends show that now both international investors and companies themselves are focused on projects/products that provide high added value: elevators, drying, collection points, terminals in ports and processing facilities. Many companies also consider logistic projects as potentially profitable.

CASE-STUDIES

- International financial institutions.**
 European Bank for Reconstruction and Development (EBRD) for sure can be considered as one of the important international investors in the Ukrainian agricultural business. Over the past three marketing years this bank invested in Ukrainian agro projects more than 600M USD. Moreover, the EBRD borrowed resources not only to maintain operating activities but also for development of processing facilities and infrastructure. For example, in 2014/2015 MY the financial institution allocated more than 18M USD to the building of the additional terminals for storing grain in the port of Odessa; and in 2013/2014 MY 60M USD were allocated to expansion of elevators' capacities of one of the Ukrainian agricultural companies.
- IFC (International Financial Corporation)** plays an important role in the development of agrarian business in Ukraine.

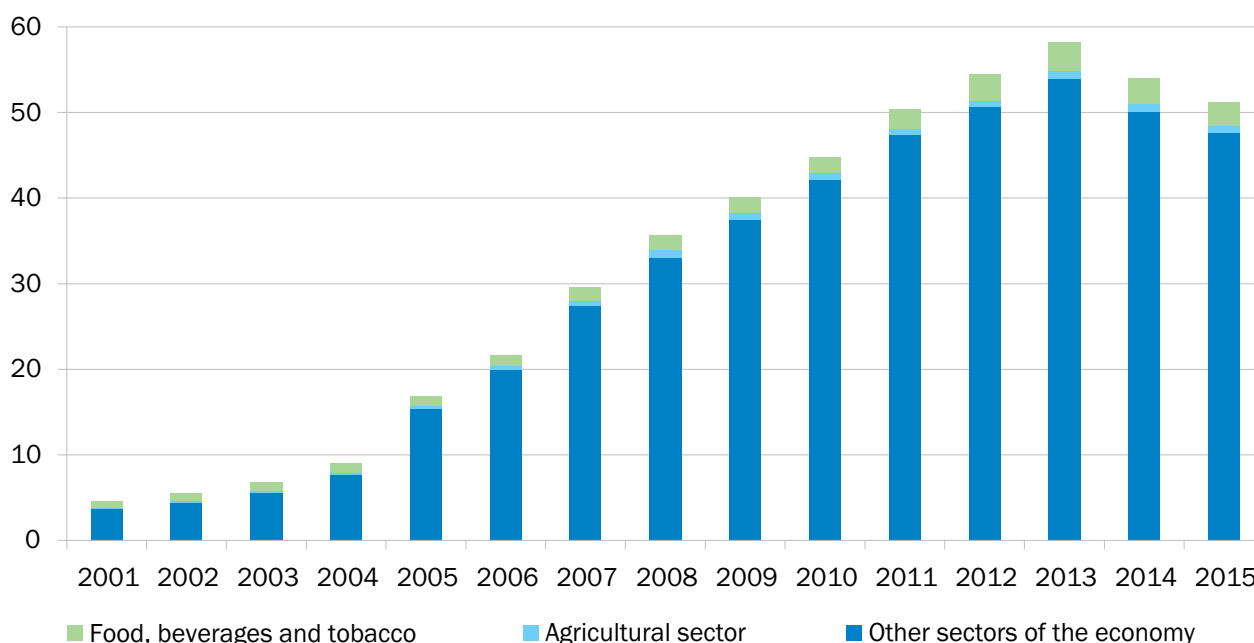
CAPITALIZATION OF UKRAINIAN PUBLIC AGRICULTURAL HOLDINGS, MLN USD



In 2014/2015 MY IFC invested 470M USD in Ukrainian projects, while half of the sum was used to support the agricultural sector in particular. IFC financed several Ukrainian agricultural companies. Although their main clients are companies with an average capital of around 80M USD, they provide assistance to small and medium-sized businesses through the use of bank lending: banks receive financial support from IFC in order to directly lend funds to small and medium-sized agribusiness enterprises. Beside the use of loans, IFC has also developed a special programme with a total sum of 60M USD for funding agricultural companies through the use of a Ukrainian bank and a plant protection company. The abovementioned programme became a lifeline for medium-sized agricultural enterprises that faced a lack of operating capital and prohibitively high interest rates on bank loans. In 2016 IFC intends to invest in Ukrainian agriculture 200 to 300M USD.

3. **Input providers.** International resource companies, which already have a long history on the Ukrainian market, are also actively involved in the development of the agrarian sector in Ukraine. Over the past three marketing years several new seed plants were opened in Cherkasy, Dnipropetrovsk and Vinnytsia regions. The launch of some other is planned in 2015/2016 MY.

INVESTMENTS IN THE FOOD INDUSTRY OF UKRAINE, MLN USD

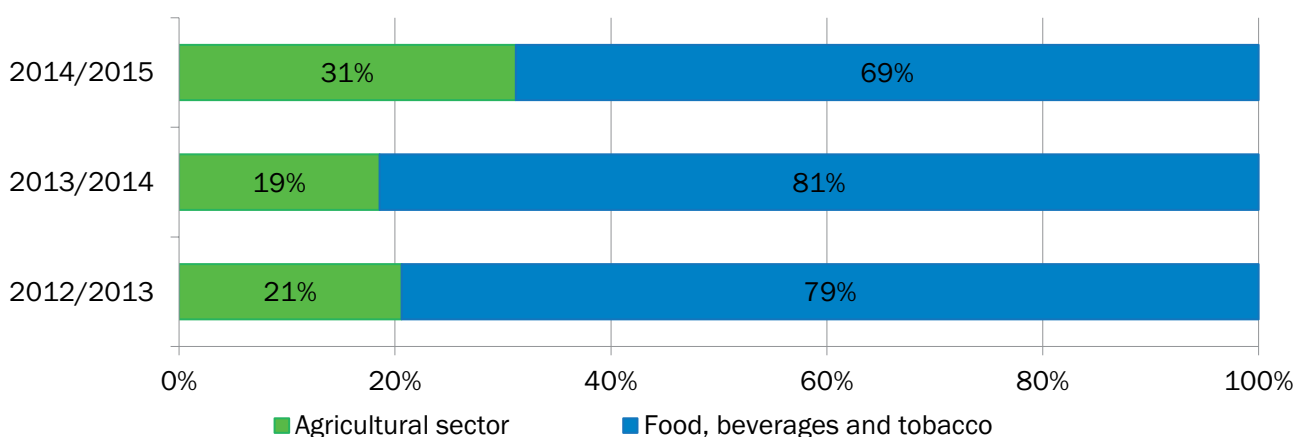


4. **Processors.** Ukrainian producers during the two previous marketing years managed to increase exports of Ukrainian sunflower oil to Asian countries, including China and India. In this regard, a considerably big share of foreign investments was directed to the development of additional capacities for sunflower processing. During 2014/2015 MY in the construction of two processing factories in Mykolayiv and Odessa regions, which at the moment are already running, was invested more than 600M USD. In addition, the construction of two more plants for soya

processing in Ukraine's western regions is still in the process. These projects are also financed by foreign investors.

5. Investing in organic production. In 2014/2015 MY projects on production of organic dairy products became attractive. One of the Ukrainian organic companies announced that for the construction of its farms more than 5M USD of foreign investment capital was allocated, and for refurbishing the dairy plant nearly 2M USD.
6. Domestic investment. In 2015/2016 MY the opening of several new poultry farms of one of the Ukrainian agricultural holdings is scheduled. According to the CEO of the company, the management of the company will continue to pay great attention to the introduction of advanced technologies and innovative solutions in the field of industrial poultry farming.

THE STRUCTURE OF INVESTMENTS IN THE FOOD INDUSTRY OF UKRAINE



ALTERNATIVE

Agricultural receipts

The project, launched in Ukraine with the help of IFC, refers to experience from Brazil, where this instrument has been used since 1994. In Ukraine in 2014 a pilot project was launched, but only in Poltava region. According to the Ministry of Agrarian Policy and Food of Ukraine, in 2014/2015 MY ten agricultural receipts were issued totalling approximately 1.4M USD. For small and medium-sized agricultural businesses of Poltava oblast agricultural receipts became a real alternative to attract additional funds. In 2015/2016 MY the project will expand its geography to three more regions: Kharkiv, Cherkasy and Vinnytsia.

Trade credits. Bill-based financing

In Ukraine agricultural trade credits are traditionally issued by resource suppliers. Under current economic circumstances, farmers try to save money on purchases of expensive equipment, but saving on seeds, fertilizers and plant protection products comes last.

To maintain a stable level of sales, resource companies offer new versions of programs for farmers: with more profitable interest rates on prepayment, simplified methods of debt repayment or additional discount on the product. This type of lending is profitable for farmers, since the interest rate for the balance of the debt is smaller than banking institutions actually offer; the farmer receives required materials for conducting the sowing campaign, and can pay back with the harvested crop.

Regarding the bill-based financing, the scheme involves besides agricultural producers and resource companies also distributors. Agricultural enterprises are entitled to pay the creditor-distributor using the avalized bills. In turn, the distributor can pay with this bill the producer.

According to bankers, in 2015 bill-based form of crediting accounted for about 40% of the agricultural credit portfolio of financial institutions.

State support

Despite the significant reduction of the agricultural budget in 2015, the Ministry of Agrarian Policy and Food of Ukraine (MAPF) provided financial support to the agricultural complex through cheaper loans with around 12M mln USD of funding, which were sent directed to the regions. According to the MAPF, around 11M mln USD were used in by the end of 2015. Allocated budgetary resources allowed cheapening of the loans totalling to 320M mln USD of- loans raised in 2014, and around 200M mln USD was already attracted in 2015. In total in the programme benefited 630 enterprises benefited from the programme.

In 2016 the continuation of the programme is expected, which certainly can be considered as a positive moment. Volumes, however, will unfortunately, will unfortunately remain the same.

AND IN THE END

Resources on the Ukrainian market exist. As a matter of fact, the conditions for receiving them sometimes make them not just difficult, but simply unbearable for farmers. Therefore, the funding situation can be considered as quite challenging. Against the increase of the share of agricultural products in total exports and since the agricultural sector is the one of the sectors that show positive financial results, improvement on the debt market is also expected.

EXPERT VIEWS

Mr. Rufat Alimardanov, IFC Regional Head for Ukraine and Belarus.

Access of agricultural producers to financing has remained restrained in the past year. Businesses had to count mostly on internal resources. Landing resources were in access only for leading companies. According to bankers' estimations nearly 20% of agro demand for financing has not been satisfied.

Presently economic framework remains without significant changes. Major attention paid to investments and increase of plants cultivation. Markets demonstrate demand for short financial products, as for working capital or refinancing purposes. Likewise, risk distribution products are popular among producers, for example, credit insurance products. Also we see some options to develop projects in energy saving industry.

Political and macroeconomic stability, business transparency and fair rules for all the sides will motivate private commercial investors to come into Ukraine. Thus, not only large intergovernmental financial institutions, but wide range of investing business would offer its products for Ukraine's agriculture. Some initiatives in reforms have started, for example reform in food safety, deregulation, simplifications of procedures in ports, but Ukraine's corporations sector waits for more radical solutions, more fast and clear moves forward complemented with coherent changes within all the levels of authorities and market institutions.

PRODUCTION INPUTS

ECONOMIC CONDITIONS

Indicators of Ukrainian agribusiness strongly correlate with currency exchange rates due to the high share of foreign inputs and the export-orientation of production.

During peak periods of market fluctuations, import operations of agricultural companies in most cases were temporarily suspended due to the high level of uncertainty and negative expectations. Supply distributors imported only small amounts in order to avoid high inventory levels.

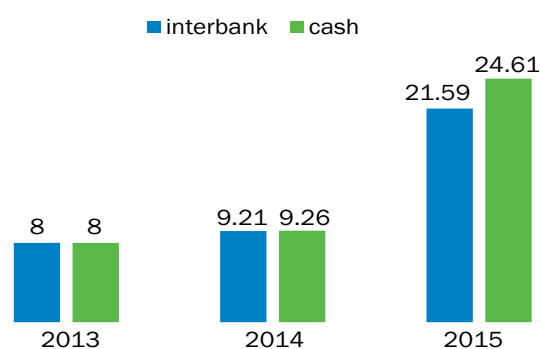
In fact, input prices remain stable if the Griwna-bill refers to the purchase date. Agricultural producers being in the difficult situation of declining purchasing power and narrowed access to global financial markets, tried to acquire resources at affordable cost.

Traditionally, agricultural companies use for the purchase of inputs both their own and acquired financial resources. Before the crisis, producers used to acquire financial means by purchasing inputs with a term of payment till harvest. However, the traditional commodity loan option turned out not to be effective in light of the crisis due to foreign exchange rate risks, worsening of economic conditions and as a result high default risks. Most of the distributors decreased the volumes of their commodity loans, which were usually only offered to longstanding clients with good reputation. Therefore, most market participants began to work mainly with payment schemes “upon delivery”, and as a result most producers felt a lack of operating capital. Purchase of fertilizers was an even bigger challenge. Bulk orders were executed only against prepayment and a delivery date of at least a month.

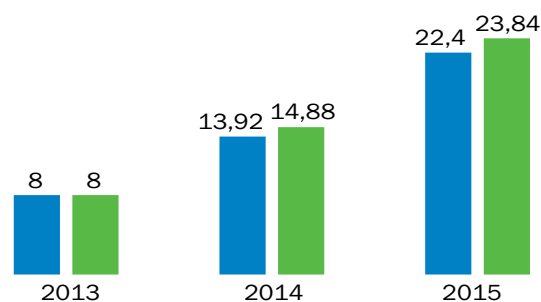
Lack of operating capital and related difficulties with deliveries forced the market to seek new options for financing and delivery of inputs. Among them were: crediting against pledge of future harvest and grain stocks, fixation of the exchange rate when billing in Griwna, bartering of grain against machinery, seeds, or plant protection. They have not become widely used due to deficient legislation, unfavorable conditions, difficulties with execution or distrust on the side of producers towards new financing instruments.

AVERAGE EXCHANGE RATE

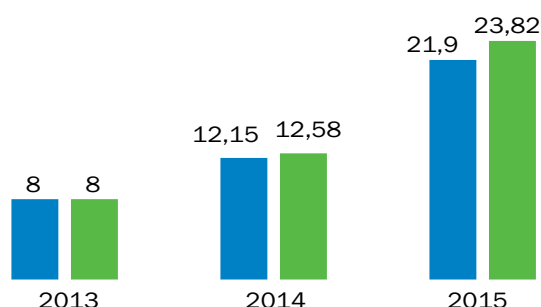
January-March



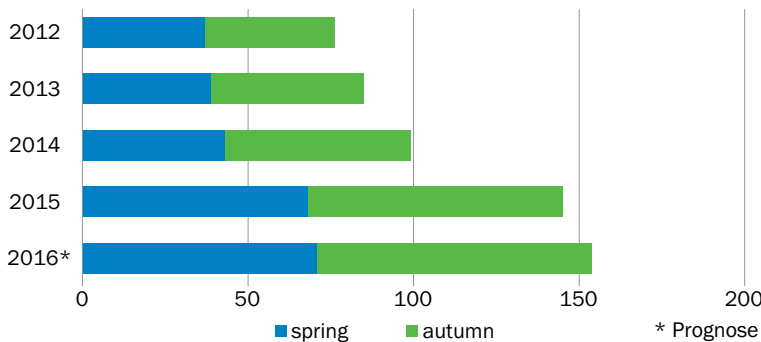
September-November



the whole year

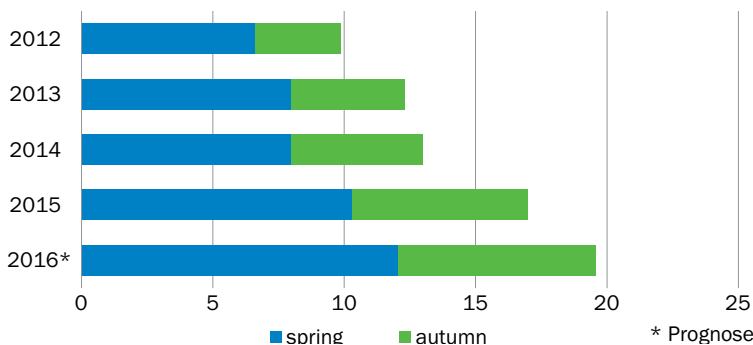


COST OF SOWING CAMPAIGN, BN UAH



In 2014 sowing campaign costs have increased to 99bn UAH and in 2015 – to 145bn UAH. Thus, currency devaluation caused a price increase of the sowing campaign of 70%. Notably, costs increased due to additional import fees and price increase for imported seeds of 10% and fertilizers and chemicals of 5%.

FINANCIAL DEFICIT, BN UAH



Companies' money deficit has increased with the escalating sowing campaign costs. The deficit has not changed notably in percentage, but nominally increased by 38% in 2015 compared to 2013.

Difficulties with bank lending, developments on the market for production resources and machinery are going to be discussed in more detail in the respective chapters. Summarizing the results of 2014 and 2015:

- ➔ Producers changed their purchasing strategy. Previously companies had purchased supplies just before sowing campaign started or even during the campaign. Nowadays businesses acquire all inputs directly after the harvest has been sold, if there are enough storage facilities.
- ➔ Direct exporters benefited from foreign currency revenues, which were partly offset by the regulations of NBU.
- ➔ The currency devaluation has not stimulated export of agricultural production due to the significant share of imported components.

CREDIT DEMAND FOR 20 TO 40BN UAH OF AGRICULTURAL COMPANIES HAS NOT BEEN SATISFIED.

PRODUCTION INPUTS

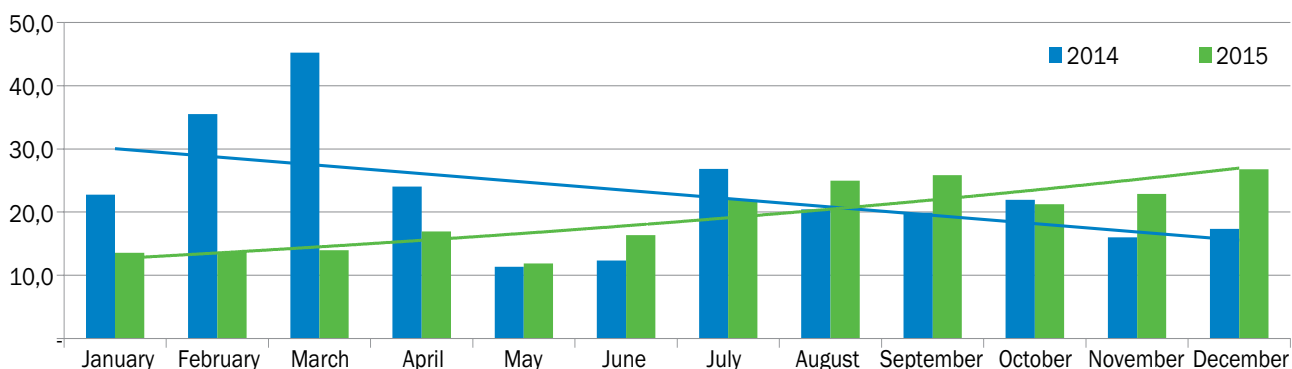
MACHINERY

The majority of market operators do not plan to abstain from acquiring new machinery and equipment, but postpone it until better times. Considering the degree of wear and tear and the low rate of renewal in the past two years, some of the agrarians will not wait for better times but will have to purchase necessary machinery.

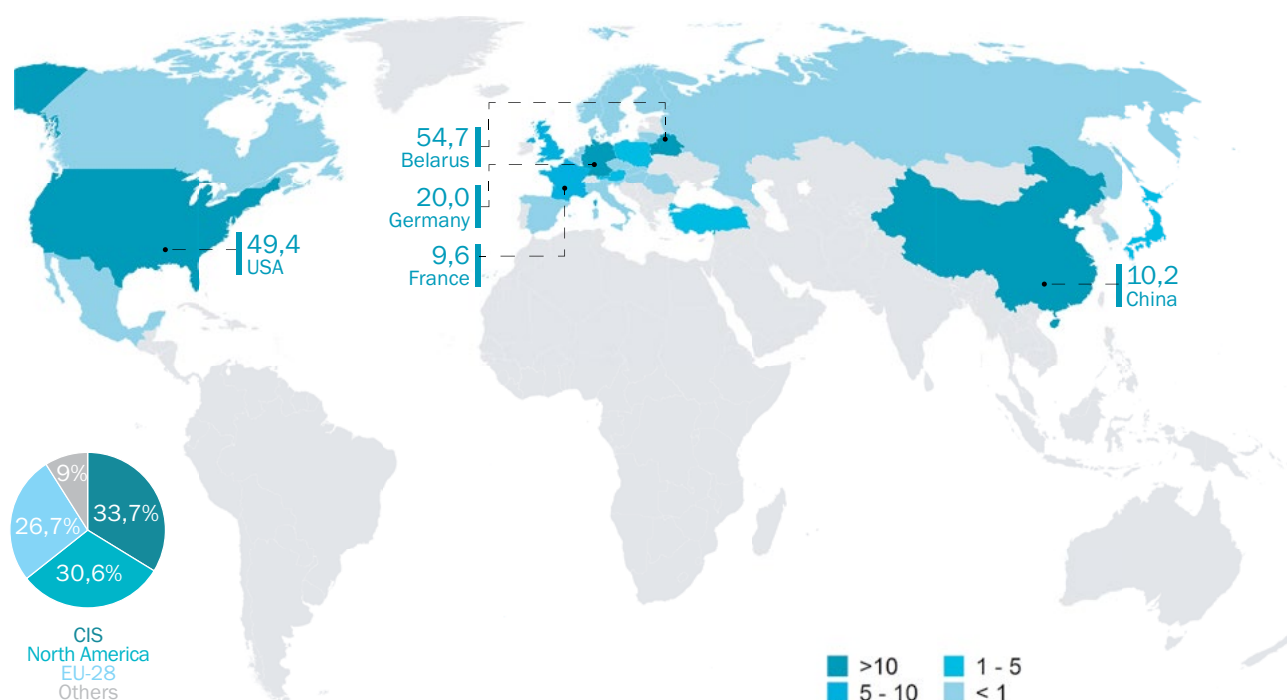
MARKET FACTORS:

- National currency devaluation
- Purchasing power decrease
- Narrowed access to global financial markets
- Negative business perceptions
- Additional import duties

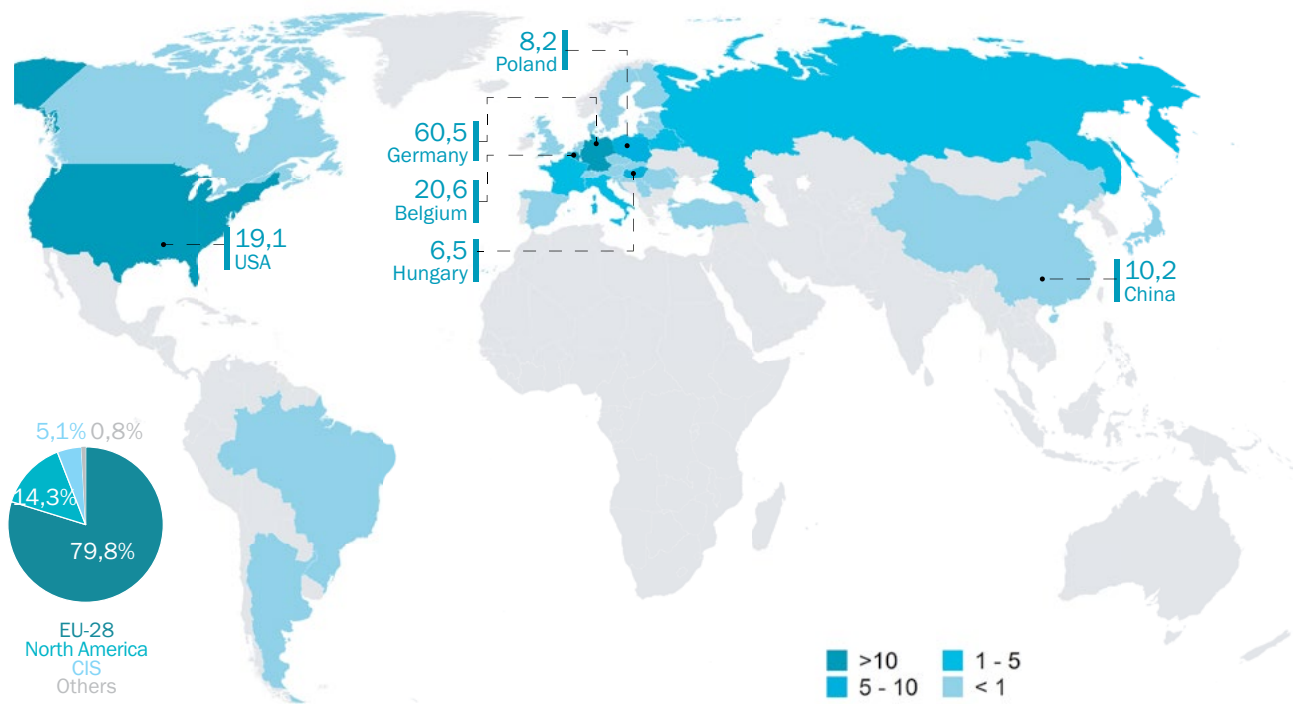
DYNAMICS OF UKRAINIAN IMPORT OF TRACTORS, M USD



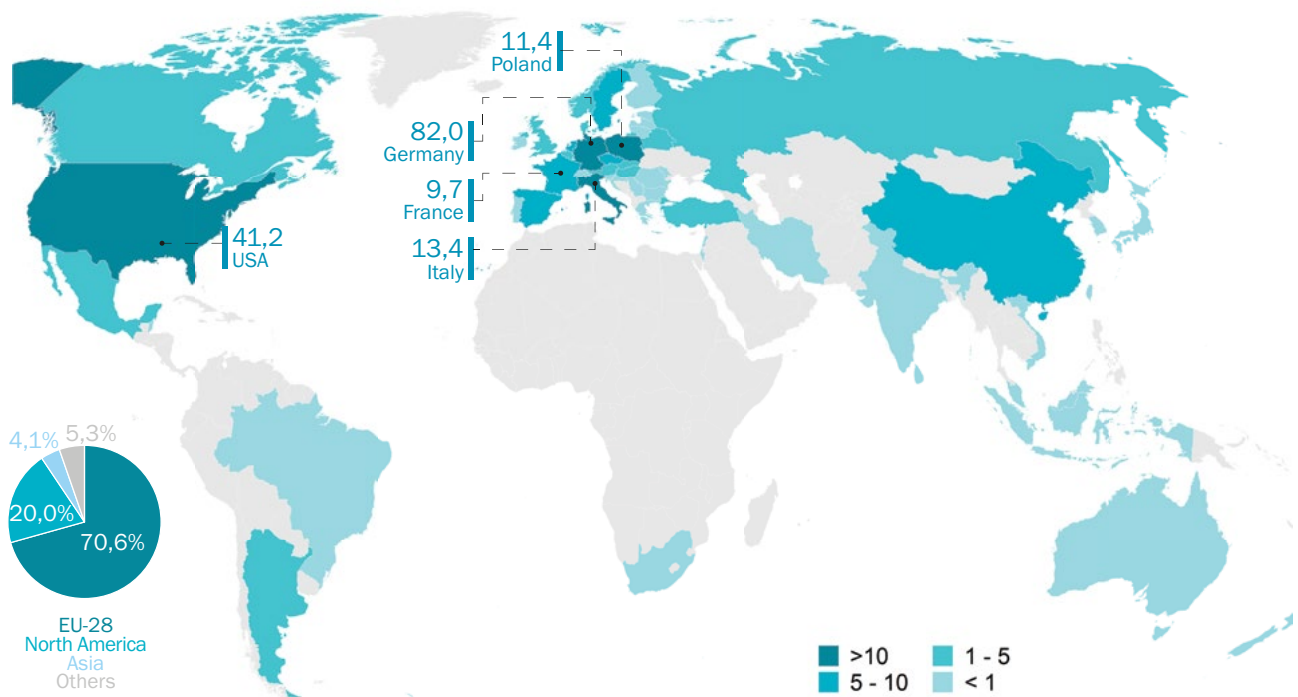
UKRAINIAN IMPORT OF TRACTORS, M USD



UKRAINIAN IMPORT OF HARVESTERS, M USD



UKRAINIAN IMPORT OF OTHER MACHINERY, M USD



2015 TRENDS:

- ➔ Machinery and equipment acquisitions decrease
- ➔ Deferred demand
- ➔ Slow market recovery in the last quarter of 2015

2016 EXPECTATIONS:

- 👍 Positive impact by further elimination of tariffs
- ⬆️ Continued market recovery

**„YOU CAN HEAR MY HEART
BEATING IN EVERY MACHINE.“**



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PRODUCTION INPUTS

SEEDS

2015 TRENDS:

- ➔ Import decline
- ➔ Internal supply increase
- ➔ Growth of foreign seed producers in Ukraine

CONSUMER BEHAVIOUR:

- ✓ Reorientation to cheaper price segments
- ✓ Strong trend in cost optimization
- ✓ Use of seeds from previous seasons
- ✓ Search for discount offers

2016 EXPECTATIONS:

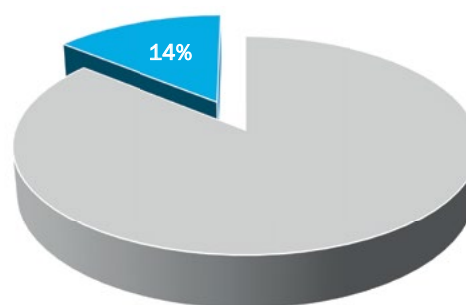
As of January 1, 2016 the 10% import tariff was eliminated, but new regulations might result in a 20% cost increase of seeds. Companies expect a decrease in demand for rapeseed in 2016. Dry weather conditions have caused insufficient sowing and therefore considerable volumes of seeds were stored. Along with that, producers might further decrease sowing areas under rapeseed due to weather risks and the price drop.

The market of soybean seeds is one of the most promising, which is demonstrated by the expansion of sown areas and the increase in imported volumes. In 2015 the import increased by 20%, and in view of companies' plans to further expand sown areas, more growth is to be expected.

MARKET FACTORS:

- 💰 Money deficit
- ⬇️ National currency devaluation
- 👉 Purchasing power decrease
- 📦 Additional import duties
- 🔄 Sowing structure changes

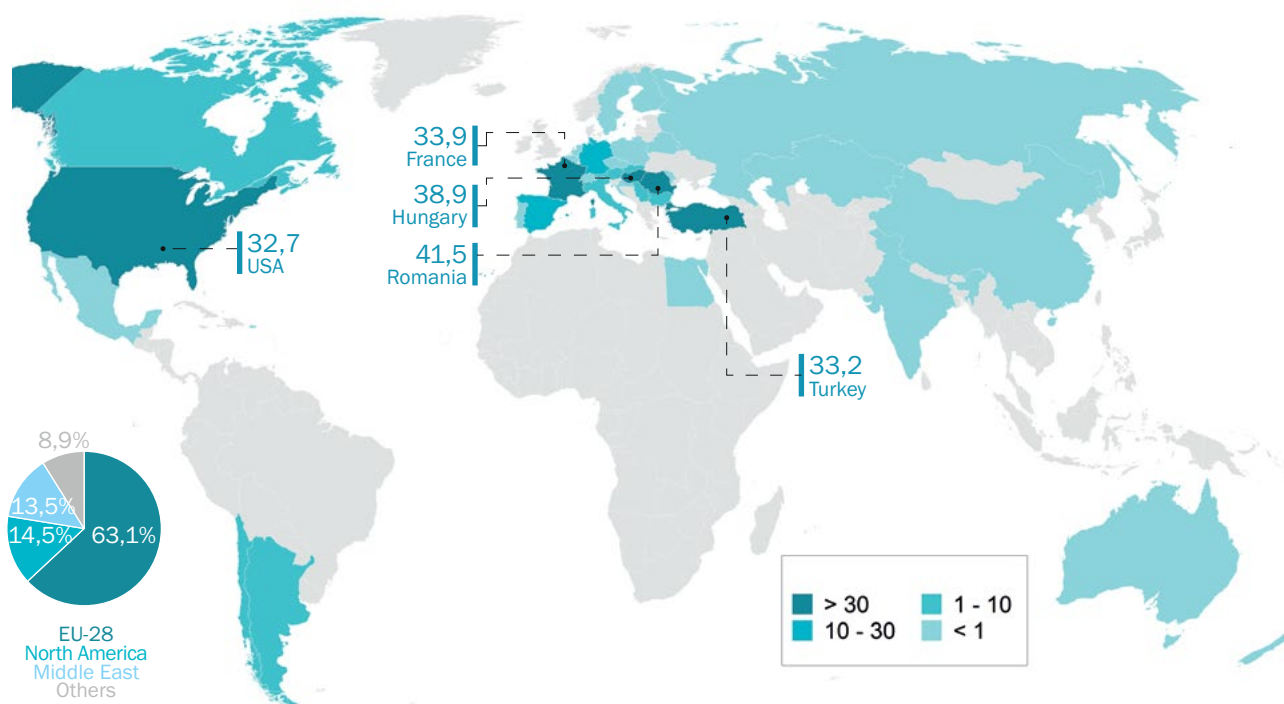
SEED COSTS IN PRODUCTION



2016 SEEDS MARKET BALANCE:

Crop	Production, tsd. t	Export of seeds, tsd. t	Import of seeds, tsd. t	% of import in consumption
Wheat	1498,4	1,9	1,5	0%
Barley	559,6	0,1	0,5	0%
Soybean	276,5	0,0	2,5	1%
Corn	72,9	4,7	28,8	30%
Sunflower	16,6	0,1	13,3	45%
Rapeseed	1,8	0,0	2,1	54%

2015 UKRAINIAN IMPORT OF SEEDS, M USD



PRODUCTION INPUTS

AGROCHEMICALS

CROP PROTECTION

2015 TRENDS:

- ➔ Consumption structure changes
- ➔ Sales increase
- ➔ Import of plant protection by large companies

MARKET FACTORS:

- ↓ National currency devaluation
- 💰 Money deficit
- 👉 Purchasing power decrease
- 📦 Additional import duties
- 🔄 Sowing structure changes

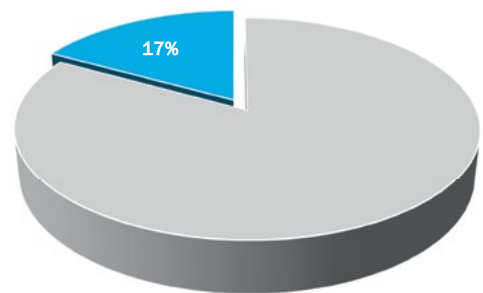
2016 EXPECTATIONS:

- ✗ Elimination of 5% import duty
- ⚡ Due to decreasing areas under wheat and rapeseed, demand for fungicides is expected to decline
- ✗ Elimination of 6.5% import duty for EU trade partners

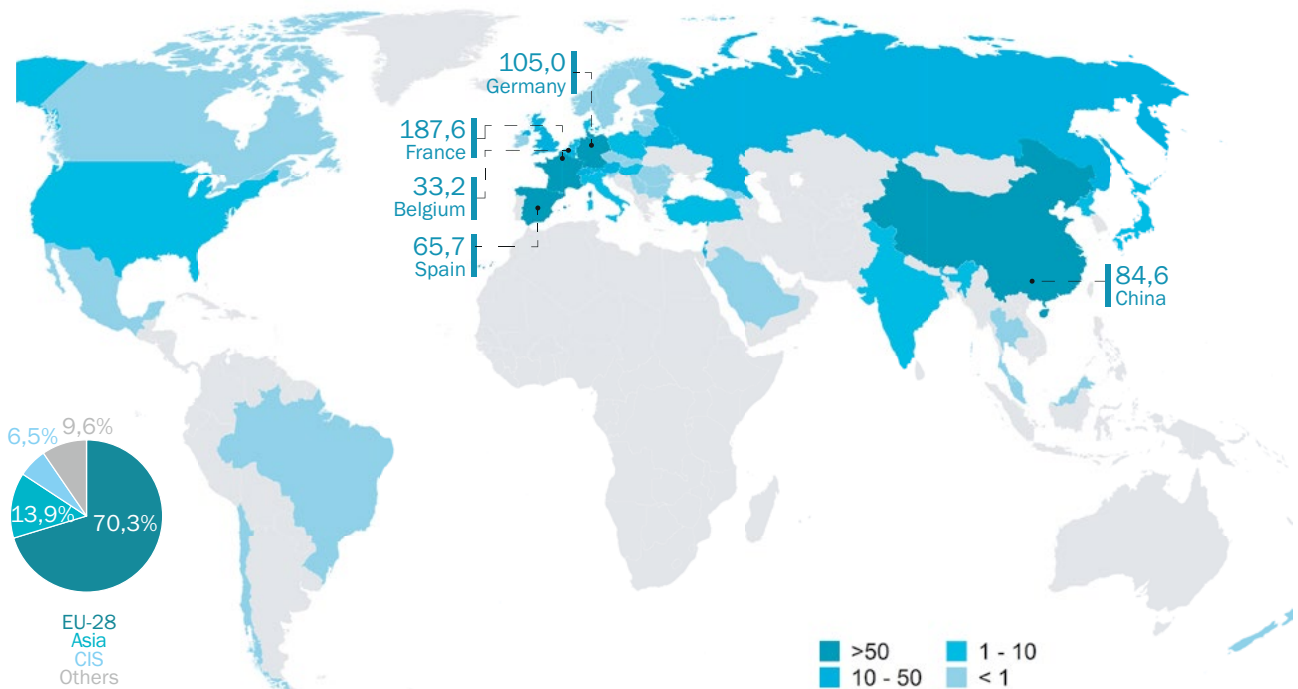
CUSTOMER BEHAVIOUR:

- ✓ Combination of high cost originals and low cost generics

SHARE OF CROP PROTECTION
IN PRODUCTION COSTS
OF MAIN CROPS



2015 CROP PROTECTION IMPORT, M USD



FERTILIZERS

2015 TRENDS:

- ➔ Domestic production decrease
- ➔ Nitrogen fertilizers deficit
- ➔ Sales prices increase
- ➔ Import increase
- ➔ Price disparity on export and domestic markets

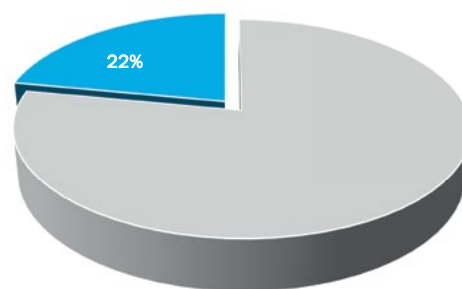
MARKET FACTORS:

- ↓ National currency devaluation with its peak during sowing campaign
- 👤 Political impact
- ✘ No supplies from occupied territories
- 👉 Gas price increase
- 📦 Additional import duties
- ⚡ Shortness of supplies during peak demand times

2016 EXPECTATIONS:

In 2016 the demand for fertilizers will supposedly continue to decrease and agrarians will tend to purchase cheaper products. Nevertheless, positive impact on the market is expected through the elimination of mandatory import and production registration for almost all types of fertilizers, which will allow for breaking market monopolization and import from third countries during peak times.

SHARE OF FERTILIZERS IN PRODUCTION COSTS OF MAIN CROPS



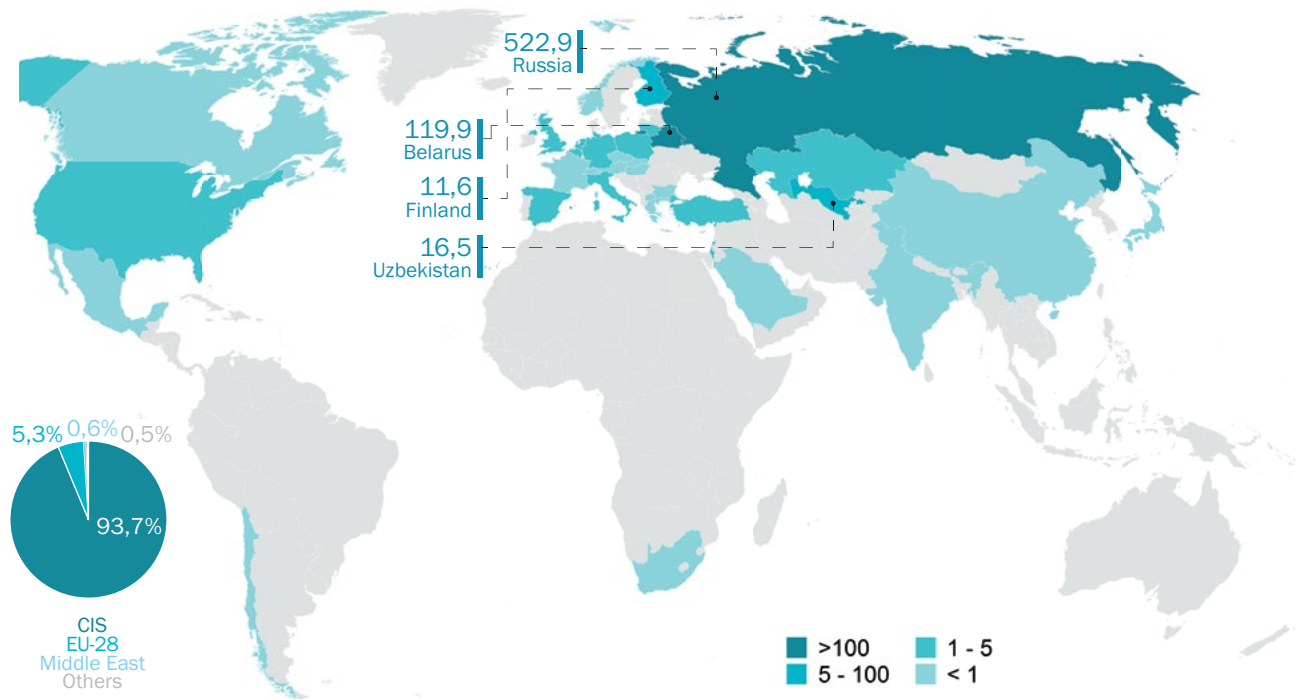
CONSUMER BEHAVIOR:

- ✓ The shift towards alternative types of fertilizers
- ✓ Reduced consumption
- ✓ Change of procurement strategy

CARBAMIDE PRICES, USD/T



2015 UKRAINIAN IMPORT OF FERTILIZERS, M USD



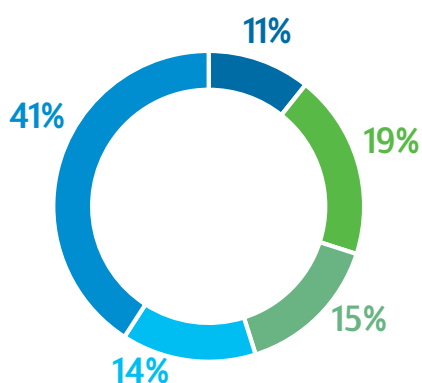


PRODUCTION INPUTS

TECHNOLOGY

STRUCTURE OF THE PRODUCTION COSTS OF MAJOR CEREAL CROPS IN 2015

WHEAT

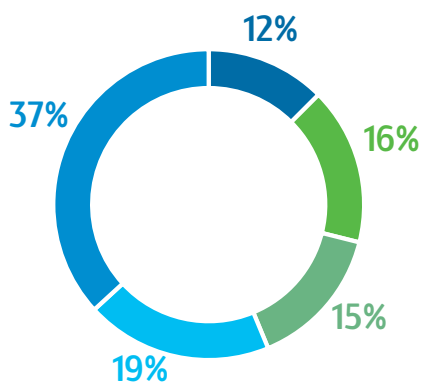


101 \$/t
total costs

137 \$/t
sales price

3,99 t/ha
yield

BARLEY

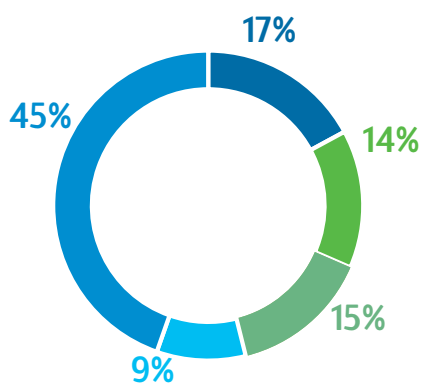


91 \$/t
total costs

133 \$/t
sales price

3,20 т/га
yield

CORN



100 \$/t
total costs

127 \$/t
sales price

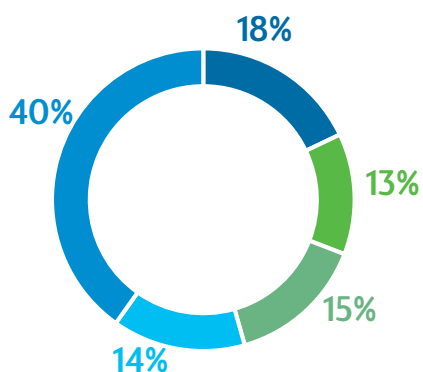
6,11 t/ha
yield

■ Seeds
 ■ Fertilizers
 ■ Crop protection products
 ■ Rent
 ■ Other costs


PRODUCTION INPUTS

STRUCTURE OF THE PRODUCTION COST OF MAJOR OIL CROPS IN 2015

SUNFLOWER

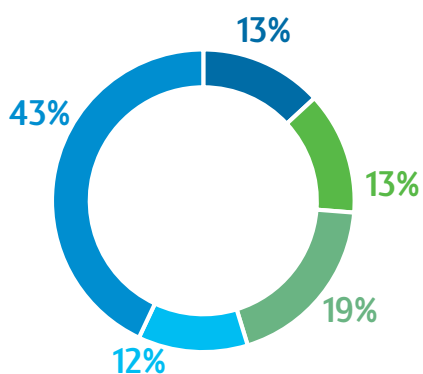


 **172 \$/t**
total costs

 **368 \$/t**
sales price


 **2,3 t/ha**
yield

SOYBEAN

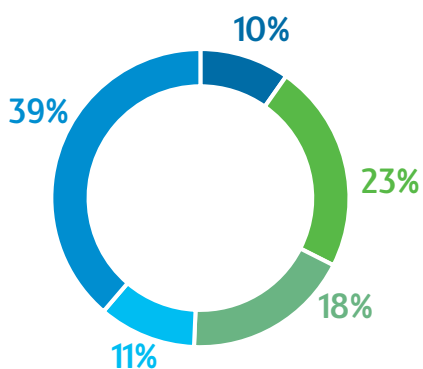


 **253 \$/t**
total costs


 **358 \$/t**
sales price

 **1,9 t/ha**
yield

RAPSEED



 **200 \$/t**
total costs

 **329 \$/t**
sales price

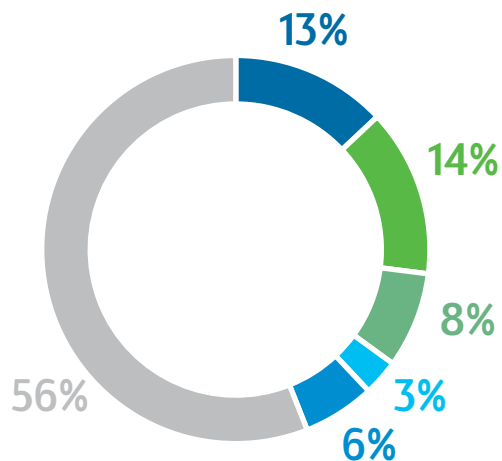
 **2,7 t/ha**
yield

■ Seeds
 ■ Fertilizers
 ■ Crop protection products
 ■ Rent
 ■ Other costs



THE STRUCTURE OF THE MAIN TYPES OF LIVESTOCK PRODUCTION COSTS IN 2015

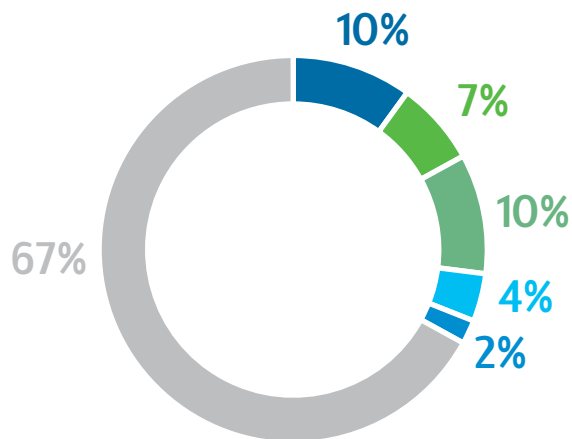
PORK



120,8 \$/100 kg
total costs

96 kg per 1 unit
production in slaughter weight

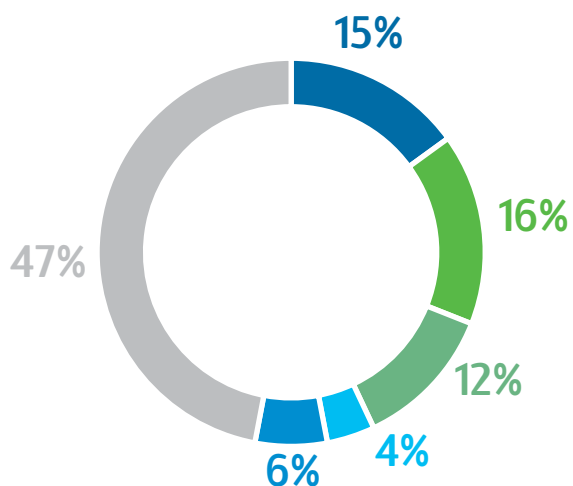
BEEF



195,9 \$/100 kg
total costs

94 kg per 1 unit
production in slaughter weight

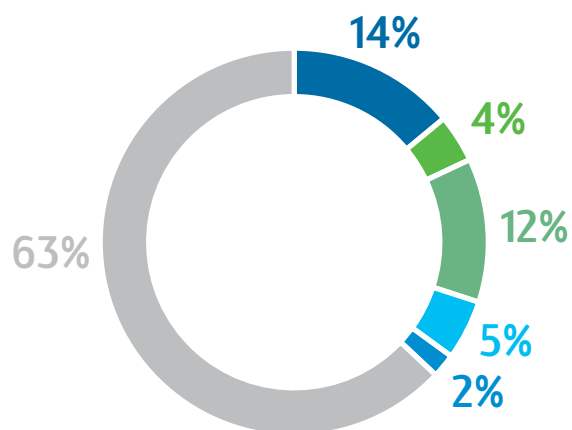
MILK



24,5 \$/ц
total costs

4508 kg per 1 cow
average milk yield

EGGS



36,9 \$/tsd. pcs.
total costs

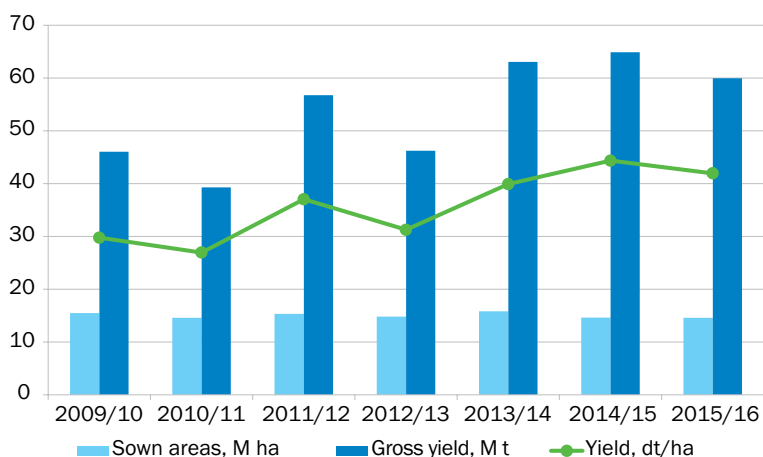
276 pcs.
average production

- Other direct costs
- Labor costs
- Other material costs
- Fuel and lubricants
- Service costs
- Forage

AGRICULTURAL MARKETS

GRAINS

GRAIN PRODUCTION



2015 TRENDS:

- ➔ Decrease in sown area
- ➔ Grain export increase
- ➔ Decrease in foreign currency revenue due to price drop

During the past five years the market has seen continuous expansion of export geography. Significantly increased exports went to African and Asian destinations. In 2011/2012 marketing year the EU's share in Ukrainian export accounted for 44% and in 2014/2015 only 27%. At the same time demand in Asia has increased considerably and as a result trade with Asian business partners increased. The share of exports to China has increased from 3% to 18%.

2015 YIELD FACTORS:

- ✘ Weather conditions
- 💰 Money deficit
- ⬆️ Increased input prices

2015 INDICATORS:

60 M tons
of grains harvested
(-3,9 M tons, or -6%)

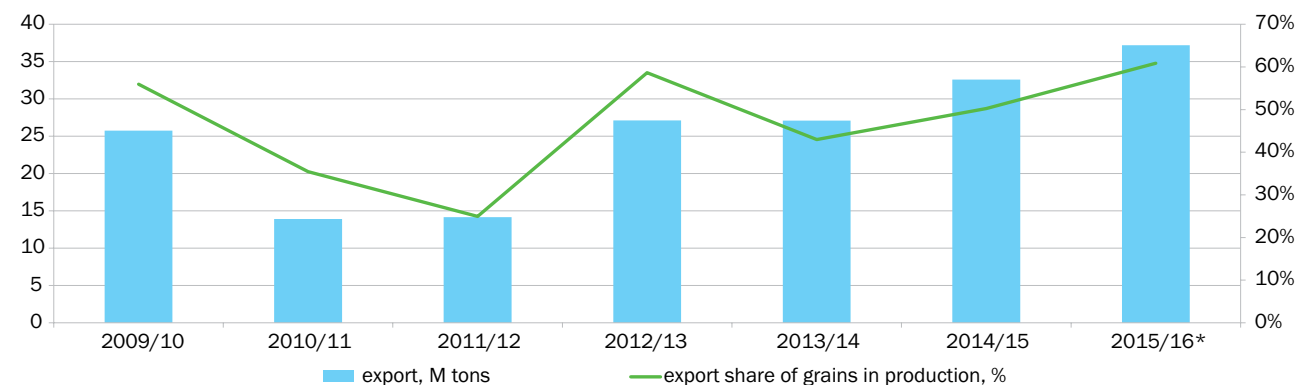
14,6 M ha
sown areas (-13 tsd. ha, or -0,1%)

41 dt/ha
yield (-2,7 dt/ha, or -6%)

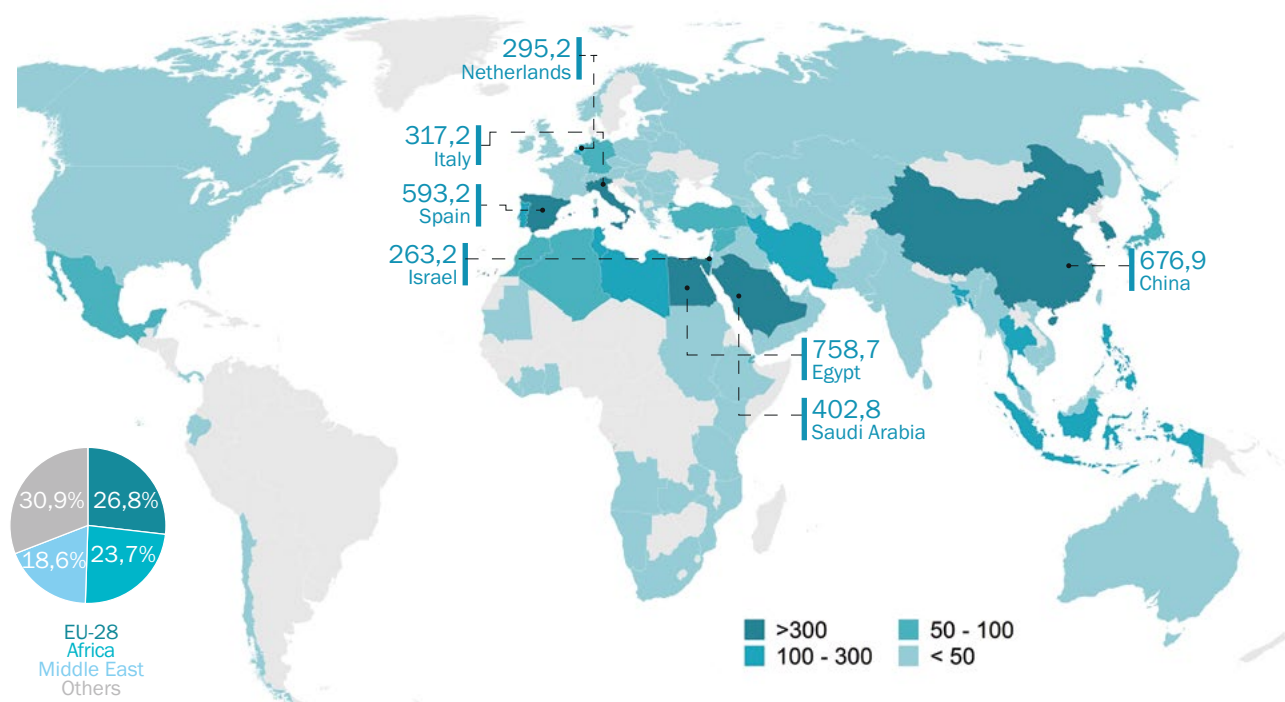
34,5 M tons
exported (+1,3 M tons, or +3,7%)

6,2 bn USD
export revenue
(40% of overall industry export)

2015 UKRAINIAN EXPORT OF GRAIN, M USD



2015 UKRAINIAN EXPORT OF GRAIN, M USD



WHEAT

2015 TRENDS:

- ➔ Export increase in USD
- ➔ Yield growth (+10% annually)
- ➔ Expansion of sown area

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Increased input prices



2015 INDICATORS:

26,9 M tons
of wheat harvested
(+2,4 M tons, or +9,9%)

6,8 M ha
sown area (+0,8 M ha, or +13,7%)

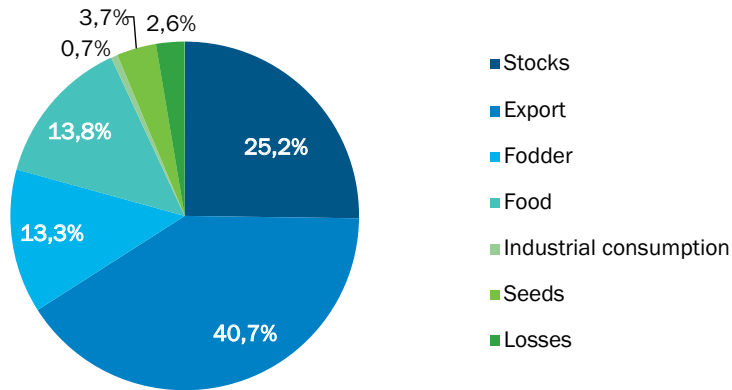
39 dt/ha
yield (-1,3 dt/ha, or -3%)

10,5* M tons
exported (+2,5 M tons, or +32,1%)

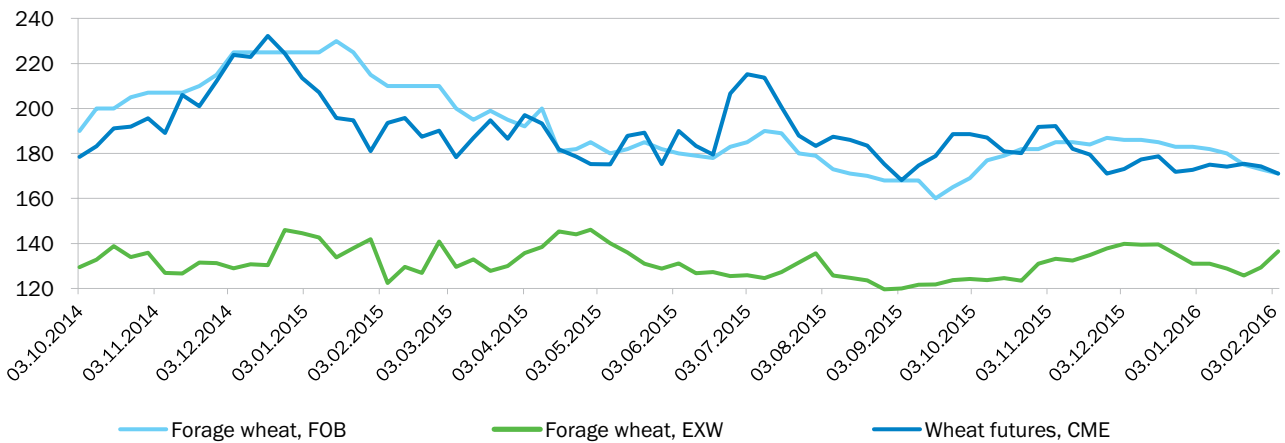
21%*
of overall agroindustry export
(+31 M USD, or +3%)

*on January 1, 2016

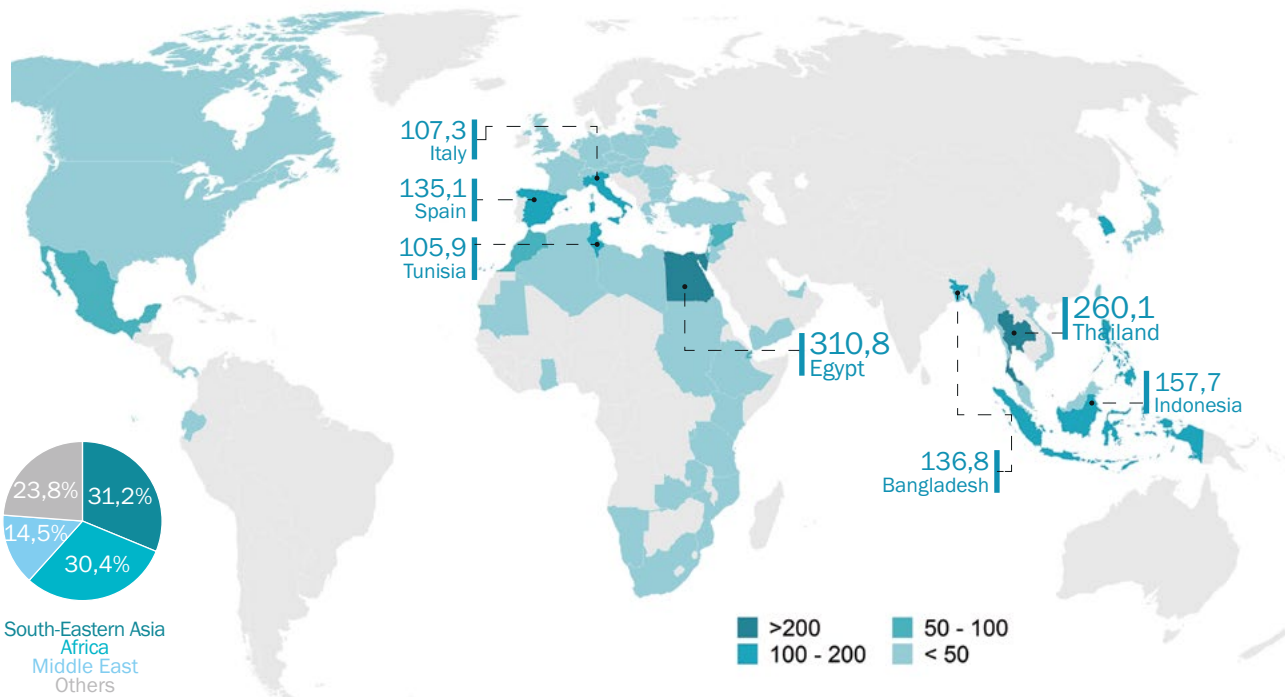
WHEAT SUPPLY AND DEMAND BALANCE IN 2015/2016 MY



WHEAT PRICES, USD/T



2015 UKRAINIAN WHEAT EXPORT, M USD





BARLEY

2015 TRENDS:

- ➔ Drop in internal demand caused decrease in sown area
- ➔ Decrease in barley consumption as fodder
- ➔ Production efficiency increase (+6% per annum)

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Cost increase
- ⚡ Unfavorable weather conditions in some regions

2015 INDICATORS:

8,3 M tons harvested (-0,8 M tons, or -8,5%)

2,8 M ha sown area (-0,2 M ha, or -6,4%)

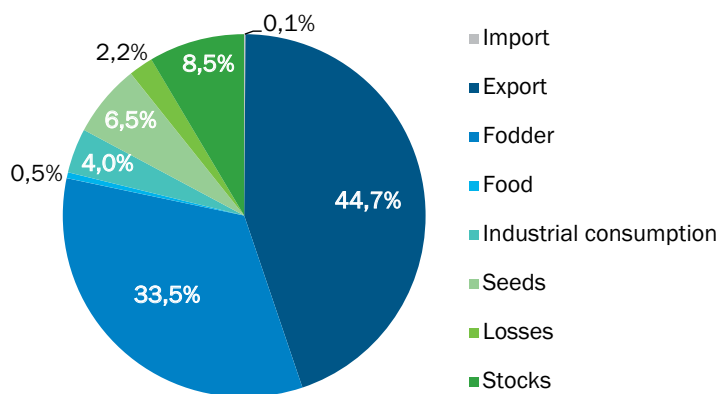
30 dt/ha yield (-0,6 dt/ha, or -2%)

3,9* M tons exported (+0,2 M tons, or +5%)

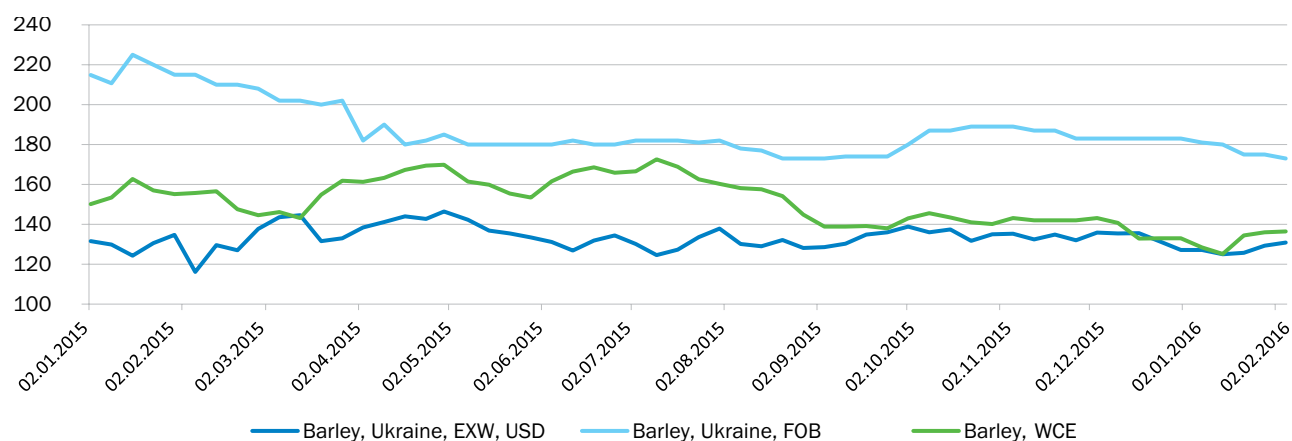
8%* of overall agricultural export (-117 M USD, or -0,4%)

* on January 1, 2016

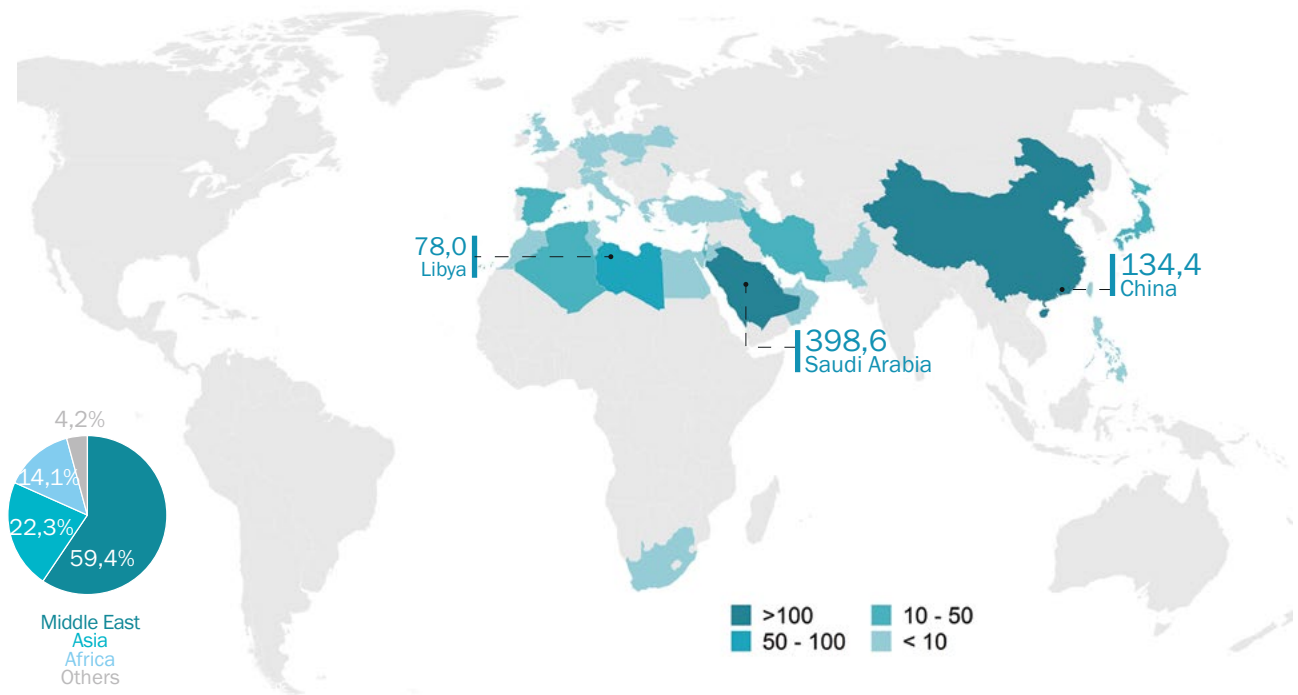
BARLEY SUPPLY AND DEMAND BALANCE IN 2015/2016 MY



BARLEY PRICES, USD T



2015 UKRAINIAN BARLEY EXPORT, M USD



CORN

2015 TRENDS:

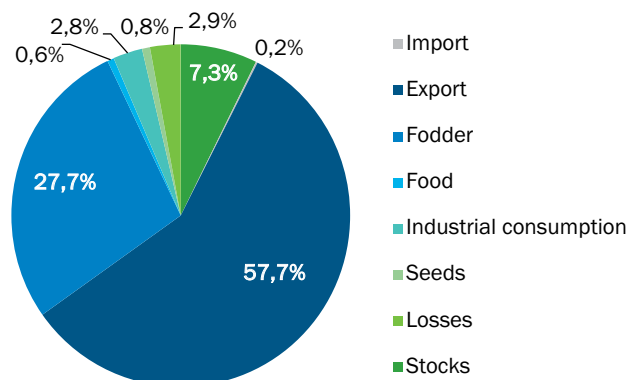
- ➔ Gradual production technology advancement
- ➔ Internal consumption growth
- ➔ Foreign currency revenue decrease due to global price drop

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Production cost increase
- ⚡ Unfavorable weather conditions in some regions



CORN SUPPLY AND DEMAND BALANCE IN 2015/2016 MY





2015 INDICATORS:

23,2 M tons
harvested (-5,3 M tons, or -18,5%)

4,1 M ha
of sown area (-0,6 M ha, or -12,1%)

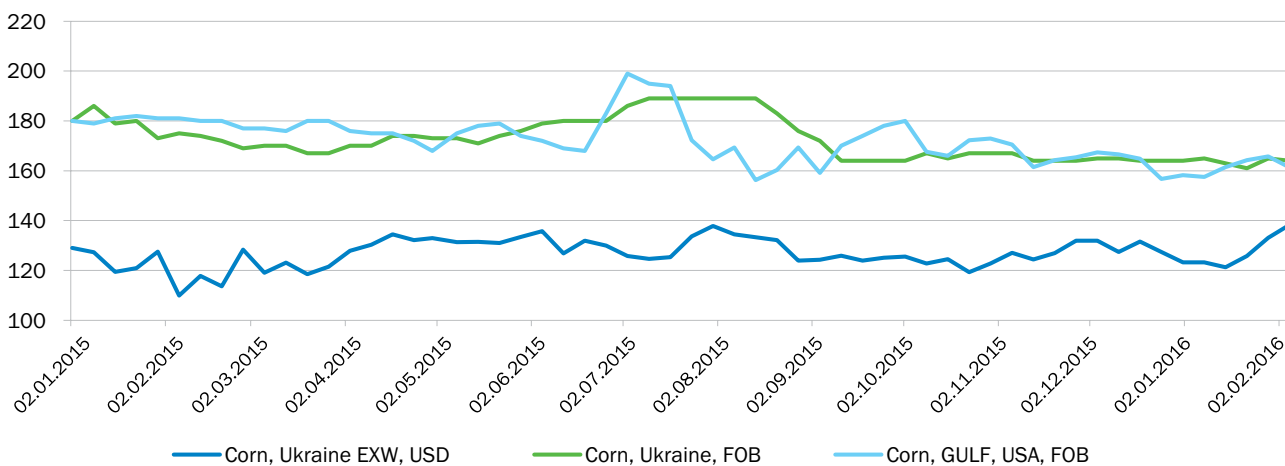
57 dt/ha
yield (-4,5 dt/ha, or -7%)

7,0* M tons
exported (+0,2 M tons, or +3%)

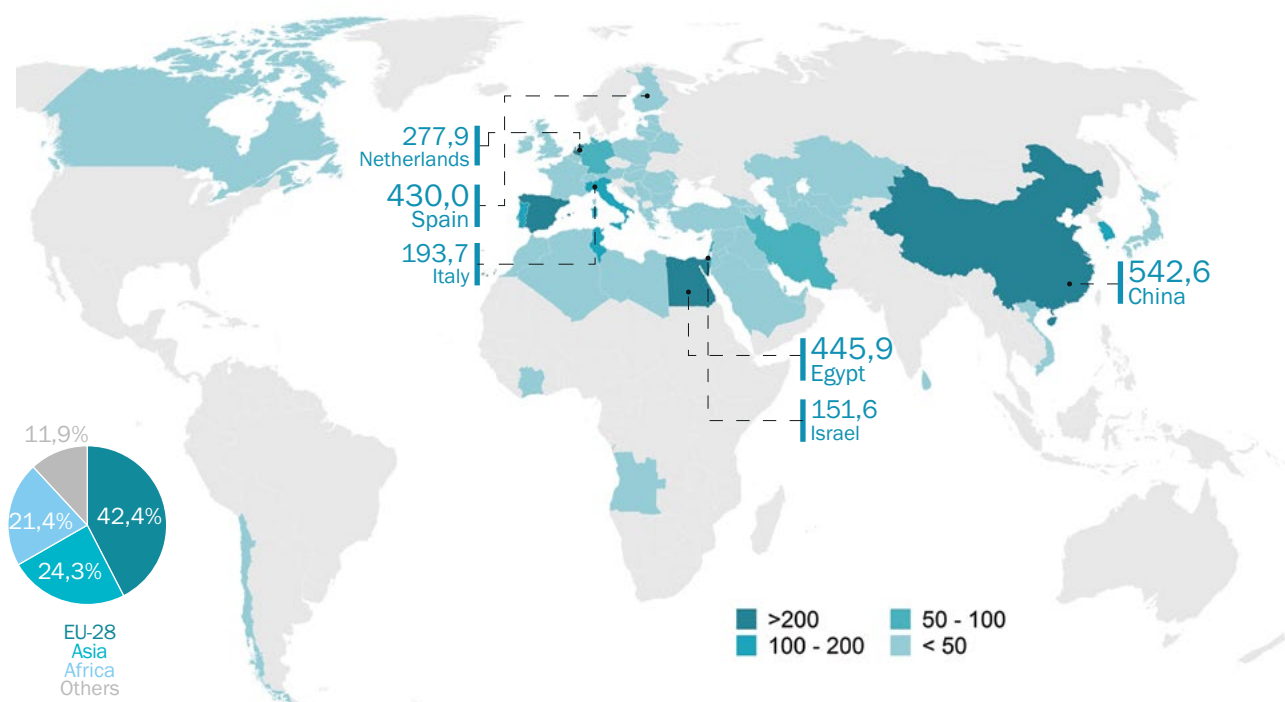
13%*
of overall agricultural export
(-111 M USD, or -0,3%)

* on January 1, 2016

CORN PRICE, USD/T



2015 UKRAINIAN CORN EXPORT, M USD



AGRICULTURAL MARKETS

OILSEEDS

SUNFLOWER

2015 TRENDS:

- ➔ Profitability increase caused production growth
- ➔ Gradual productivity increase by 10% annually
- ➔ Expansion of production capacities

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Production cost increase
- ⚡ Unfavorable weather conditions in some regions

11,2 M tons
harvested (+1,0 M tons, or +10,2%)

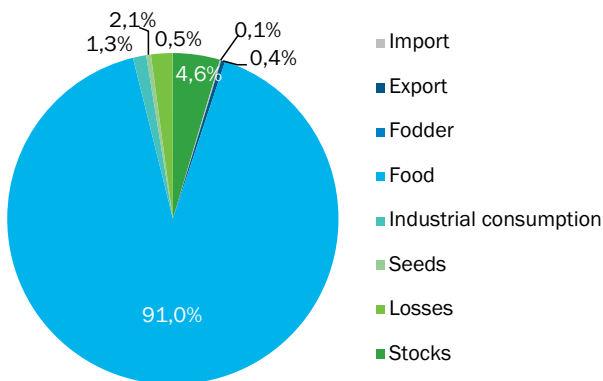
5,2 M ha
sown area (-56 tsd. ha, or -1,1%)

21,7 dt/ha
yield (+2,3 dt/ha, or +12%)

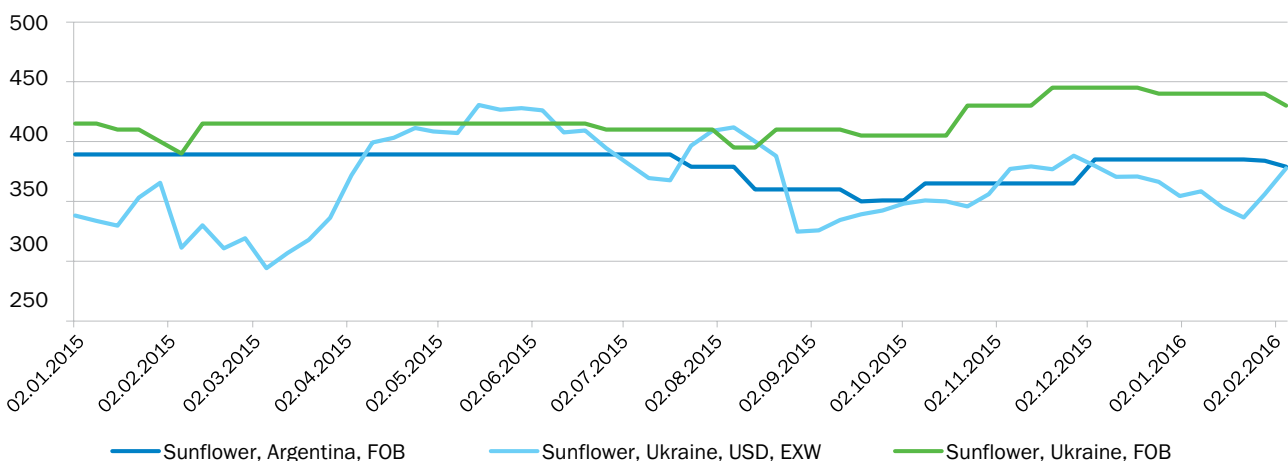
10,7* M tons
processed (+0,8 M tons, or +8%)

*On 01.01.2016

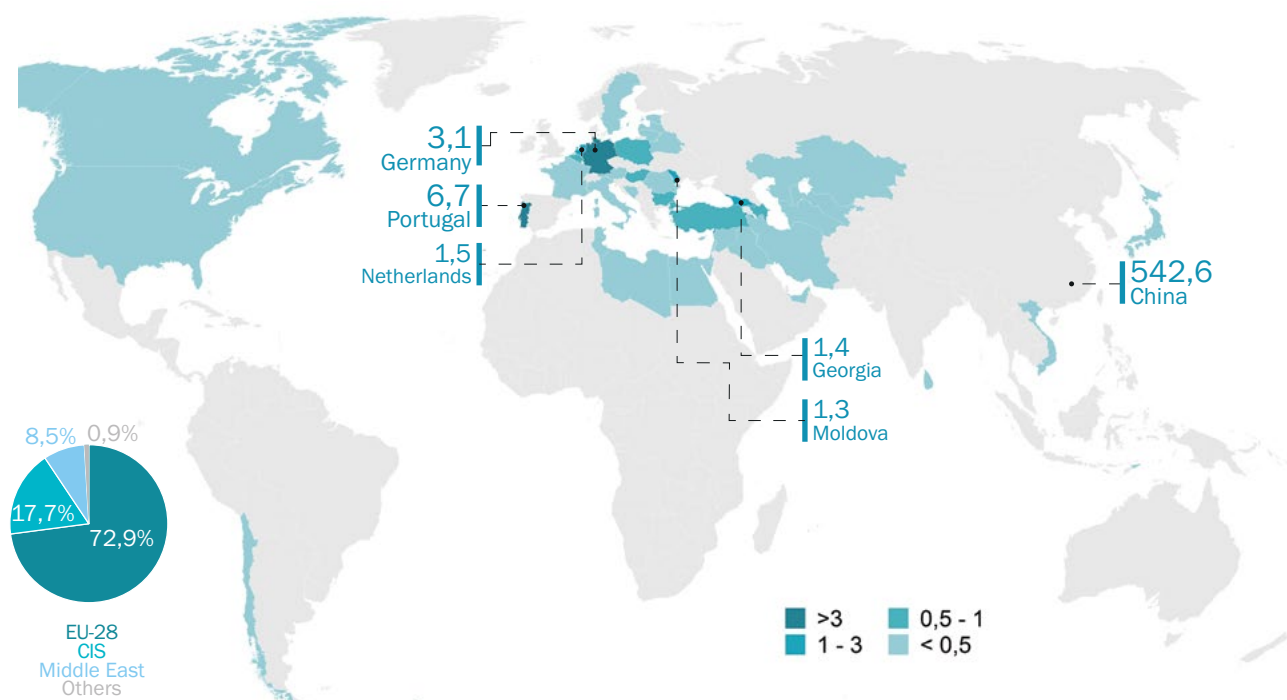
2015 SUNFLOWER SUPPLY AND DEMAND BALANCE IN 2015/2016 MY



SUNFLOWER PRICES, USD/T



2015 UKRAINIAN EXPORT OF SUNFLOWER SEEDS, M USD



SOYBEAN

2015 TRENDS:

- ➔ Soybean production increase
- ➔ Increase in processing (oil)
- ➔ Productivity increase (+4% per annum)
- ➔ High price volatility
- ➔ 5% decrease in export prices
- ➔ 65% correlation with US prices

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Production cost increase
- ⚡ Unfavorable weather conditions in some regions

3,9 M tons
harvested (+40 tsd. tons, or +1%)

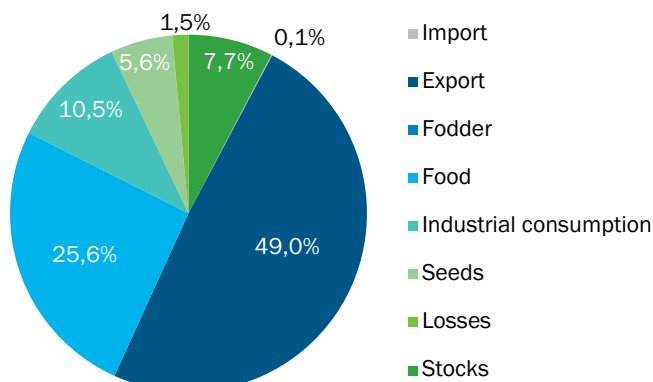
2,1 M ha
sown area (+330 tsd. ha, or +18,4%)

18,5 dt/ha
yield (-3,1 dt/ha, or -14,4%)

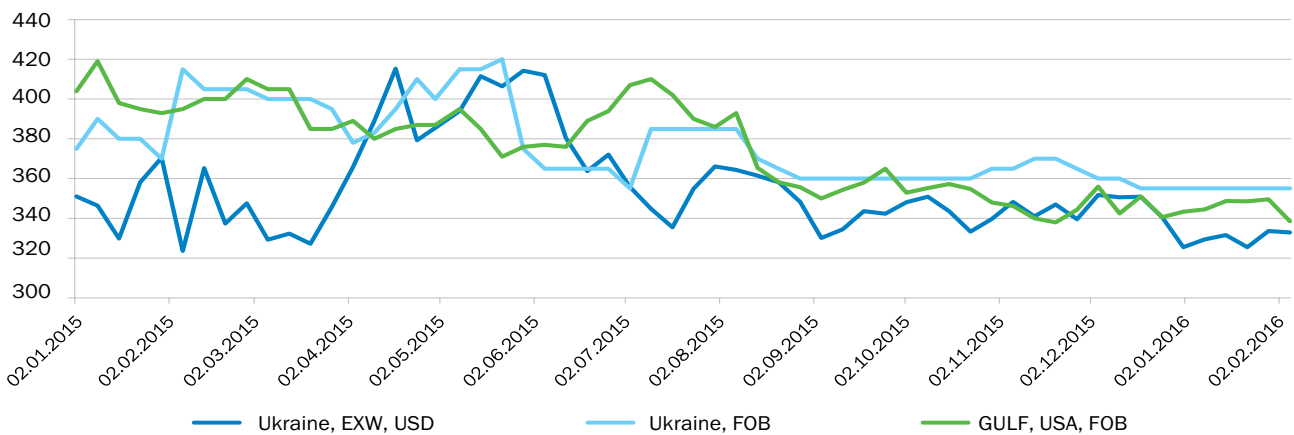
1,9* M tons
exported (-0,5 M tons, or -21%)

*On 01.01.2016

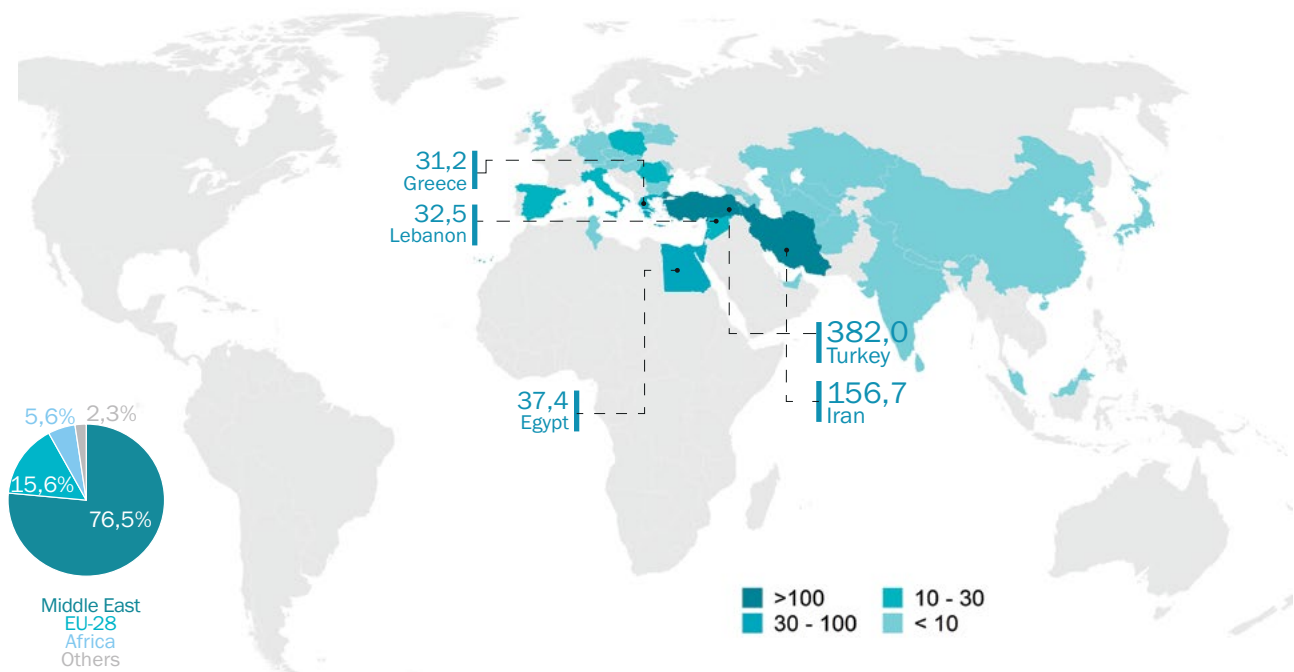
2015 SOYBEAN SUPPLY AND DEMAND IN 2015/2016 MY



SOYBEAN PRICES, USD/T



2015 UKRAINIAN SOYBEANS EXPORT, M USD



RAPESEED

2015 TRENDS:

- ➔ Production decrease
- ➔ Productivity increase (+10% annually)
- ➔ Internal processing boost
- ➔ Export decrease

2015 YIELD FACTORS:

- 💰 Money deficit
- ⬆️ Production cost increase
- ⚡ Unfavorable weather conditions in some regions
- ⬇️ Global production decrease in biofuels

1,7 M tons
harvested (-456 tsd. tons, or -20,8%)

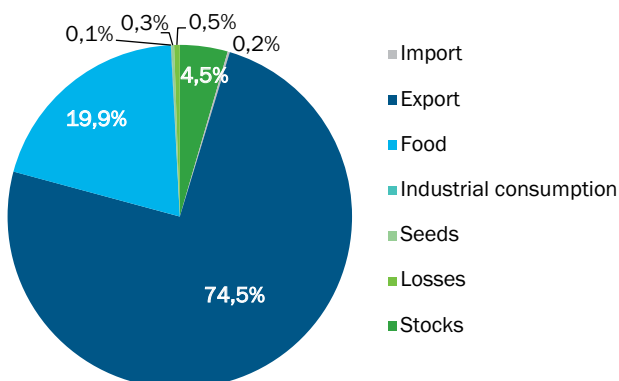
670 tsd. ha
sown area (-194 tsd. ha, or -22,5%)

26,0 dt/ha
yield (+0,6 dt/ha, or +0,2%)

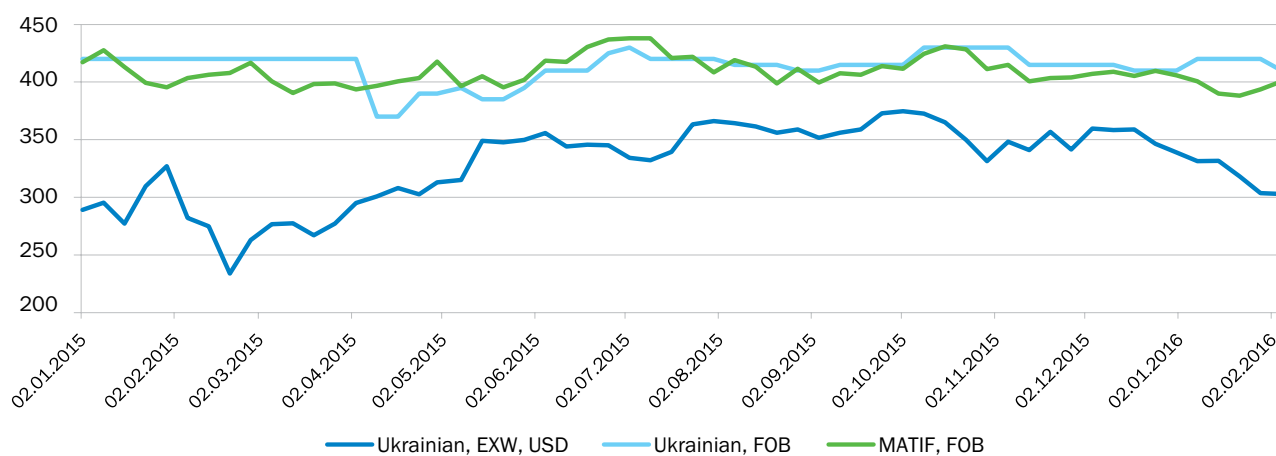
1,4 M tons
exported (-0,55 M tons, or -28%)



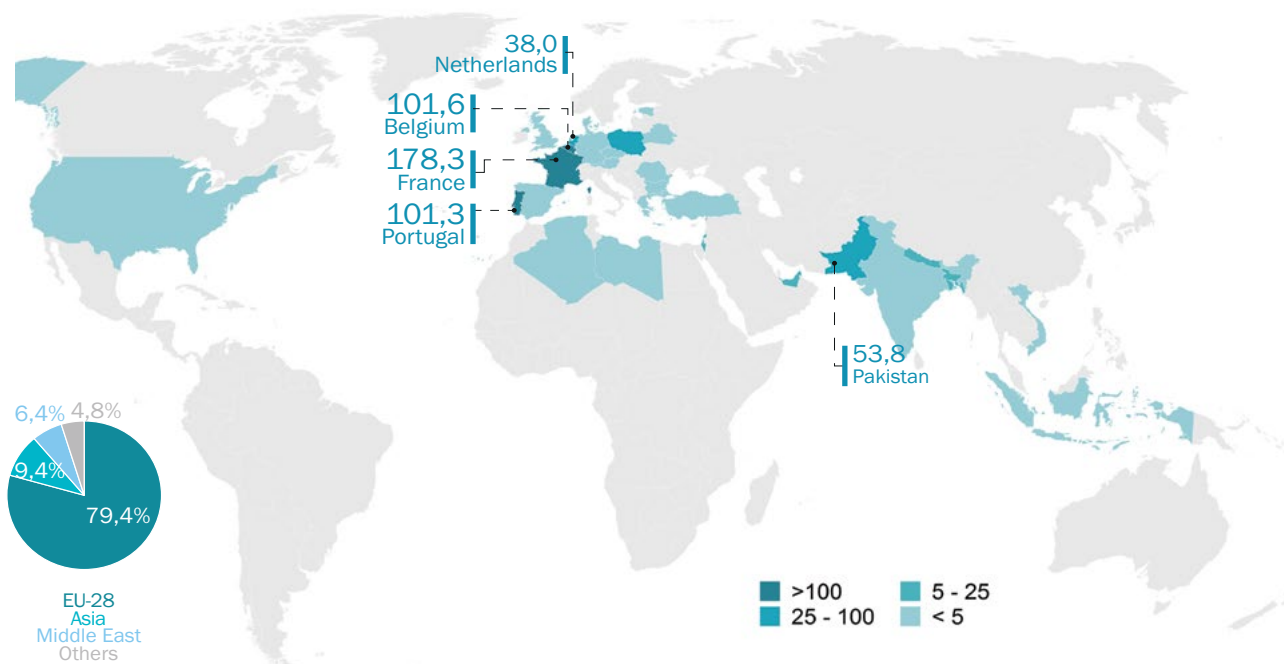
2015 RAPESEED SUPPLY AND DEMAND BALANCE IN 2015/2016 MY



RAPESEED PRICES, USD/T



2015 UKRAINIAN RAPESEED EXPORT, M USD



AGRICULTURAL MARKETS

MILK

Despite livestock decrease caused by unfavorable circumstances in 2015 marketing year, agribusiness companies managed to keep a stable production level compared to the previous year.

2015 TRENDS:

- Decrease in milk production in households
- Increasing number of farms in production
- Optimization of herds, culling of low productive cows
- Increase in yields and quality
- Reduced processing
- Decrease in export

MILK PRODUCTION AND PROCESSING FACTORS:

- ↑ Non-proportional growth of costs and prices
- 💰 Decrease in purchasing power
- 🔄 New trade opportunities

2015 KEY FIGURES

10,7 M t
produced milk (-0,8 M tons, or -4%)

25% market share
of farms (+1,3%)

4% livestock decrease
(at the beginning of 2016 – 2,2 M animals)

4,2% productivity increase of livestock in
agricultural companies (5,42 t per cow)

4,25 M t
of processed milk (-8,5%)

32% share of households
in processed milk (-6 п.п.)

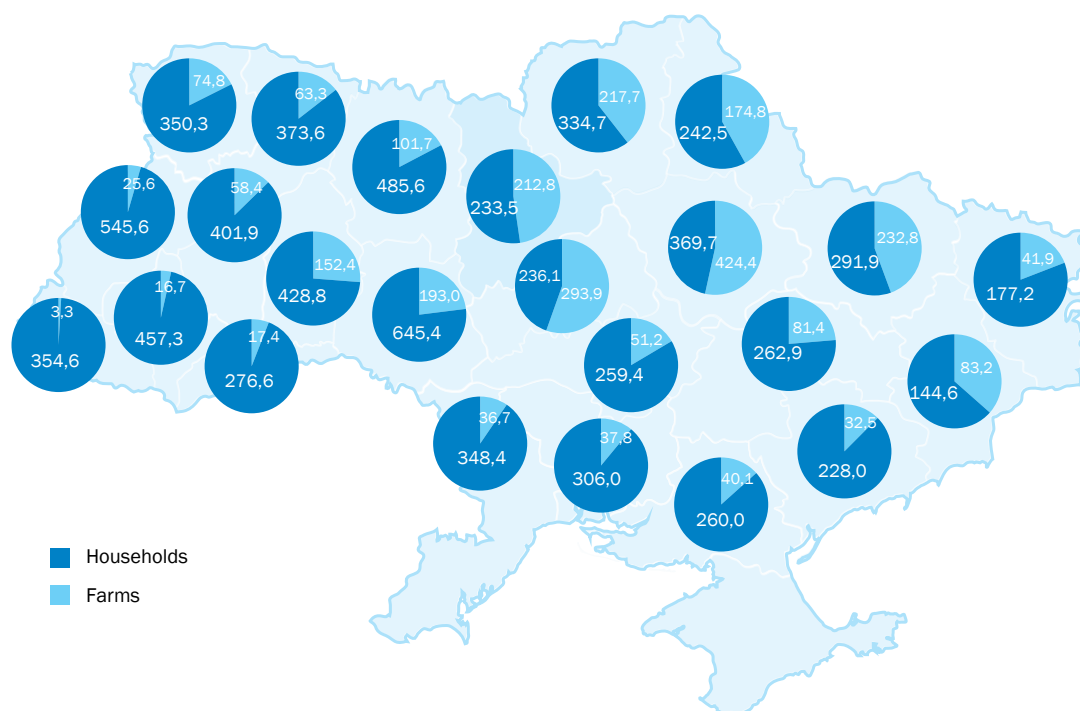
0,48 M t
export of milk products
(-0,02 M t or -4%)

79% decrease in import

GENERAL INDICATORS OF MILK PRODUCTION

	2011	2012	2013	2014	2015	2015/ 2014
Milk production, M t	11,09	11,39	11,19	11,13	10,68	96,0%
From farms, M t	2,25	2,54	2,59	2,66	2,67	100,2%
From households and other entities, M t	8,84	8,85	8,63	8,57	8,01	93,5%
Volume of processed milk, M t	4,61	4,71	4,57	4,65	4,25	91,5%
From farms, M t	2,51	2,41	2,22	1,74	1,35	77,6%
From households, M t	2,03	2,28	2,33	2,43	2,41	99,3%
From other entities	0,07	0,02	0,02	0,48	0,49	102,1%
Export of milk products (in milk), M t	1,00	0,82	0,75	0,50	0,48	96,0%
Import of milk products	0,30	0,41	0,54	0,34	0,07	20,6%

MILK PRODUCTION IN UKRAINE, TSD. T

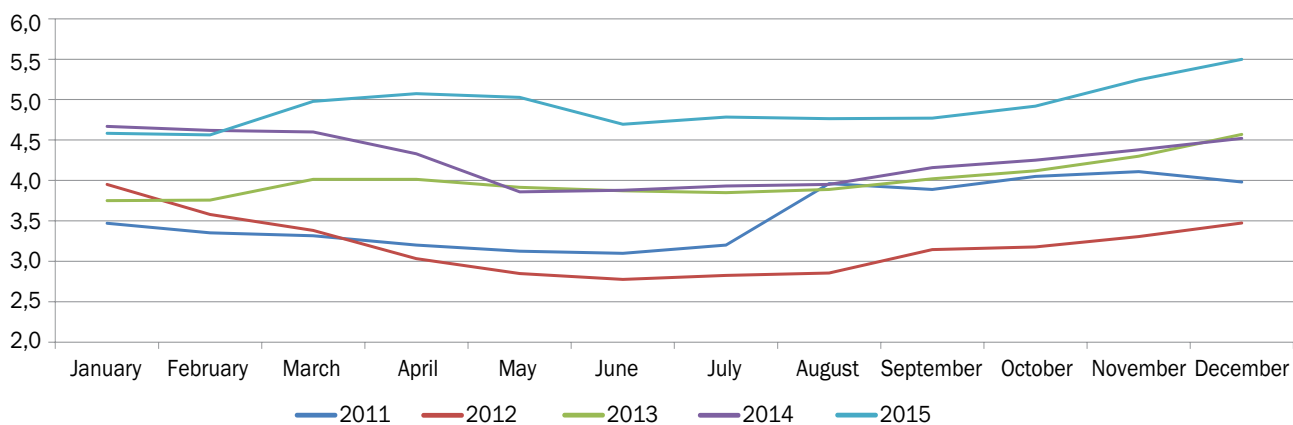


Leading Ukrainian milk producers are located in Poltava, Cherkassy and Kharkov regions. Vinnitsa, Zhitomir and Lviv were leading in milk production from households, but volumes decreased in 2015.

The situation on the raw milk market in 2015 was difficult. Wholesale prices demonstrated remarkably low levels during the first nine months of 2015 and resulted in lower margins of producers. Prices started to pick up in October 2015 as a result of seasonal demand and export increase.



AVERAGE BUYING PRICES OF FIRST CLASS MILK FROM FARMS, UAH PER LITER, INCLUDING VAT



As a result of unbalanced price dynamics, quality of milk has not improved. Milk of category “first” was often sold at prices of category “extra”. The situation is expected to improve after obtaining the import license for EU markets.

2016 ASSUMPTIONS:

- ➔ Decrease in milk production, mainly in households;
- ➔ Growing share of farms in processing structure;
- ➔ Growing demand for high-quality milk of export oriented companies;
- ➔ Increasing productivity of cows.

Low price factors:

- ✓ Export decline due to Russian embargo;
- ✓ Deferred demand for milk products as a result of decreasing purchasing power;
- ✓ Decline in global prices on milk products.

 EXPERT VIEWS

“Astarta-Kyiv” Holding Representatives

2015 was a challenging year for all the market players. Financial market volatility, price increase of supplies and veterinary medicine caused a surge in production costs.

Last year macroeconomic instability fortified market demand decrease by 10% with a notable decline in processing. Despite the fact of a 15% price growth, the industry didn't reach higher margins due 43% inflation.

Besides, export markets also demonstrated further challenges: EU production growth, Chinese turbulences and Russian bans had negative influence on global milk prices.

There is no considerable price growth expected for 2016, albeit Western analysts forecast short-term market recovery. Current fiscal policy doesn't foresee any benefits. The elimination of the specific VAT regime for agricultural producers resulted in a loss of several billions for the industry.

Market participants expect further strengthening of competitiveness of Ukrainian exporters on European markets and stronger expansion in Africa and the Middle East.



AGRICULTURAL MARKETS

MEAT

Ukrainian political and economic crises had a negative impact on the industry in general, but, nevertheless, meat producing brands demonstrated stability by short term balanced production trends. Thereby, the 2015 marketing year showed the same results as 2014.

2015 TRENDS:

- ➔ Decrease in livestock and poultry segments;
- ➔ Decrease in beef production;
- ➔ Increasing share of enterprises in gross production;
- ➔ Decrease in processing;
- ➔ Increasing poultry meat consumption,
- ➔ Declining import of meat;
- ➔ African swine fever in eight Ukrainian regions: Chernigiv, Sumy, Kiev, Nikolayev, Odessa, Poltava, Cherkassy and Rivne.

MEAT PRODUCTION AND PROCESSING FACTORS:

- ⬆ Disproportionate increase in costs and prices
- 💰 Purchasing power decrease
- 💰 Money deficit
- 🌐 Access to global markets
- 💰 Prices of production resources



2015 KEY FIGURES

2,3 M t
tons of meat production (-0,7%)

63%
share of companies in gross meat production (+1,1%)

3,5%
decrease in pig stock

3 times
increase in pork export (up to 27,2 tsd. t)

51 kg
meat consumption per capita (-1,35 kg, or -2,6%)

220,5 tsd. t
of exported meat (14,9 tsd. t, or +7%)

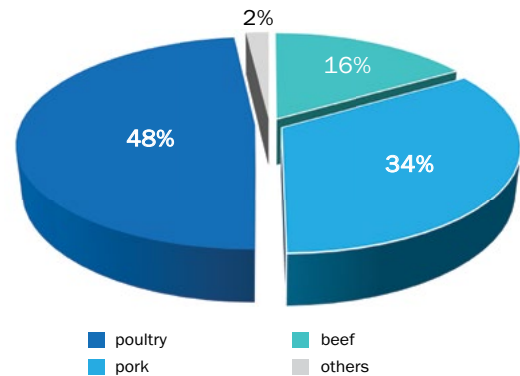
30%
decrease in meat import

GENERAL INDICATORS OF MEAT MARKET IN UKRAINE, TSD. T

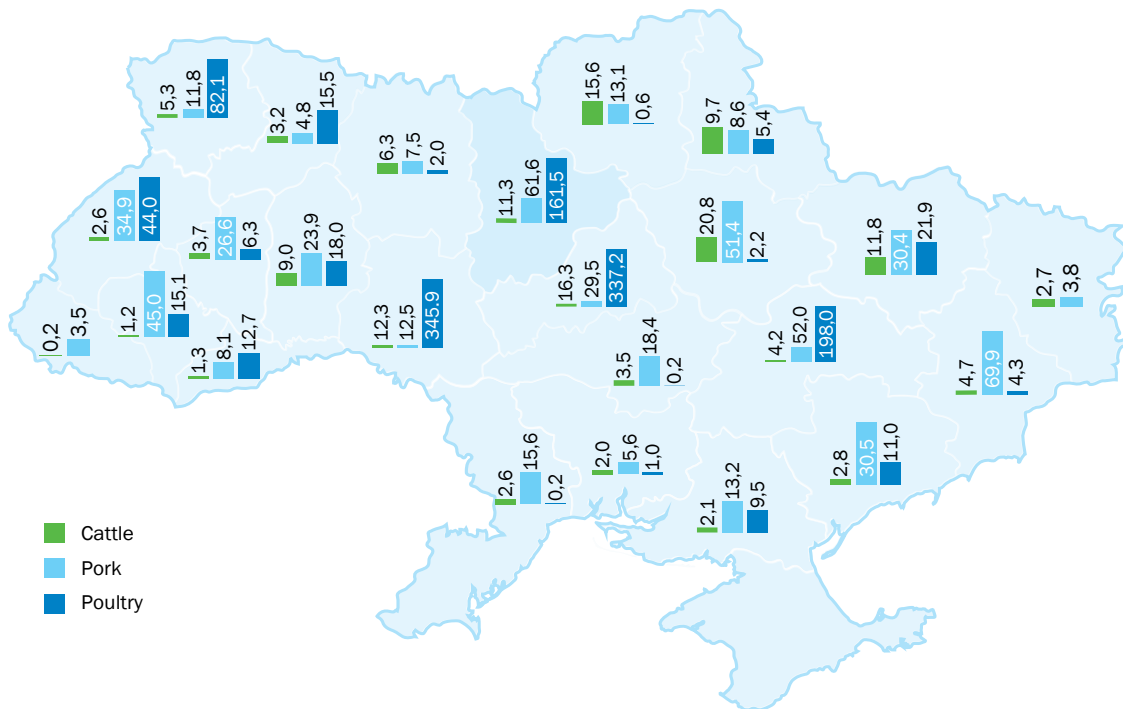
	2014	including:				2015	including:			
		beef	pork	poultry	other		beef	pork	poultry	other
Consumer demand	2459,3	414,6	773,4	1225,7	45,6	2409,1	392,2	761,1	1215,9	39,9
Domestic market	2253,7	393,1	764,0	1051,0	45,6	2188,5	360,1	733,9	1054,6	39,9
including:										
Consumption fund	2243,7	389,1	761,0	1048,0	45,6	2178,5	356,1	730,9	1051,6	39,9
Other consumption	10,0	4,0	3,0	3,0	0,0	10,0	4,0	3,0	3,0	0,0
External markets (export):	205,6	21,5	9,4	174,7	0,0	220,6	32,1	27,2	161,3	0,0
Supply	2459,3	414,6	773,4	1225,7	45,6	2409,1	392,2	761,1	1215,9	39,9
Overall internal market	2365,6	412,7	742,6	1164,7	45,6	2342,9	391,0	757,4	1154,6	39,9
External market (import)	93,7	1,9	30,8	61,0	0,0	66,2	1,2	3,7	61,3	0,0

Meat production costs have increased in 2015 compared to 2014 and consumer prices have doubled at the same time. Average beef price reached 52.25 UAH per kg in 2015 with a maximum level of 57 UAH in August. Pork prices fluctuated in 2015. The first half of the year they demonstrated solid growth rates. In the second half of 2015, the outbreak of ASF at Kalyta, one of the largest pig fattening farms, caused the death of 60k pigs resulting in a sharp price decline. The market temporarily became stable in November and December. Poultry meat prices increased during the year from 24.3 UAH/kg up to 33.5 UAH/kg with a 2-4% range of deviation.

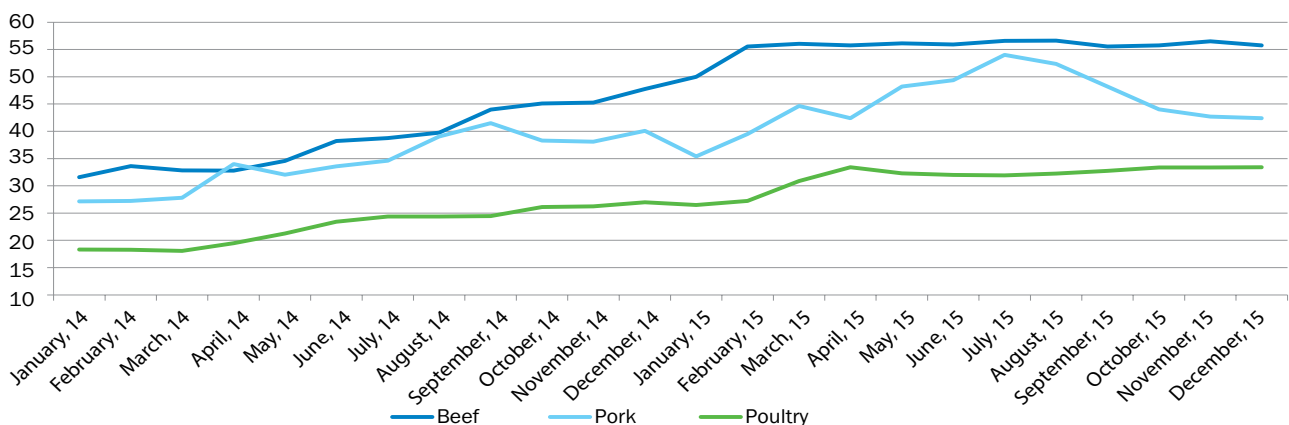
2015 STRUCTURE OF MEAT CONSUMPTION IN UKRAINE



MEAT PRODUCTION AT FARMS, TSD T OF LIVE WEIGHT



AVERAGE WHOLESALE MEAT PRICES, UAH PER KG (VAT INCL.)



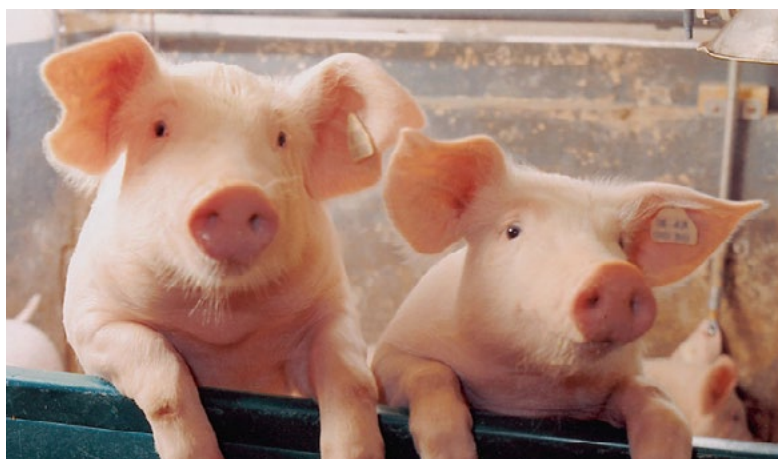
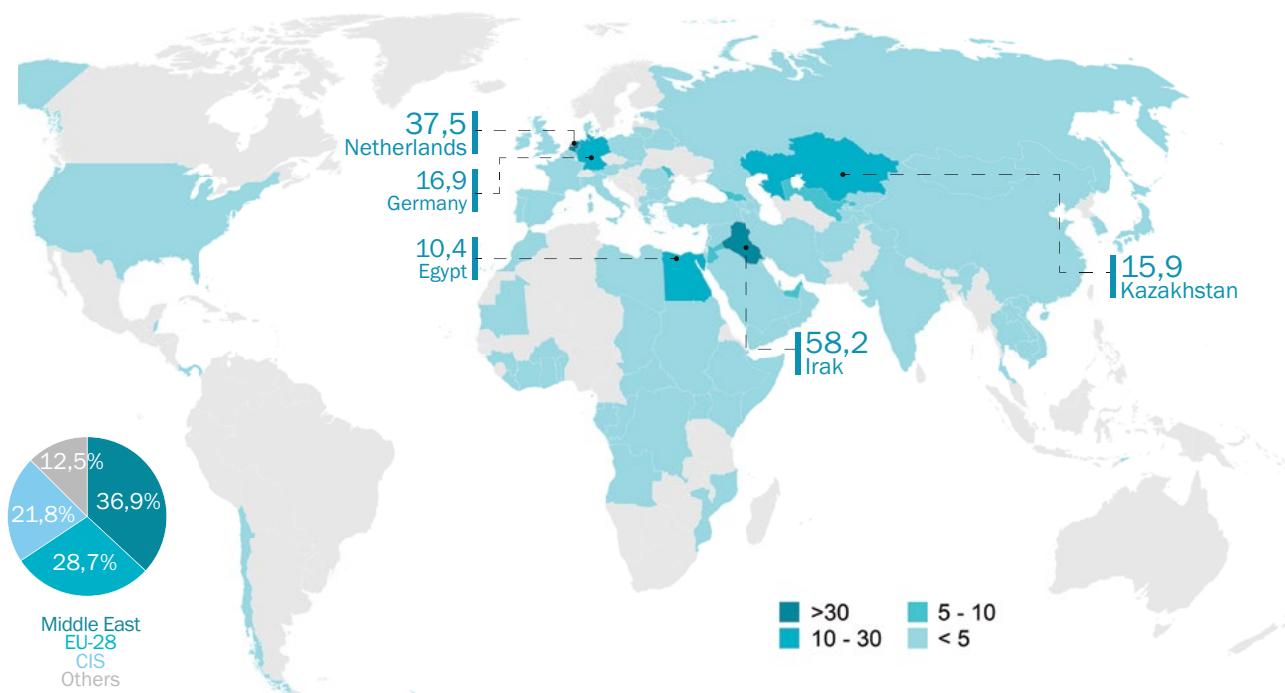


Compared to the previous year, meat export volumes increased by 10% in 2015 and reached 220.6k t. Poultry meat remains the main export meat product with a market share of 73%.

Markets for poultry meat are highly diversified. Major volumes are exported to 60 countries. The result of foreign trade accounted for 226.8M USD. Iraq became a leading importer of Ukrainian poultry meat with a share of 26%, the Netherlands ranked second (17%), Germany third (7.4%).

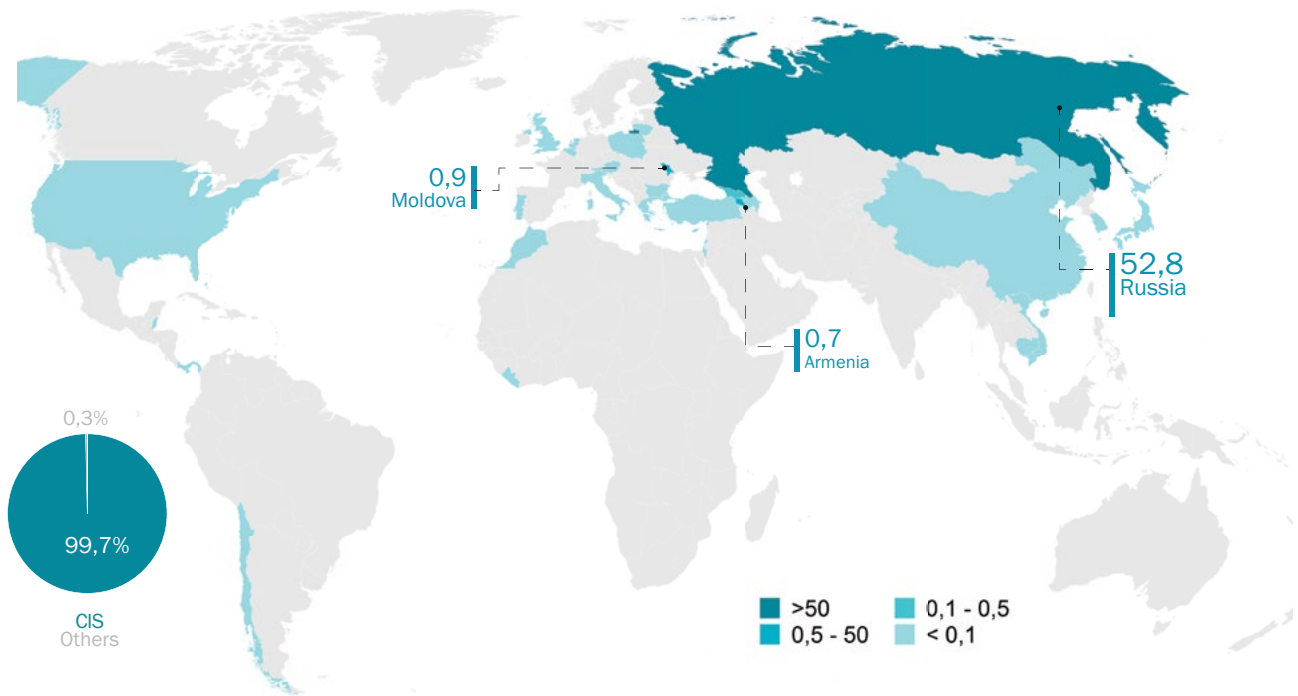
The global outbreak of HPAI increased the export potential for Ukrainian poultry meat producers.

UKRAINIAN MEAT EXPORT DESTINATIONS IN 2015, M USD

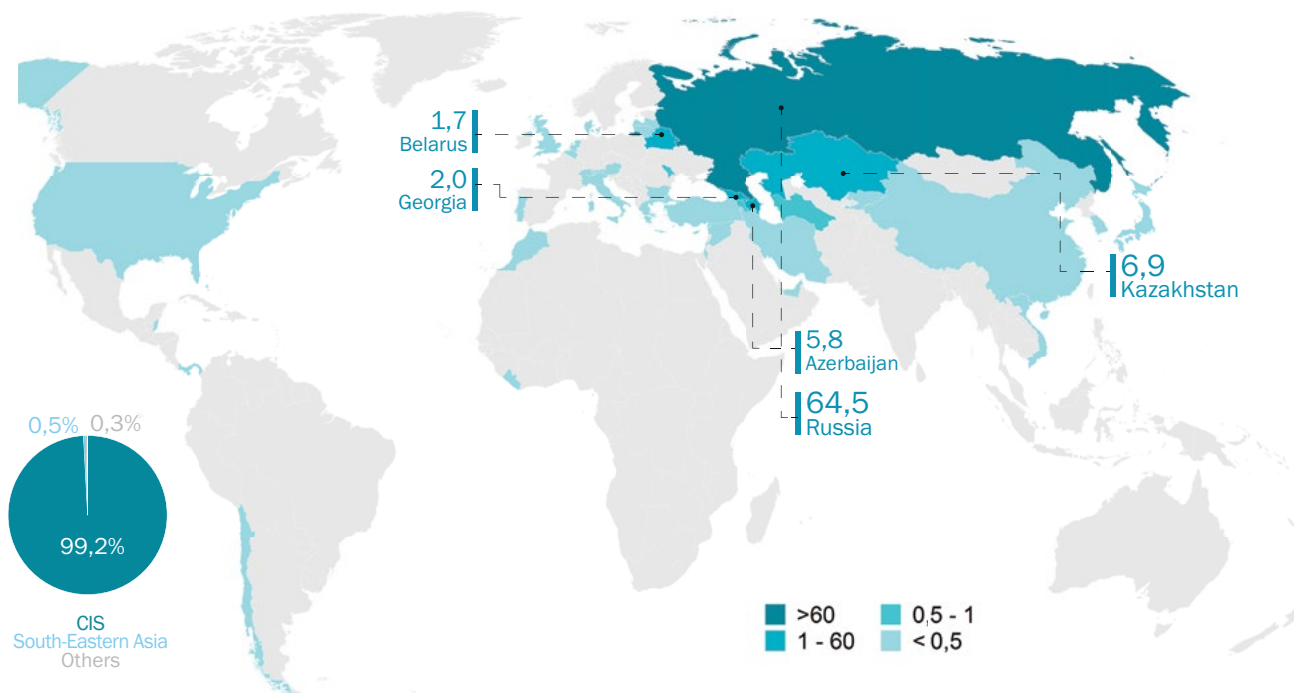


Pork export tripled and reached 27.2k t. Russia remained the leading importer. Minor volumes were sold to Armenia and Moldova. Issues related to ASFV have left negative impact on the industry production, processing and exporting, as Russia temporarily banned the import from Ukraine.

PORK EXPORT DESTINATIONS IN 2015, M USD



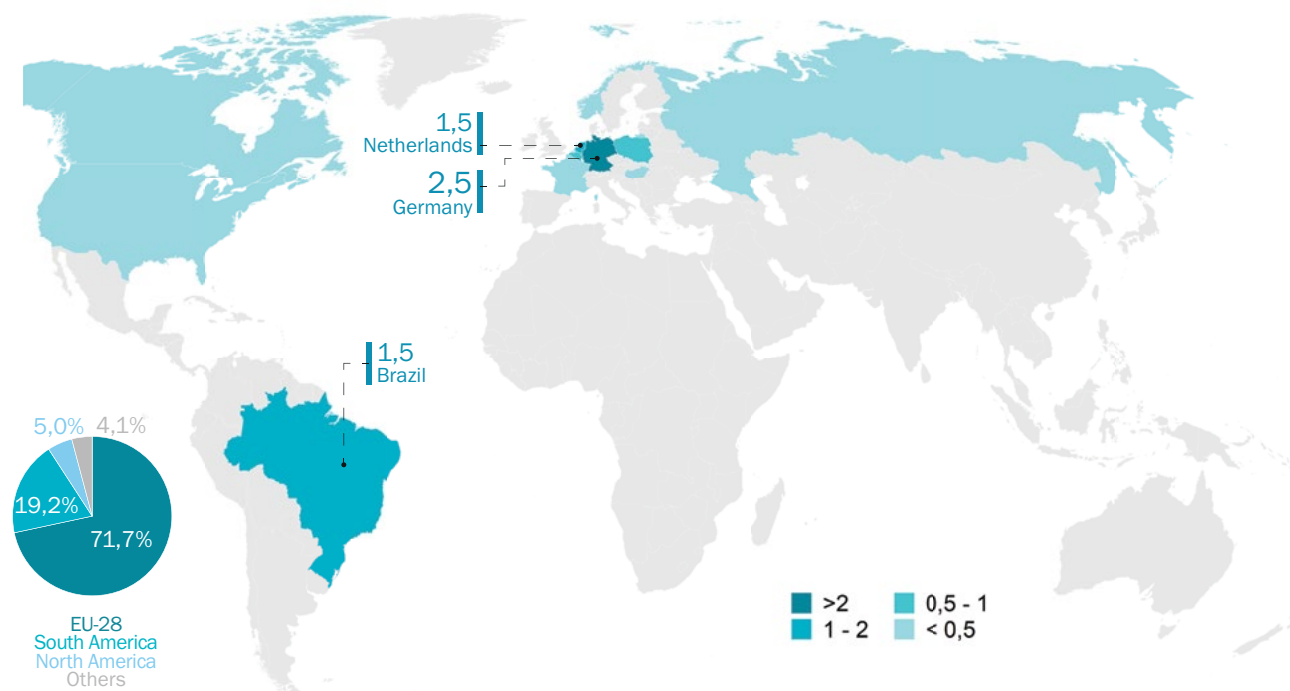
BEEF EXPORT DESTINATIONS IN 2015, M USD



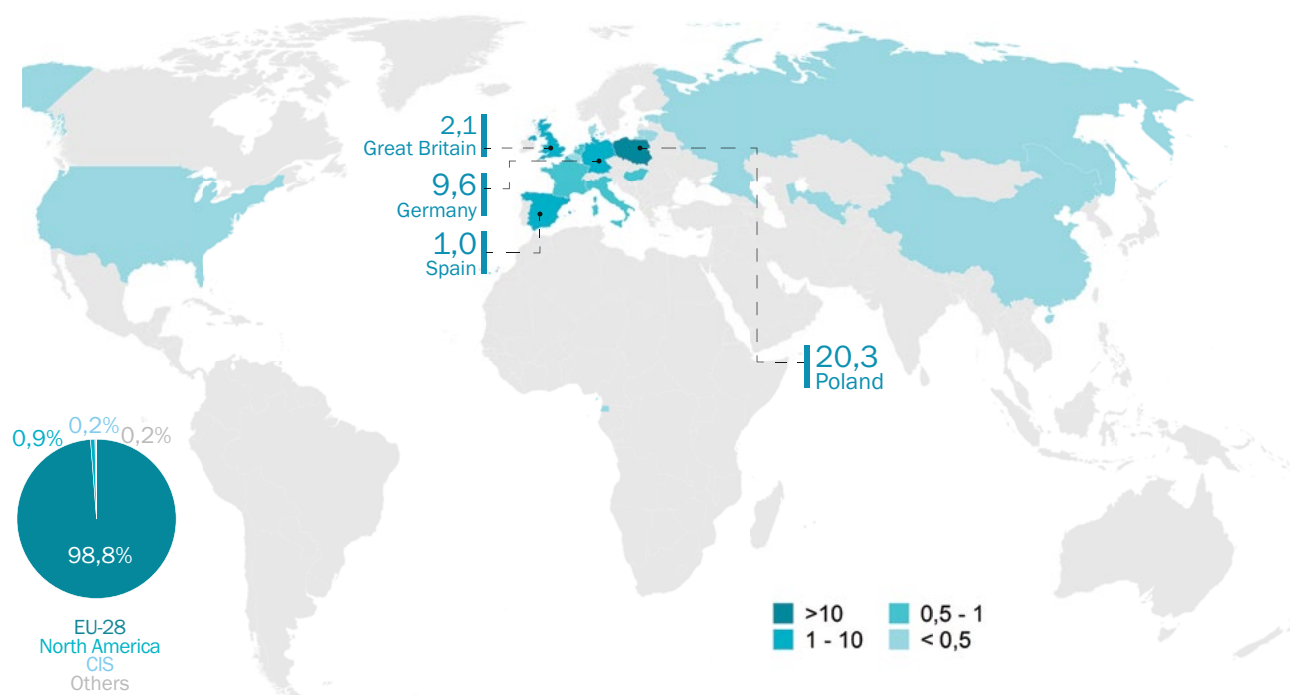
2015 was marked by a 50% growth of beef exports amounting to 32.1k tons. Main market of Ukrainian beef export was Russia, along with Kazakhstan, Azerbaijan and Belarus. Ukrainian meat exporters look for new

trade options in the UAE, Jordan, Egypt, Iran, Iraq and other markets. Currently an agreement on veterinary certification for these countries is underway.

UKRAINIAN IMPORT OF PORK IN 2015, M USD



UKRAINIAN IMPORT OF POULTRY MEAT IN 2015, M USD



Due to national currency devaluation, import duties and a low demand for meat on the domestic market, imports fell by 30% in 2015 and amounted to 66.2k tons. Ukrainian companies imported mainly pork and poultry (61.3k tons) and other meat only in minor volumes as a result of low price competitiveness on Ukrainian market.

Beef imports declined in 2015 by 57% and amounted to 0.82k tons. Major supplier became Lithuania.

Pork import decreased by eight times to 3.7k tons.

Poultry meat import in 2015 declined to 62k tons (or by 1.5%) compared to the previous year. Major volumes were imported from Poland and Germany.

2016 ASSUMPTIONS:

- ↓ Meat production will decrease, primarily due to the reduction of livestock in households
- ↑ The growth in exports of poultry and beef
- ↑ Increasing production costs
- ↑ The increase in imports of meat

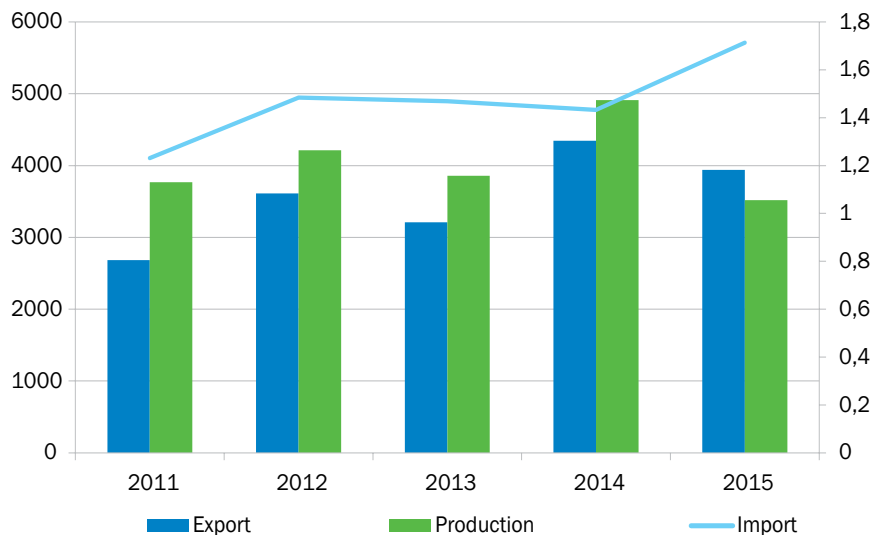




FOOD INDUSTRY

OILS

SUNFLOWER OIL TRADE STRUCTURE, K T



2015 TRENDS:

- ➔ Sunflower oil production growth trend continues
- ➔ Increasing share of exports in production
- ➔ Increasing exports due to higher production

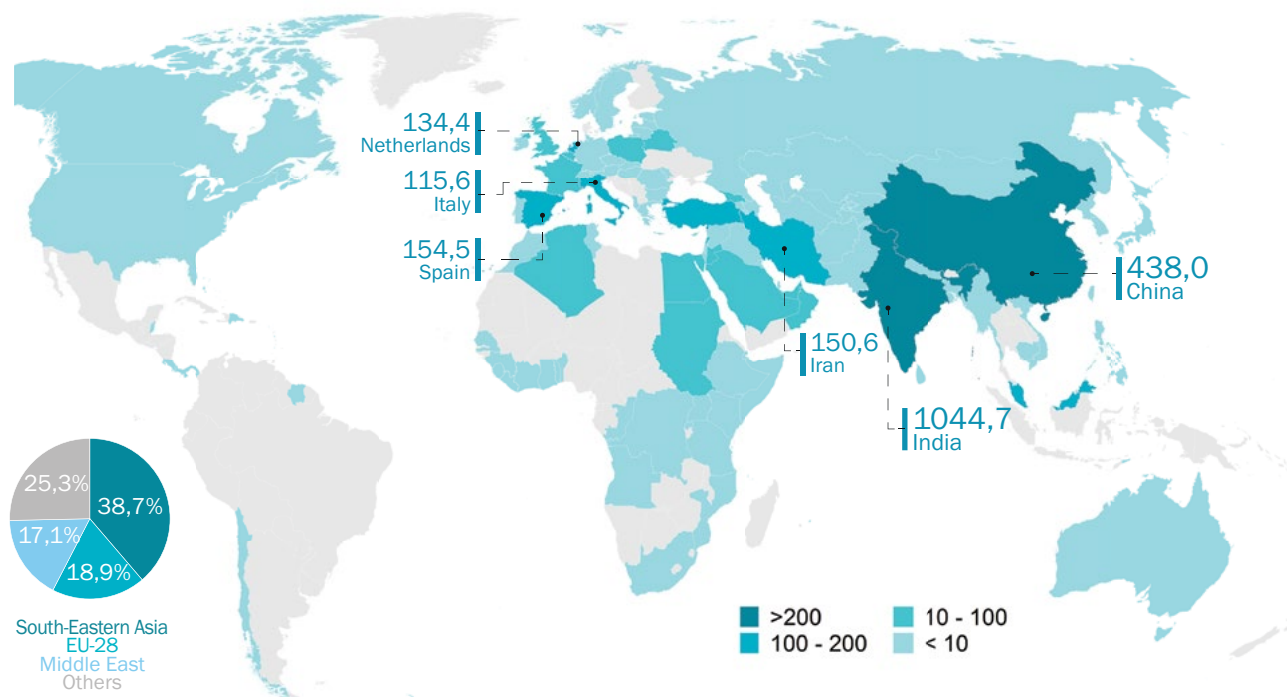
2015 KEY INDICATORS:

3,9 M tons
exported (-406 tsd. t, or -9%)

3,6* M tons
of production
(-1,3 M tons, or -26%)

*on 01.01.2016

SUNFLOWER OIL EXPORT IN 2015, M USD

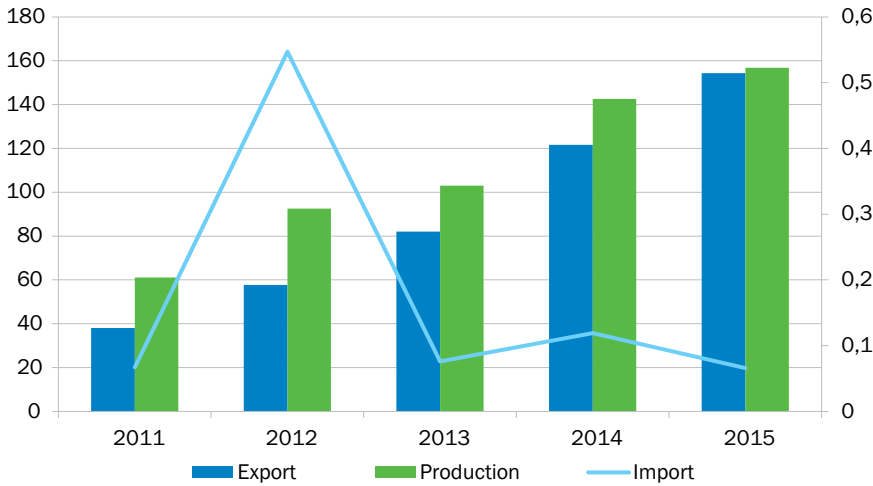


Soybean oil production volumes have been increasing since 2009. In 2007 production reached 30k t, in 2009 82k t and in 2015 156.8 tsd t, which was partly caused by the increasing demand from Polish and Chinese consumers. China imported 53.3% in 2015, Poland 27.6% (2014: 38%), Spain 17% and India 10%.

2015 TRENDS:

➔ Soybean oil production and export volumes increased

SOYBEAN OIL PRODUCTION AND TRADE STRUCTURE, TSD T



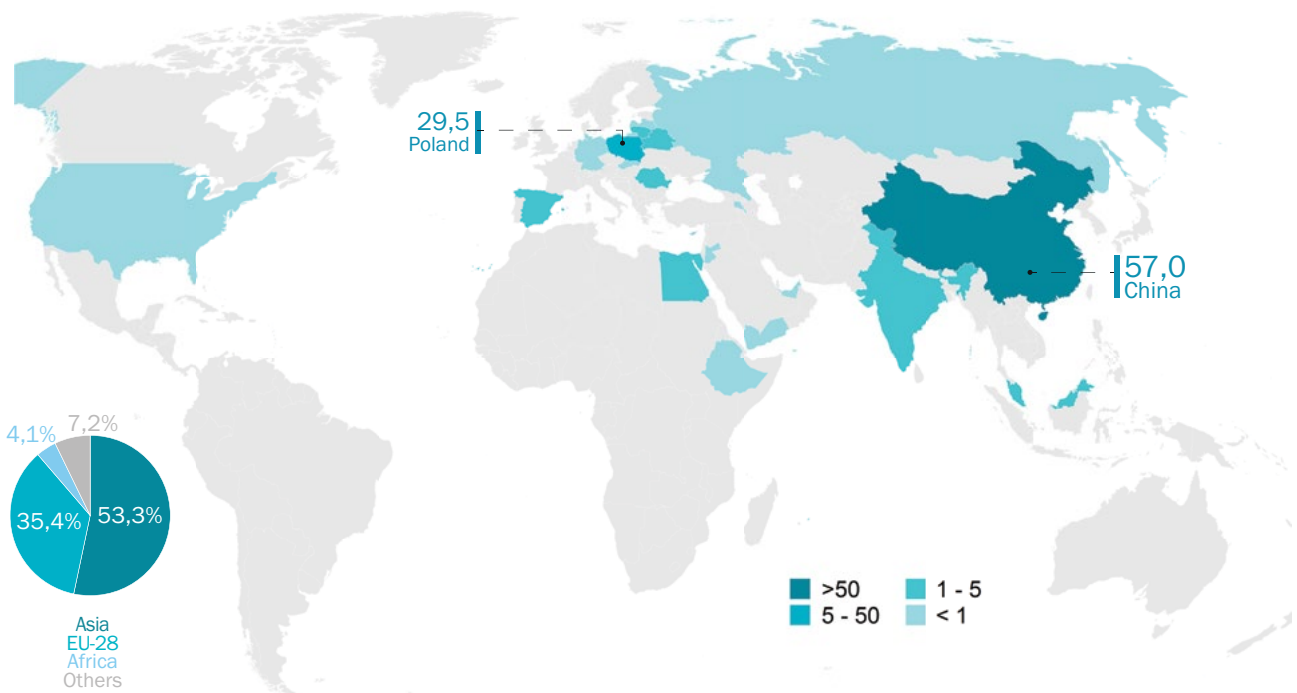
2015 KEY INDICATORS:

154 tsd. tons
exported (+32,7 tsd. tons, or +27%)

141* tsd. tons produced
(-2 tsd. tons, or 1%)

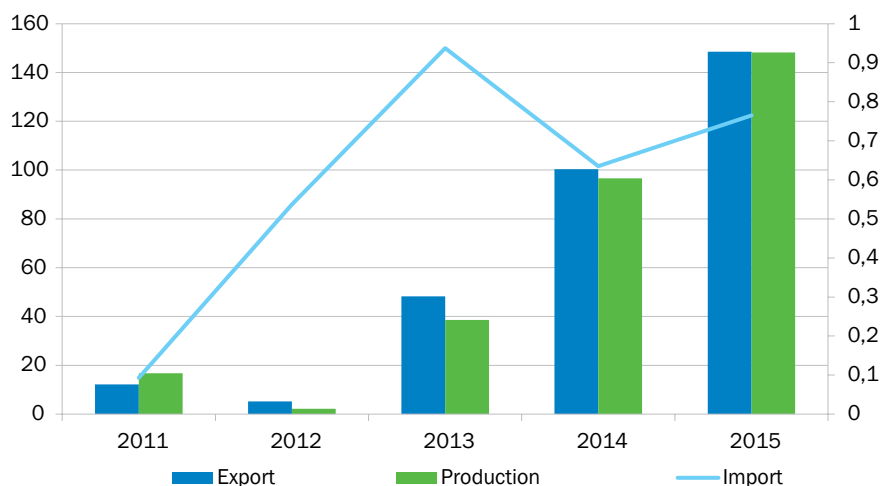
*on 01.01.2016

SOYBEAN OIL EXPORT 2015, M USD





RAPESEED OIL PRODUCTION AND TRADE STRUCTURE, TSD. T



2015 TRENDS:

➔ Rapeseed oil production and export volumes increased

2015 KEY INDICATORS:

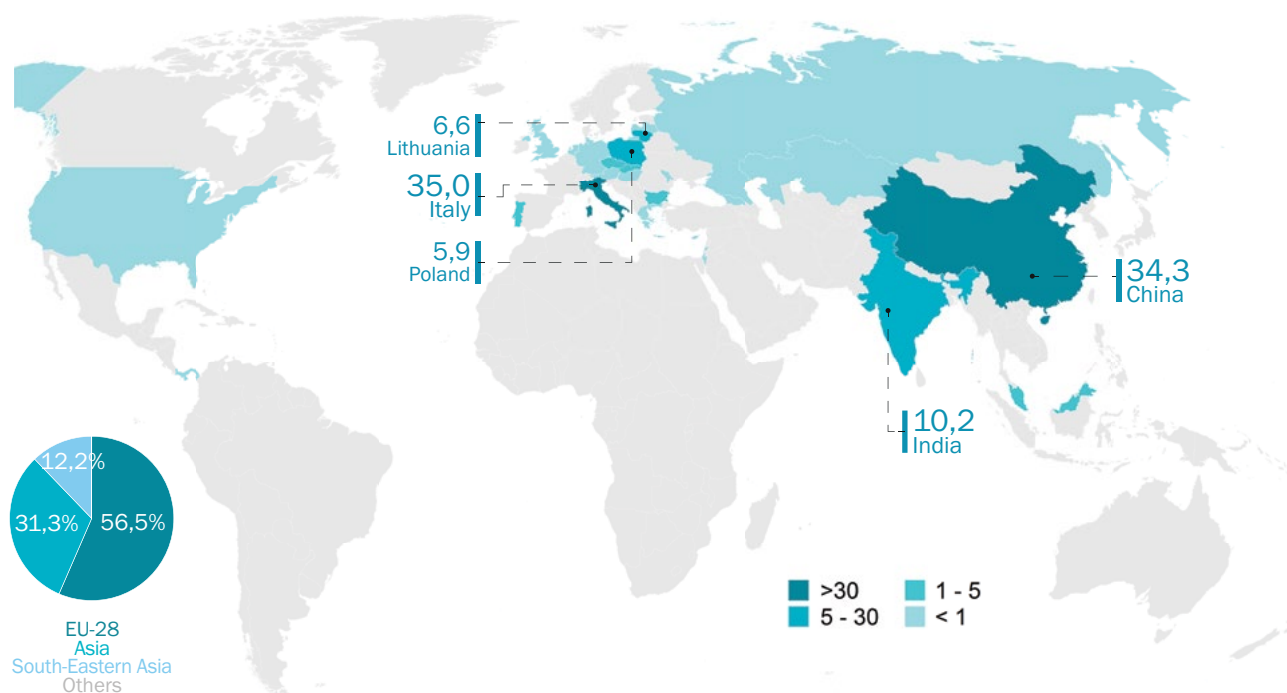
148 tsd. tons exported (+48 tsd. tons, or +48%)

141 tsd. tons produced (+44 tsd. tons, or +46%)



According to 2015 results, Italy and China imported major volumes of rapeseed oil from Ukraine with 34.6% and 31.9% shares respectively. Ukrainian exporters have redirected their markets from Europe to Asia.

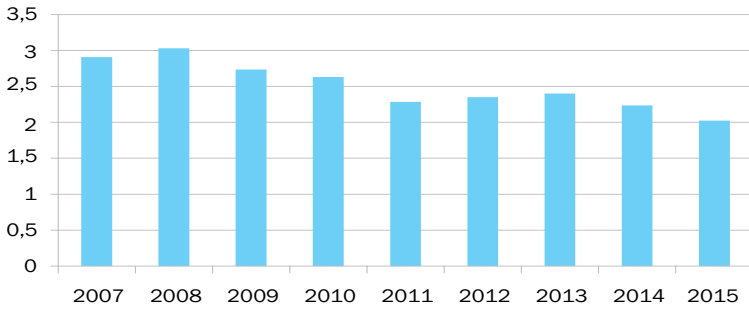
RAPESEED OIL EXPORT FROM UKRAINE IN 2015, M USD



FOOD INDUSTRY

CEREALS & GRAIN PROCESSING

FLOUR PRODUCTION, M T



2015 TRENDS:

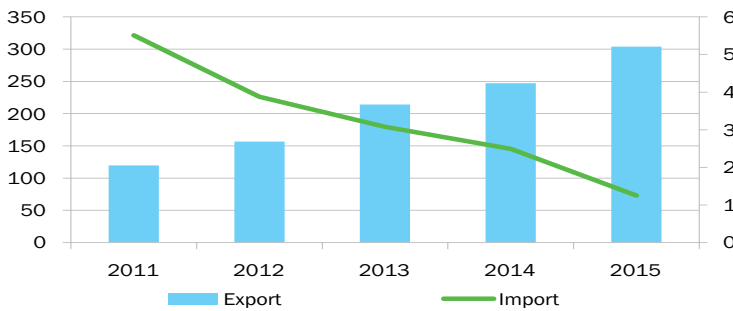
- Relatively stable production in the range of 1.9 – 2.2M t
- Flour export volumes increased

2015 KEY INDICATORS:

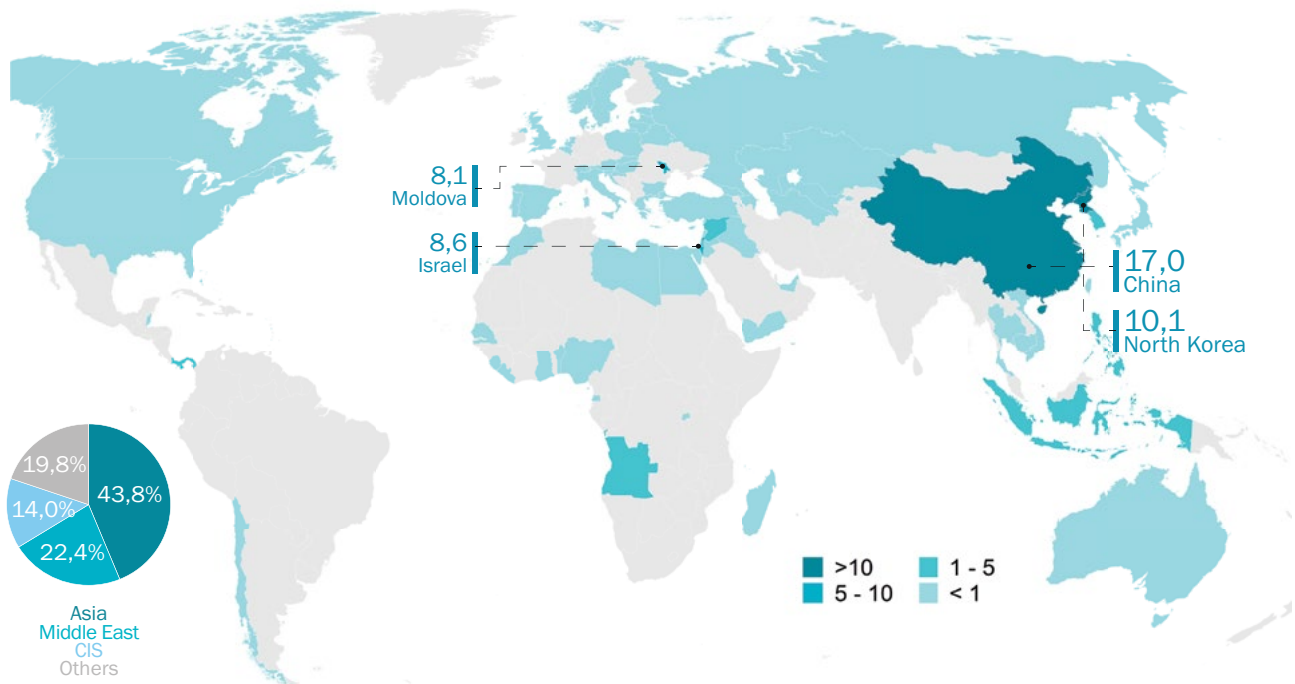
304 tsd. tons
exported (+56 tsd. tons, or +23%)

2,0 M tons produced

FLOUR TRADE STRUCTURE, M USD



UKRAINIAN FLOUR EXPORT IN 2015, M USD





Cereals production provides consumers with finished food products and provides the Ukrainian economy with currency reserves amounting to 10-18M USD. The industry is concentrated in the following regions: Dnepropetrovsk – 10%, Kiev – 15%, Kharkov – 27%, Cherkassy – 18%. The share of these regions in cereals production fluctuated between 50% in 2012 and 69% in 2015. Luhansk region ranked third by cereals production volumes with a share of 9.2% in the country.

2015 TRENDS:

- Cereals production volume decreased
- Cereals export volumes decreased

26 tsd. tons
exported (-3 tsd. tons, or -12%)

290 tsd. tons produced

10% of the production
was exported

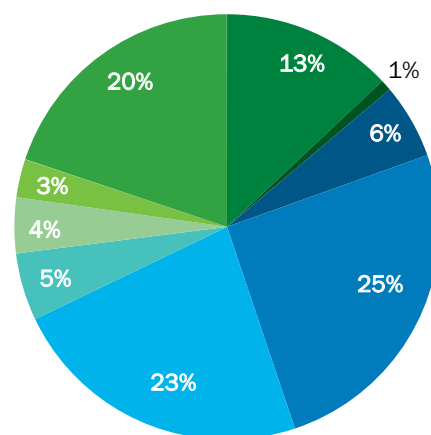
2015 CEREALS TRADE STRUCTURE, M USD



The share of exports accounted on average for 11% of the production. Before the conflict, Russia had imported on average 36-49% of total Ukrainian cereals export.

Import of cereals amounts to 1-1.3M USD (50% - durum wheat).

CEREALS PRODUCTION STRUCTURE



- Wheat cereals
- Rice cereals
- Oatmeal
- Barley cereals
- Millet cereals
- Pearl barley
- Buckwheat cereals
- Other cereals
- Corn cereals



FOOD INDUSTRY

MILK PROCESSING

The conflict between Russia and Ukraine had a negative impact on industry development, as Russia was a major market for Ukrainian milk products. Ukrainian export volumes declined as a result of the Russian embargo. Processors turned to dry milk and butter production in 2014. The trend continued in 2015. Total dairy production declined in 2015, mainly as a result of a decreasing raw milk production, declining demand at the domestic market and little export. In the second half of 2015 the embargo had been partly lifted and export production shortly revived.

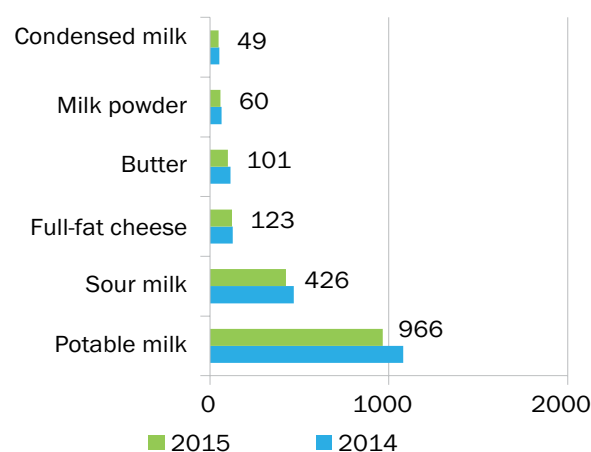
2015 TRENDS:

- ➔ Production decline in all milk products;
- ➔ Export decrease;
- ➔ Import decrease;
- ➔ New export options in EU and China.

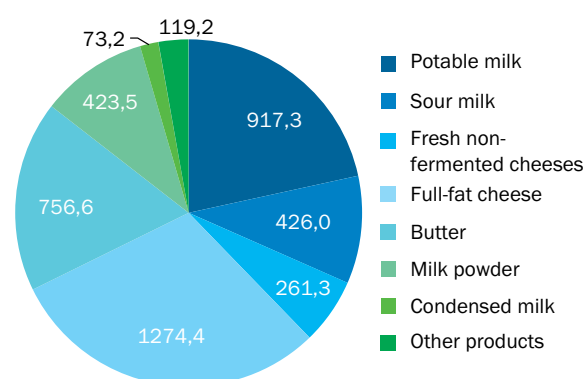
A considerable number of Ukrainian milk processing companies had been export oriented before the crisis. 1m tons of milk products (in milk equivalent) were sold to external markets, with cheese being the main product in foreign trade. In late July 2014 Russia banned Ukrainian import, and sanctions were partly lifted only in the second half of 2015. As a result a few enterprises got the license to export to Russia and Crimea, which revived trade somewhat, but volumes remained low nevertheless. In 2015 export of milk products accounted for nearly 0.4M t (in raw milk equivalent) which is 15% less compared to the previous year.

Dry and condensed milk dominate in the export structure of the industry with a share of 50%.

DAIRY PRODUCTION 2015, TSD. T



DAIRY PRODUCTS STRUCTURE IN 2015



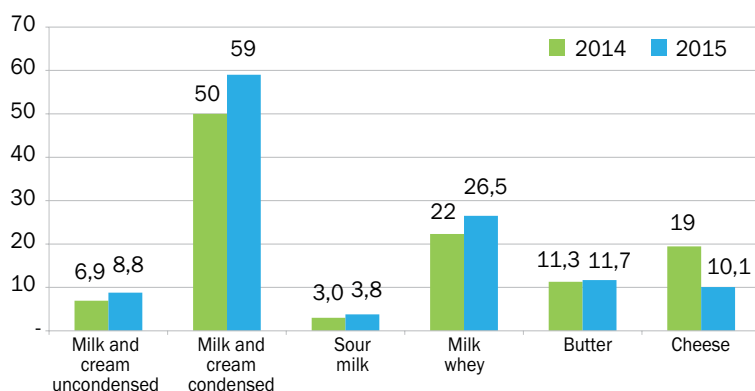
4,25 M tons
of raw milk processed (-9%)

57% of processed milk
came from households (+5%)

178 M USD revenue was accumulated
from the export of dairy products
(-146 M USD, or -45%)

79%
decline in import of dairy products

EXPORT OF DAIRY PRODUCTS, TSD. T



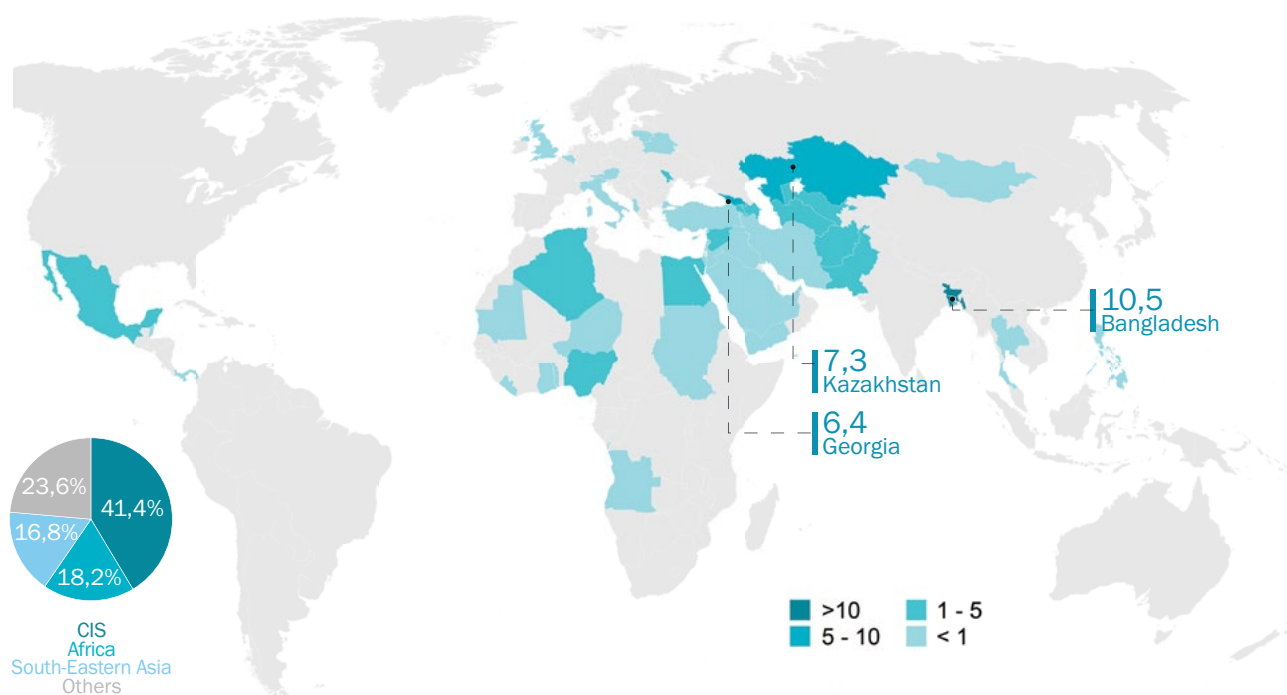
In 2015, some Ukrainian companies managed to get permission to export dairy production to Kazakhstan, Moldova and China. The certification of 10 Ukrainian companies for export to the EU has become very important for the industry.

As a major product, dry milk was sold to 33 countries. Export volumes amounted to 30.4k t. Bangladesh, Georgia, Nigeria, Kazakhstan and Egypt became major importers in 2015.

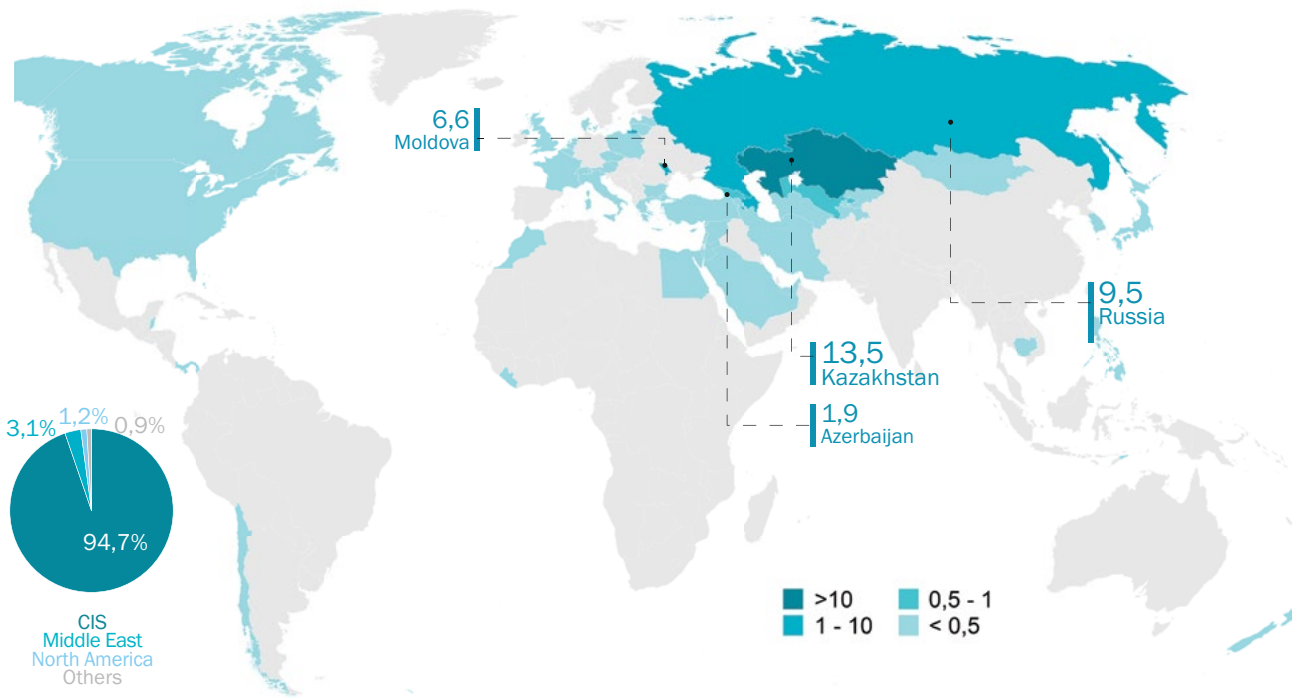
The second most exported product in 2015 was cheese, revenue from which accounted for 35M USD. Cheese was exported to 15 countries, mainly Russia, Kazakhstan and Moldova. For further market expansion, Ukrainian producers will have to develop new trade destinations meeting tastes and preferences of global consumption.



2015 DRY MILK EXPORT FROM UKRAINE, M USD



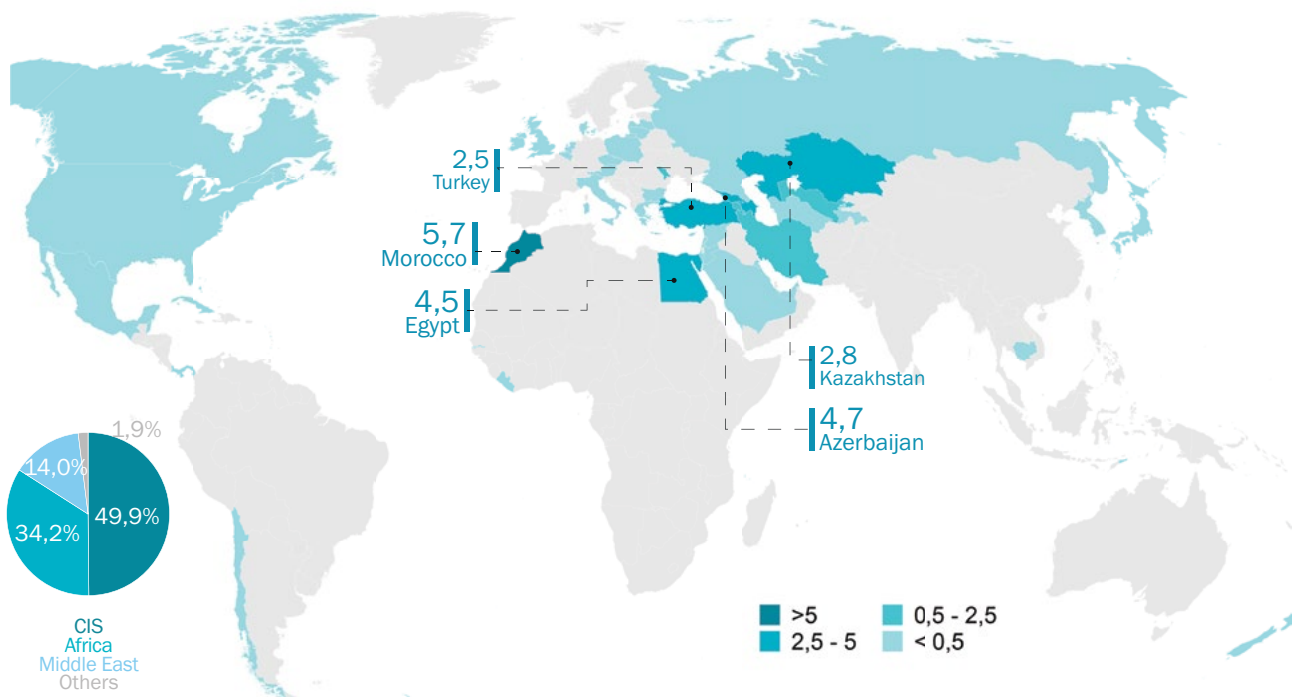
2015 EXPORT OF CHEESE FROM UKRAINE, M USD

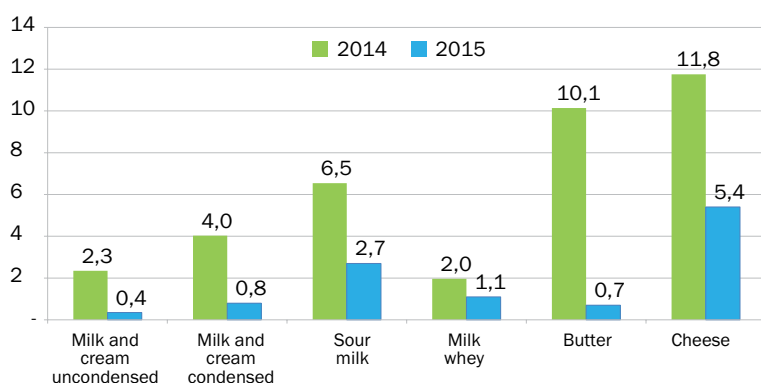


Revenue from butter export amounted to 30M USD in the previous year. Morocco, Egypt and Azerbaijan became leading importers of butter produced in Ukraine.



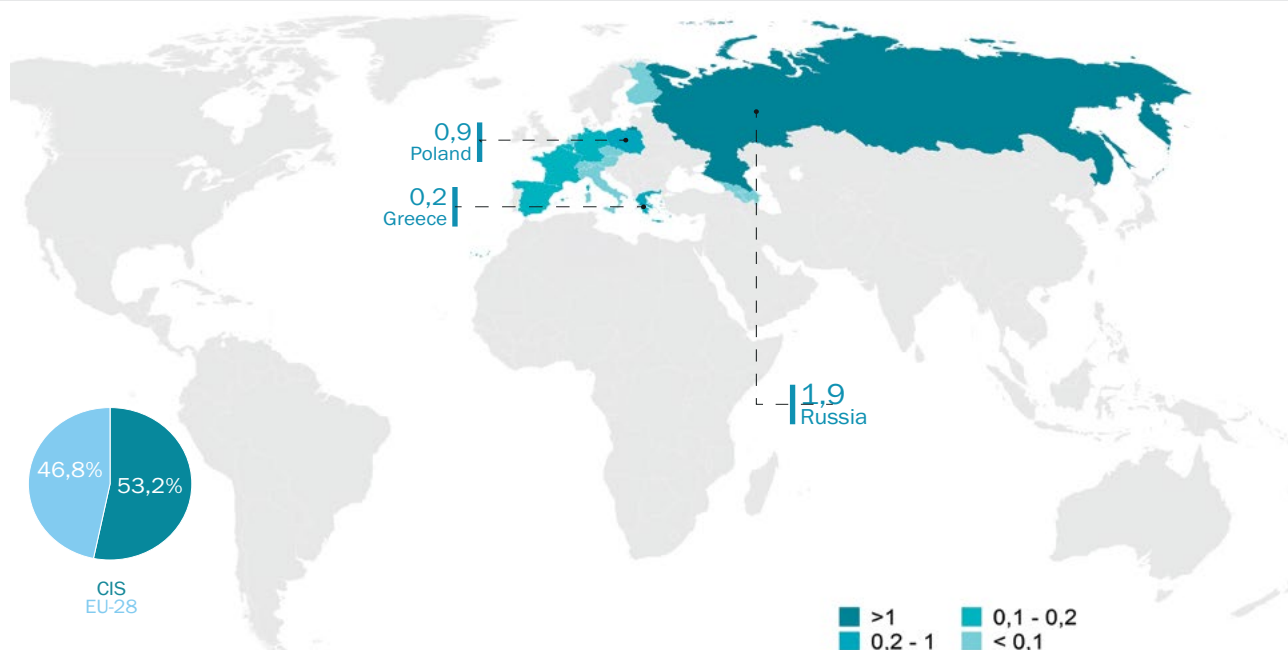
2015 EXPORT OF BUTTER FROM UKRAINE, M USD



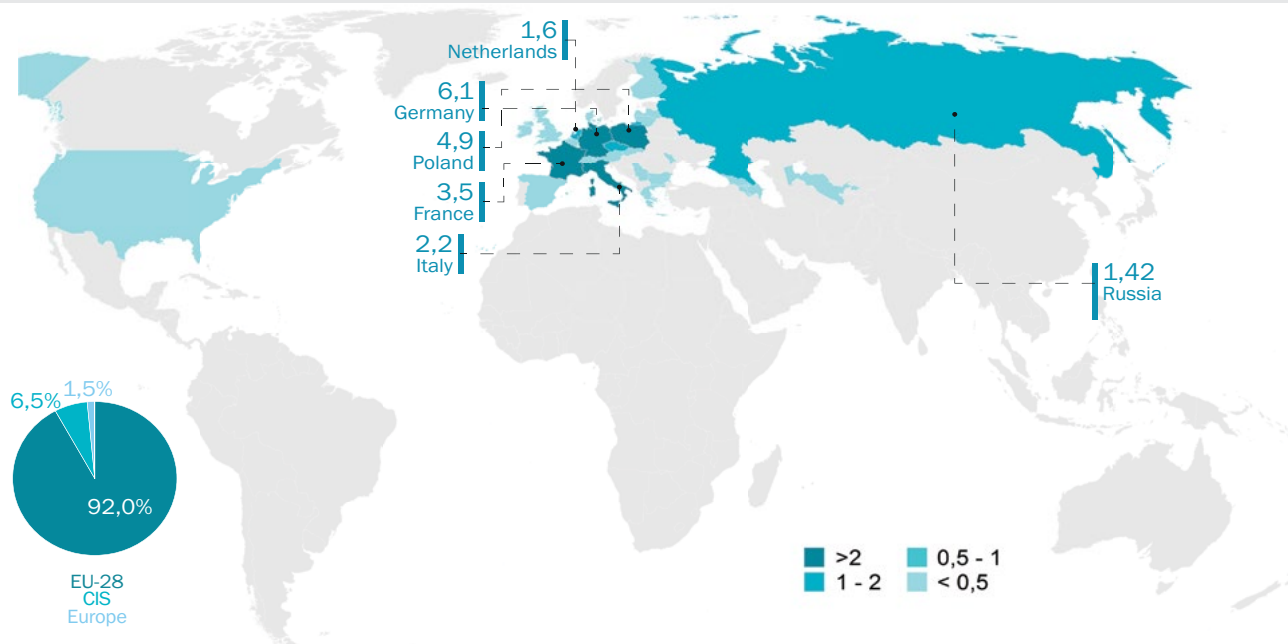


Import of dairy products declined notably to 70k t (in milk equivalent) as a result of declining purchasing power and an oversaturation of the domestic market due to less export and the introduction of import duties which led to higher prices of imported goods.

SOUR MILK PRODUCTS IMPORT GEOGRAPHY 2015, M USD



CHEESE IMPORT GEOGRAPHY 2015, M USD



DAIRY PRODUCTION FACTORS:

- 💰 Disproportionate growth of costs and prices
- 💰 Decline in purchasing power
- 💰 Deficit in financial resources
- ⚡ Reduction of foreign trade
- 🔄 Seasonality of milk production

2016 EXPECTATIONS:

- ➡ Demand-driven production
- ➡ Increase in imports
- ➡ Market diversification
- ➡ Introduction of EU import quotas
- ➡ Further development of Chinese market
- ➡ Pick-up in demand in the second half of the year



FOOD INDUSTRY

MEAT PROCESSING

Boiled meat and sausage production continued to decline in 2015 as a result of the overall economic crisis and low purchasing power.

2015 TRENDS:

- ➔ 9% production decline
- ➔ Restrained demand
- ➔ Foreign trade decline
- ➔ Stable production structure

SAUSAGE PRODUCTION FACTORS:

- 💰 Purchasing power
- 📊 Meat production volumes
- 💰 Prices of raw supplies
- 📈 Market situation

2015 KEY FIGURES:

234,2 tsd. tons
of sausage production
(-25 tsd. tons, or -9,7%)

66,4%
share of boiled meat products and sausages
in production

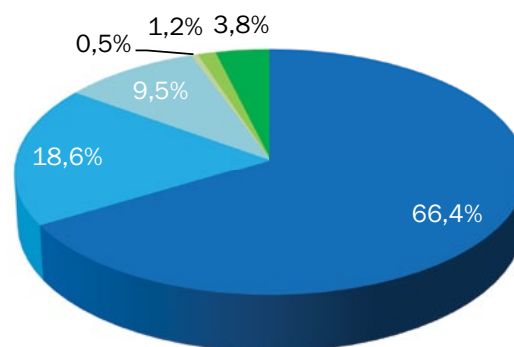
3,5 times less export
of boiled meat and sausages (to 260 t)

308 tons
cooked meat and sausages import (-100%)

2016 EXPECTATIONS:

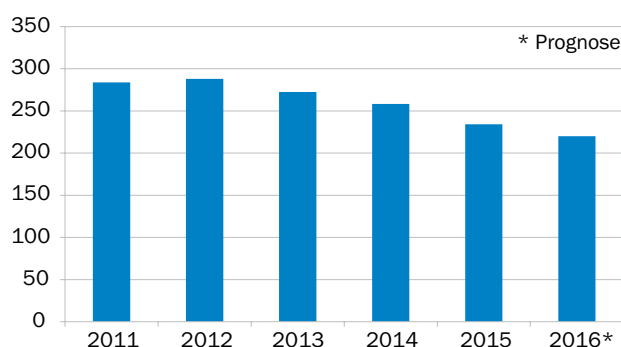
- ➔ Further production decline
- ➔ Consumption decline
- ➔ Increasing demand for low cost products
- ➔ Increase in imports

BOILED MEAT AND SAUSAGE PRODUCTION STRUCTURE IN 2015

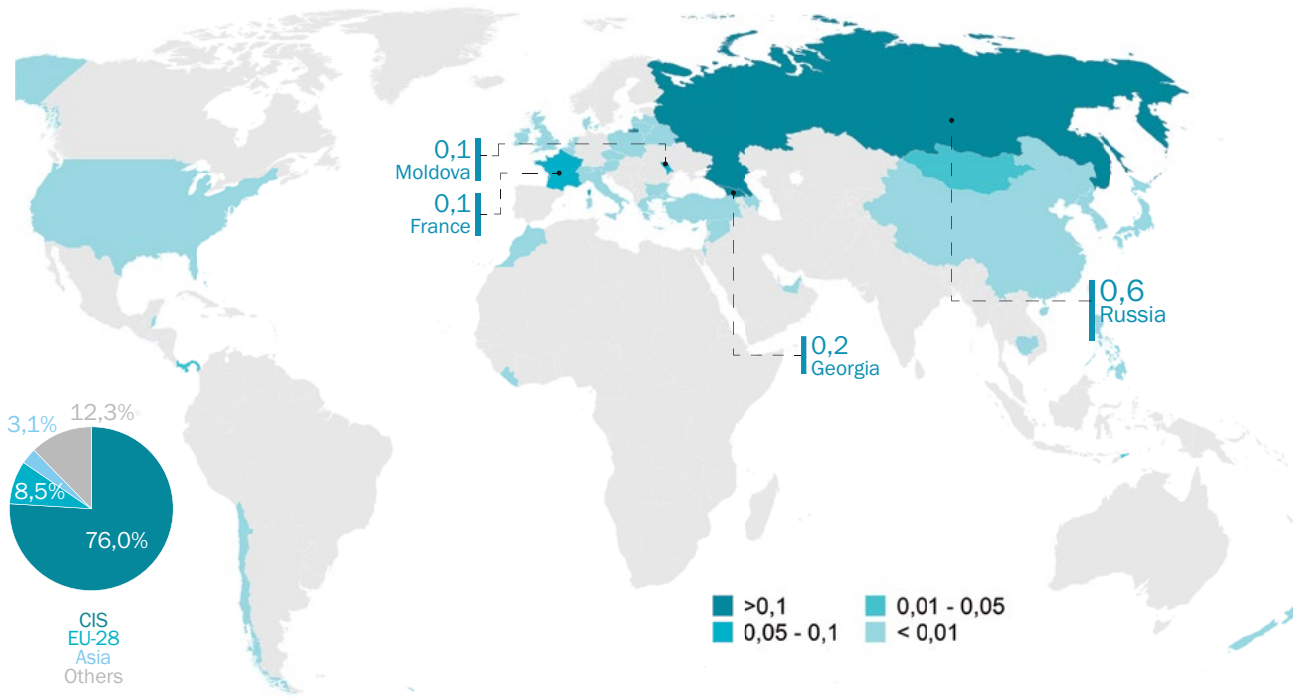


- boiled meat products, sausages
- smoked sausages
- boiled, smoked, dried and half-smoked sausage products
- jelly and headcheese
- roasted and smoked sausages
- others

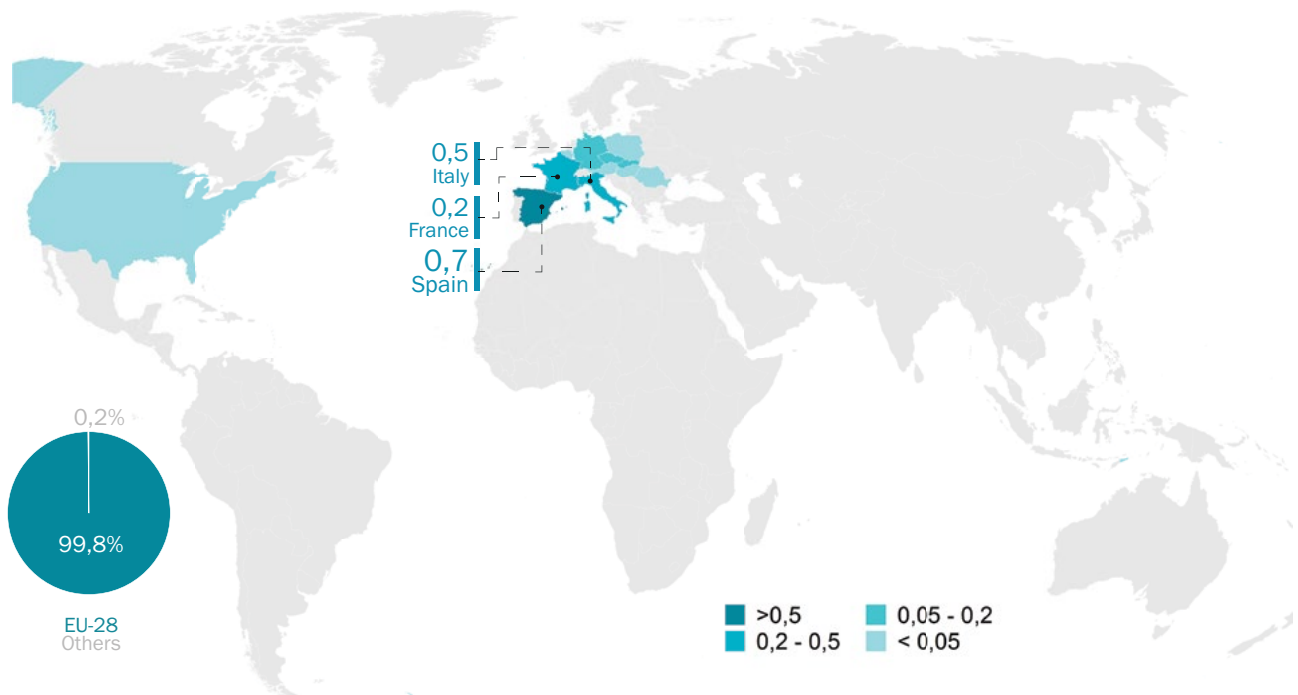
BOILED MEAT AND SAUSAGE PRODUCTION IN 2015, TSD. T



COOKED MEAT AND SAUSAGES EXPORT 2015, M USD



COOKED MEAT AND SAUSAGES IMPORT 2015, M USD





ABOUT UCAB

ABOUT THE ASSOCIATION

Association “Ukrainian Agribusiness Club” (UCAB) is a business association which represents the interests of leading companies of the Ukrainian agro-food sector. In 2015, the authority and importance of UCAB for domestic agribusiness were proved by several input companies joining UCAB.

The aim of our work is to promote efficient agribusiness in Ukraine and serve its various needs, from recruitment and search of investment opportunities to practical tasks such as the increase of production efficiency, and the development of proposals on improvement of agricultural policy in Ukraine.

Membership in the Association “Ukrainian Agribusiness Club” provides companies with obvious benefits: from the information and knowledge to support in solving many practical issues.

In 2015, UCAB keeps holding the status of Association No.1 in the agricultural sector of Ukraine, consolidating more than 80 important representatives of the industry.

In addition to activities such as recruiting, event management, market research, PR, we have significantly strengthened information sharing with UCAB members about legislative processes as well as efforts on professional development of personnel in agricultural companies.

With the aim to systematize activities in separate areas of the agro-food sector UCAB organized a number of committees. Each committee is a group of UCAB specialists as well as members of the Association, who are responsible for coordination of activities on monitoring, analysis, information and lobbying in several specific spheres of agribusiness.

Today the following committees successfully operate within UCAB:

Committee on Machinery and Agricultural Technology

Committee on Machinery and Agricultural Technology was founded upon the initiative of the key players of the market of agricultural machinery in Ukraine, members of UCAB, with the aim to improve business environment in the market of agricultural machinery, and discuss and develop suggestions on promotion of specialized exhibitions, and coordinate the process of information exchange between the Committee members.

12 companies are members of the Committee. The coordinator of the Committee is Taras Vysotskyi.



Agrochemical Committee

Committee on Crop Protection Products was created upon the initiative of key manufacturers of crop protection products, members of UCAB, with the aim to improve the conditions for access to the market of CPP in Ukraine, make progress in business environment of the agro-food sector, and exchange experience and information between the members of the Committee, etc.

5 companies are members of the Committee. The coordinator of the Committee is Oleksandr Zhemoyda.

Committee of CPP Distributors

Committee of CPP distributors was created upon the initiative of the leaders of the Ukrainian CPP market, members of UCAB, to improve business conditions for supplies of crop protection products, deregulate the market as well as to exchange information and experience.

13 companies are members of the Committee. The coordinator of the Committee is Lyudmyla Stotska.

Agricultural Biotechnology Committee

Agricultural Biotechnology Committee within the UCAB was launched by the key players in the biotech products market, members of UCAB. The main goals of the Committee include involvement in the adaptation of national legislation governing the use and registration of biotech products to the EU legislation, as provided by the Association Agreement between Ukraine and the European Union, and informing consumers and the public on achievements of modern agricultural biotechnology.

As of today, five companies are associated with the Committee. The coordinator of the Committee is Dr. Borys Sorochinsky.



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ABOUT UCAB SERVICE

ABOUT SERVICES

AgriEvent

Event agency, aimed at provision of comprehensive service and professional organization of business, private and corporate events (conferences, seminars, round tables, business tours, B2B-meetings, etc.). AgriEvent also provides search, selection and rental of assembly halls, technical support, transport service, quality food arrangement and others. Since 2010, the agency has organized and carried out more than 110 national and international conferences and forums with the participation of more than 10 000 visitors from 30 countries, in cooperation with leading Ukrainian and multinational companies, embassies, ministries and academic institutions.



AgriSchool

The project is dedicated to solving the problem of lack of modern knowledge and personnel in the area of agricultural production and aims at improving of the professional development of the specialists of agricultural sector in the main areas of agricultural business as well as at getting unique theoretical knowledge and practical skills on-job. Since 2012, the following directions of AgriSchool have been functioning: "Crops", "Fruit", "Dairy Business Management". AgriSchool has organized more than 25 training seminars, which were attended by more than 300 listeners, and a number of corporate training seminars for the leading agricultural companies of Ukraine.



AgriSurvey

The Agency provides multi-client and individual marketing and business consulting services for the agro-food companies, carries out qualitative and quantitative market research, economic analysis, business planning, develops market entry strategies, etc. A team of highly qualified professionals in the field of agribusiness and a regularly updated database with over 10,000 contacts in the agricultural sector are the valuable assets of the agency. Since 2010, the agency has carried out more than 100 studies of agricultural markets, held about 18,000 individual telephone and personal interviews with top management of agricultural enterprises.



AgriTravel

AgriTravel is specialized in individual and group agricultural business tours around Ukraine and abroad, such as visiting farms, business trips to agricultural exhibitions and international conferences. The agency cooperates with national and international companies, and has established personal contacts with agricultural holdings and farms, production and processing enterprises, leading consultants and experts in agribusiness, government agencies, agricultural universities, and the organizers of the international agricultural exhibitions.



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