

Turning Ukraine into a Global Agricultural Leader

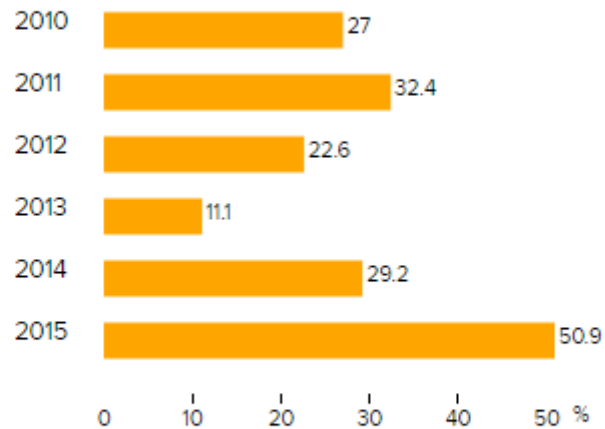
Ton Huls, CFO of MRIYA Agro Holding

20/04/2016

State of Ukraine's Agricultural Sector



Profitability in the agricultural sector broke all records in 2015

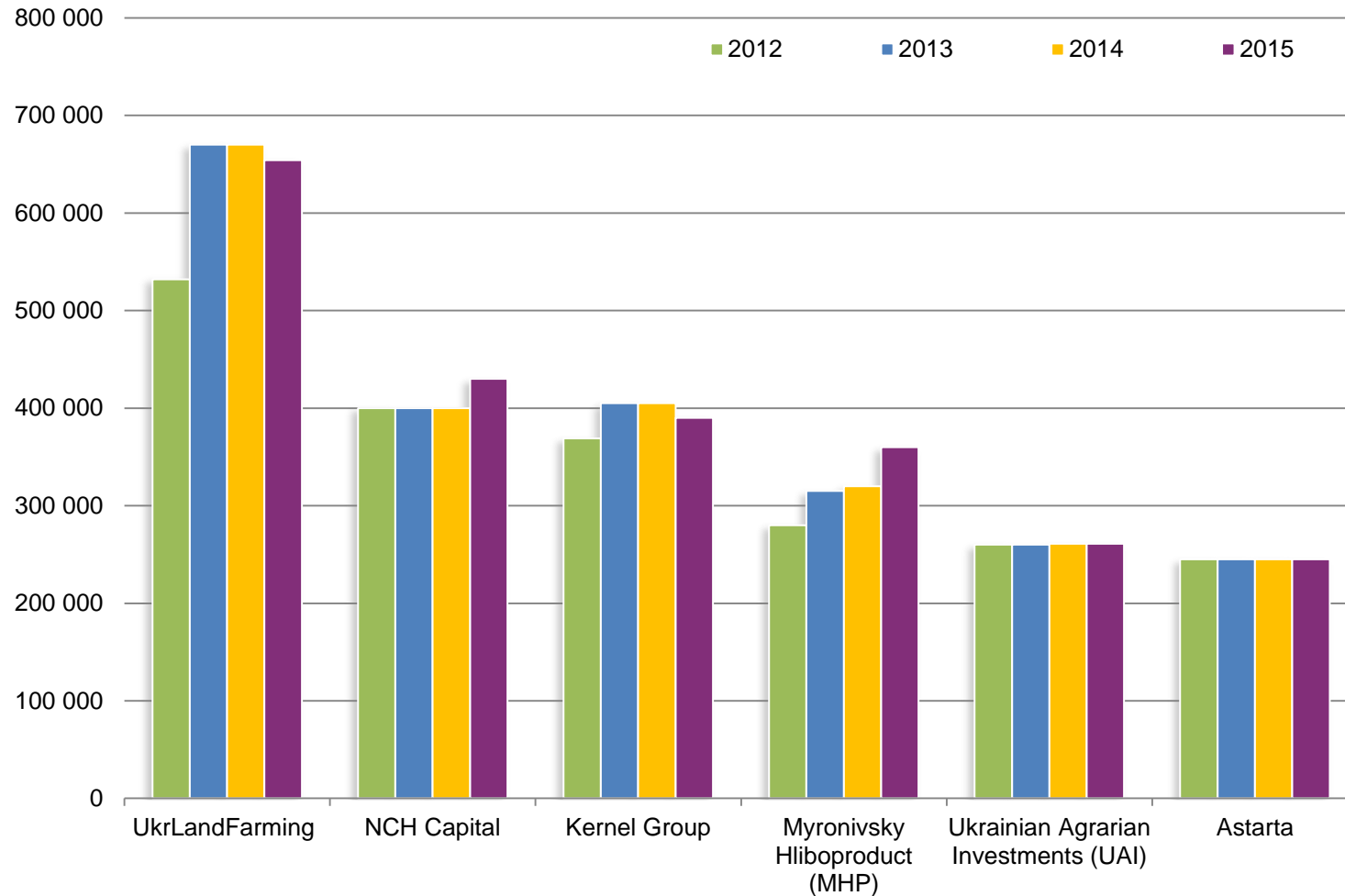


State Statistics Service of Ukraine



- ❖ Ukraine was ranked as world's third largest grain exporter in 2014-2015; the country's potential for grain exports in the 2015/2016 marketing year is estimated at 36-40 million tons
- ❖ In Q1-2 2015/2016, Ukraine increased crop exports by 13% year-on-year, according to the Ministry of Agrarian Policy and Food of Ukraine
- ❖ Ukraine has already exported or prepared for export 32.1 million tons of grain in the 2015//2016 marketing year. This includes 13.4 million tons of wheat, 4.1 million tons of barley, and 14.4 million tons of corn
- ❖ In Q1 2016, the share of agricultural sector in Ukraine's general export structure increased to 43% compared to 40% in 2015 (*State Fiscal Service of Ukraine*)
- ❖ Due to devaluation of the national currency, Ukraine's agricultural producers have reached record profitability in national currency (*State Statistics Service of Ukraine*)

Ukraine's Largest Agricultural Companies by Land Bank (2012-2015, ha)



Company	2012	2013	2014	2015
UkrLandFarming	532 000	670 000	670 000	654 000
NCH Capital	400 000	400 000	400 000	430 000
Kernel Group	369 000	405 000	405 000	390 000
Myronivsky Hliboproduct (MHP)	280 000	315 000	320 000	360 000
Ukrainian Agrarian Investments (UAI)	260 000	260 000	261 000	261 000
Astarta	245 000	245 000	245 000	245 000

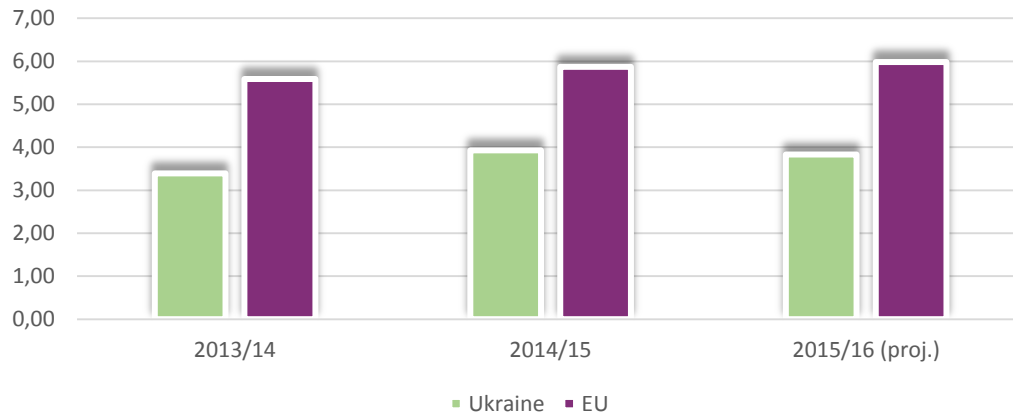
Estimate; data source - "TOP 100 Landowners of Ukraine" by latifundist.com

Agricultural Management Trends

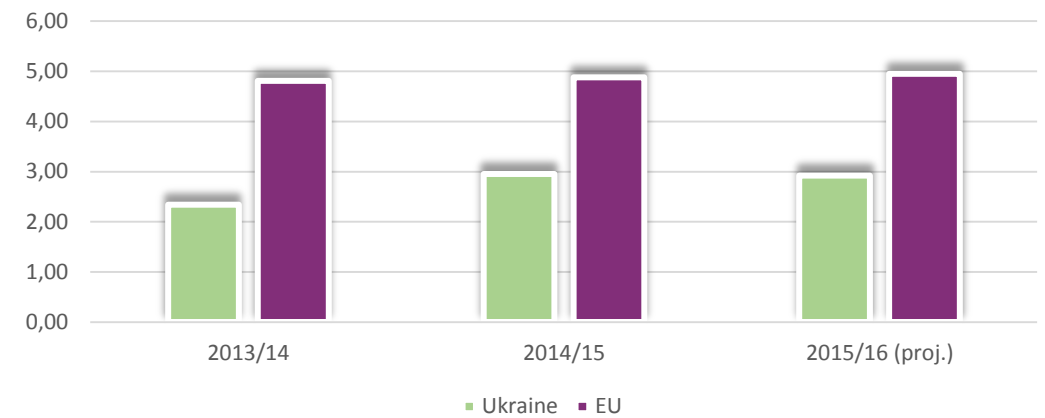
- ❖ Over the past 5-10 years, most Ukrainian agricultural companies emphasized on **growth** rather than **efficiency** or **control** of their business
- ❖ As Ukrainian agricultural companies are growing in size, the management key task has shifted from being a **farmer** to being a **manager**
- ❖ **Manual** control is no longer possible; companies need **automated** control systems to understand what is happening on the fields, with the people and with the equipment
- ❖ The magnitude of business operations is different in Ukraine and in Europe. In Europe, the top manager is a **farmer** who manages his farm. In Ukraine, he is a **manager** who controls a huge operation. This also means that it is difficult to find right managers and operating models & systems abroad
- ❖ This **growth** focus is profitable when commodity prices are high. Today, the global market has changed – commodity prices have decreased, and **cost efficiency** and **optimizing yields** have become the key to success.

Average Yield: Ukraine vs. the EU

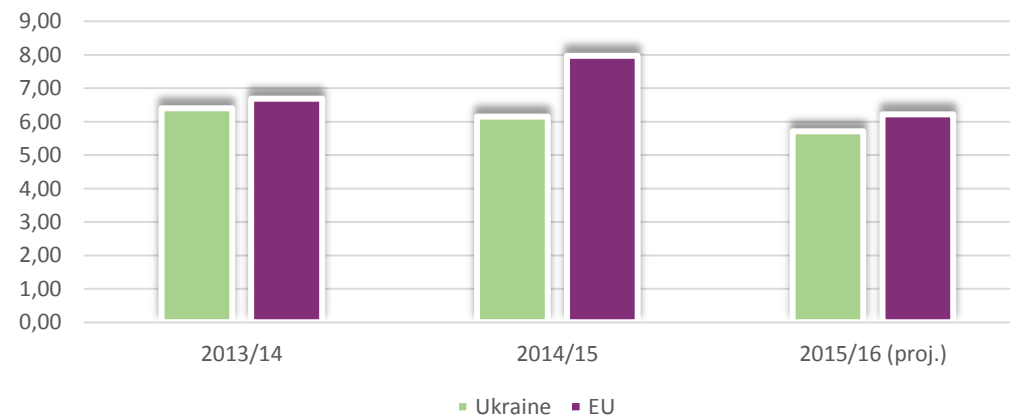
Yield comparison (wheat, tons/ha)



Yield comparison (barley, tons/ha)



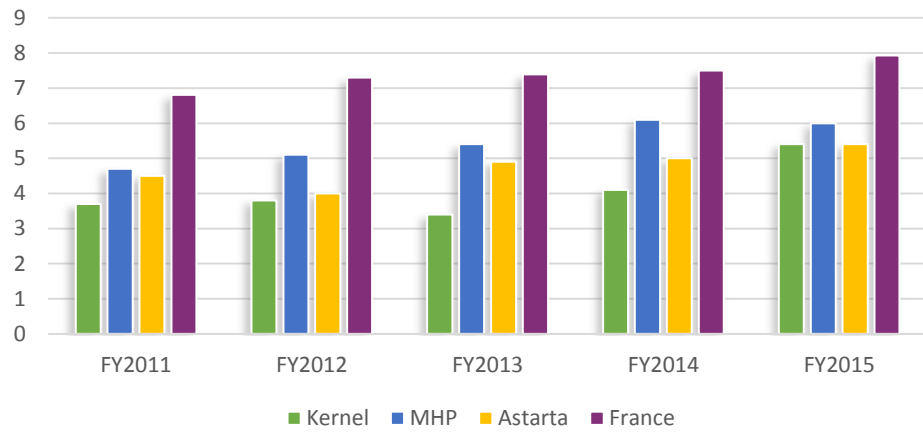
Yield comparison (corn, tons/ha)



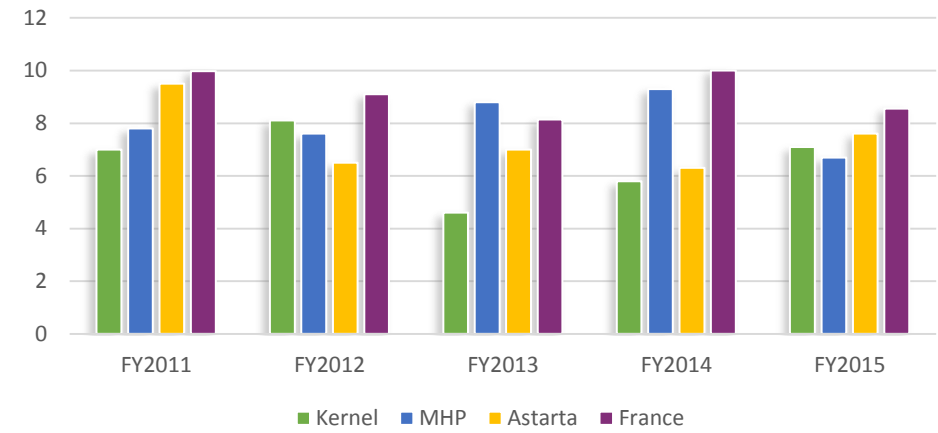
Average Yield: Ukraine vs. France



Yield comparison (wheat, tons/ha)



Yield comparison (corn, tons/ha)



Yield (tons/ha)		FY2011	FY2012	FY2013	FY2014	FY2015
Kernel	wheat	3,7	3,8	3,4	4,1	5,4
	corn	7	8,1	4,6	5,8	7,1
MHP	wheat	4,7	5,1	5,4	6,1	6
	corn	7,8	7,6	8,8	9,3	6,7
Astarta	wheat	4,5	4,0	4,9	5,0	5,4
	corn	9,5	6,5	7	6,3	7,6
France	wheat	6,8	7,3	7,4	7,5	7,9
	corn	10,0	9,1	8,1	10	8,6

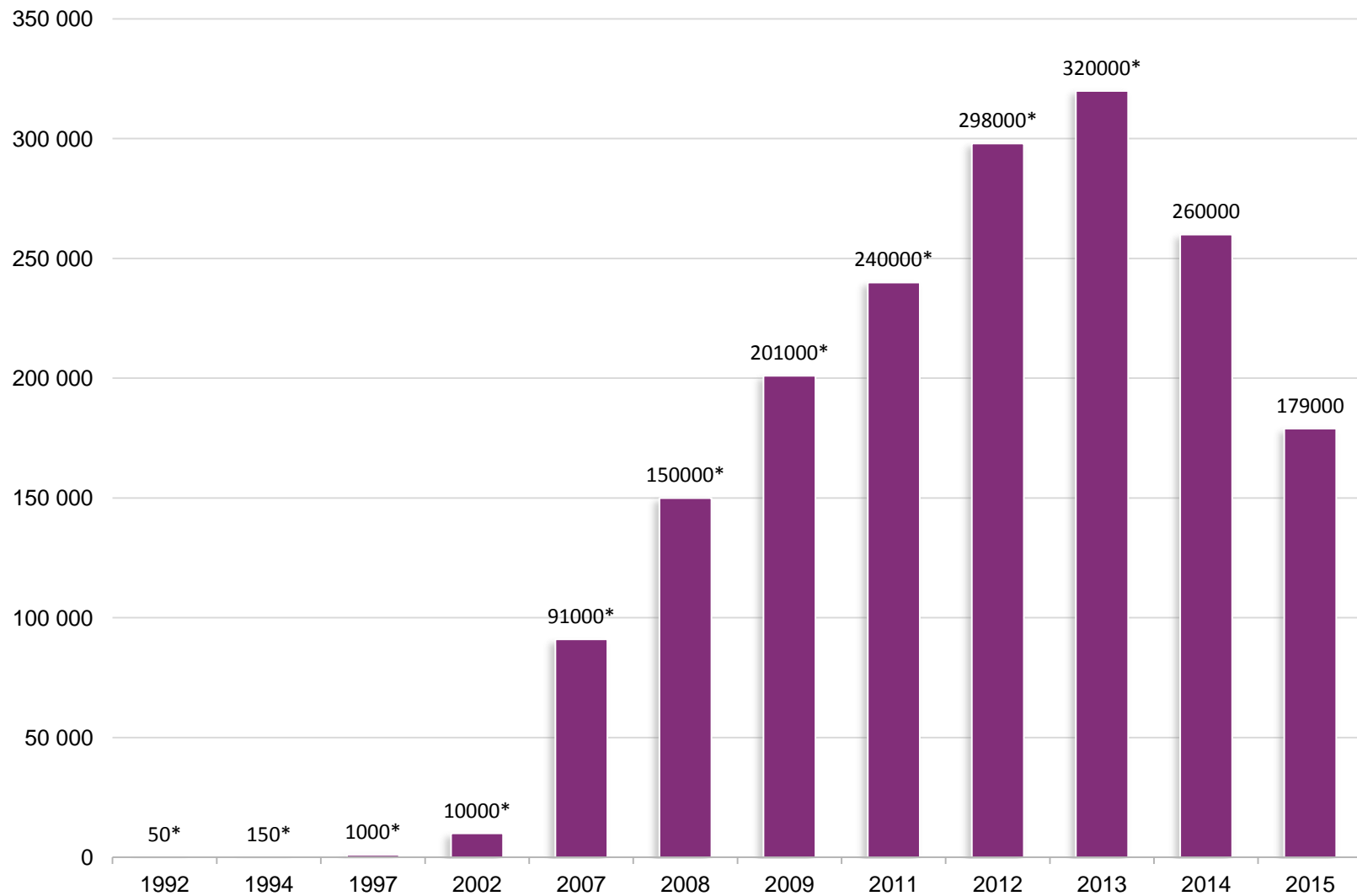
How to Turn Ukraine into a Global Agricultural Leader

- ❖ Ukraine should improve its competitive position through improvements in **efficiency** and **quality** of production
- ❖ Agricultural companies in Ukraine should focus more on **efficiency** and **control** over company operations
- ❖ **Land bank size** is not a competitive advantage in agriculture

The Mriya case - example

- ❖ From 2008 when shares were listed in Frankfurt Mriya's focus has been on aggressive growth of its landbank and investments in storage capacity and related businesses
- ❖ The financial markets supported the development strategy with large loans at very attractive terms
- ❖ During the high commodity price market 2010 – 2013 the company generated sufficient cash flow to service all debts
- ❖ However, when end 2013 commodity prices decreased, the business model was no longer sustainable and mid 2014 Mriya defaulted and crumbled under its debt burden. Resulting in provisional liquidation in January 2015 and control take-over by creditors.

MRIYA's Land Bank Growth



Year	Landbank, ha
1992	50*
1994	150*
1997	1 000*
2002	10 000*
2007	91 000*
2008	150 000*
2009	201 000*
2011	240 000*
2012	298 000*
2013	320 000*
2014	260 000
2015	179 000

* information from public data sources (provided by previous owners of MRIYA)

MRIYA's Approach

- ❖ MRIYA's new management is focused on **efficiency, control**, and improvement of **quality** of agricultural works:
 - **17 independent clusters** with varied structures have been converted to **7 blocs** with identical organizational structures
 - Purchases, elevator management, sales and machine park management have been **fully centralized**
 - The company has been **divesting land** that is uneconomical to harvest due to location or field size
 - The **legal structure** is being rationalized from 145 Ukrainian legal entities to a targeted 20 – 25 entities
 - Negotiations with creditors to restructure the unsustainable debt levels into a **viable debt level** and conversion of debt into a **equity-like** instrument

Thank You

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