Ukrlandfarming, Avangardco Eurobonds

Locked and loaded for a fight with creditors – negative view

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August 11, 2016

CONCORDE CAPITAL

Investment thesis

No money is reserved for creditors for the foreseeable future:

- Ukrlandfarming (ULF) lacked the capacity to repay principal on its debt in 2014-15. Current grain and egg prices imply that the same tight liquidity might persist in 2016-17 (slides 11-12);
- Even in case commodity prices rebound – an optimistic scenario is unfolding – not much additional value would be available to creditors, in our view:
  - ➢ ULF's past can explain much. The "too high to be true" EBITDA of 2011-13 warranted seemingly robust solvency ratios and enabled taking of enormous debt, while overly inflated CapEx "explained" ULF's thin free cash flows, which were actually negative during 2010-15 (slide 10);
  - ➢ Such a strategy showed its weakness since 2014 with the closure of opportunities for refinancing, coupled with a commodity price downturn;
  - ➢ If ULF practices do not change (and we see no signs for that as the company continues to show overly aggressive CapEx appetites), the interest of debt holders will remain a secondary priority in the holding's future.

Claims of secured creditors cover the most of potential recovery value. We estimate the total value of ULF assets at USD 0.8 bln (50% of total debt outstanding, slides 24-25). According to the holding, the total amount of its secured loans is close to 43% of the total, or USD 0.7 bln. In case secured creditors successfully reclaim their assets, the value of unsecured lenders, like bondholders, will be diluted.

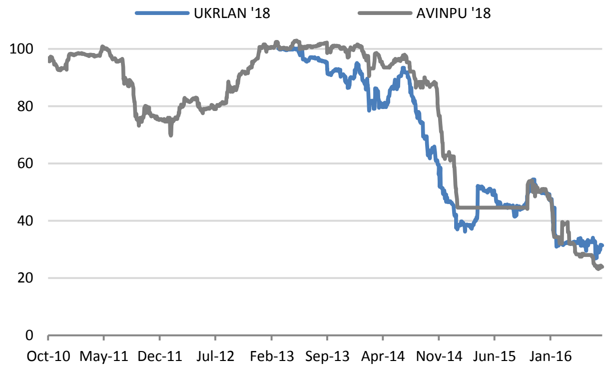
A takeover of ULF assets by debt holders looks hard to achieve. ULF has well-prepared itself for a scenario of a possible takeover by creditors (the case of agricultural holding Mriya), having conducted a heavy legal restructuring. Namely, the Cyprus-registered Ukrlandfarming plc, issuer of USD 500 mln in Eurobonds, stopped owning directly most of its key farming assets (slides 17-18), having dispersed ownership among its other Ukrainian subsidiaries. This will complicate any attempts to claim control over assets. A good illustration of poor protection of debt holders in the Ukrainian courts is the recent failure of Ukraine's central bank (the NBU) to reclaim at least some of the assets of controlling shareholder Oleg Bakhmatyuk in order to partially recover UAH 4 bln of his failed bank's borrowings (more details on slide 19).

Bankruptcy is not an option for shareholders as well - they'd rather stand in for a haircut. Any real bankruptcy procedure would make ULF's operations even more troublesome and would decrease the value of assets. In our understanding, a haircut of around 70% (bringing total debt-to-EBITDA below 3x) is what could be offered to creditors sooner or later.

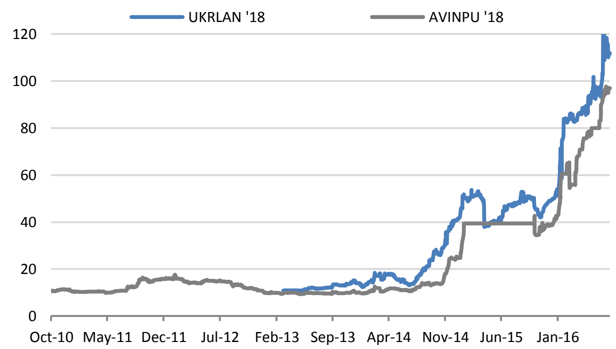
The perpetual debtor option doesn't inspire. With some degree of confidence, we can expect that the Eurobonds of Ukrlandfarming (UKRLAN) and Avangardco (AVINPU) will be perpetual notes with a cash coupon of 2.5% (that's what the holding proved to be able/willing to pay in 2015-16). Depending on the discount rate applied (we suggest using the discount rate of 20-25% for this particular case), the NPV of the bonds is around 11%-14% of par. **With such a valuation, we do not recommend UKRLAN or AVINPU bonds to anyone.**

For existing bondholders, we recommend initiating hard talks as soon as possible aimed at the long-term value recovery of the bonds. The fact that ULF and Avangardco are continuing their IR communication and restructuring talks with banks suggests the holding still hopes to find common ground with its creditors. The key value growth potential, in our view, is hidden in ULF's planned high CapEx (USD 106 mln p.a. on maintenance). We estimate the necessary level of maintenance CapEx for ULF is no more than USD 40-45 mln, with the rest (up to USD 65 mln) up for negotiation with Bakhmatyuk in the upcoming restructuring talks.

Prices of UKLAN and AVINPU notes, % of par



YTMs of UKRLAN and AVINPU notes, %



Source: Concorde Capital research, Bloomberg

Contents

Ukrlandfarming

What's priced in. The notes of ULF trade around 30 cents per dollar. We see two hypothetical paths of cash flows or scenarios for ULF bondholders, discounted at a rate of 15% (which we employ for companies without company-specific risk), that could correspond to a price of 30 cents:

1) A haircut of 30% on the principal, amortization of 70% of the remaining principal every year from 2024 to 2028, and an annual cash coupon of 2.5%;
2) The company becomes an eternal debtor, no principal is redeemed ever. Cash coupon is 4.4% per year.

Avangardco

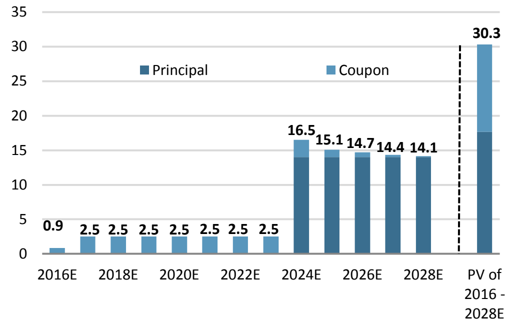
What's priced in. The Eurobonds of Avangardco trade within a wide range of 22-26 cents per dollar. We see two hypothetical paths of cash flows or scenarios for AVINPU bondholders, discounted at 15%, which could correspond to a price of 24 cents:

1) A haircut of 50% on the principal, amortization of 50% of the remaining principal every year from 2024 to 2028, and an annual cash coupon of 2.5%;
2) The company becomes an eternal debtor, no principal is redeemed ever. Cash coupon is 3.5% per year.

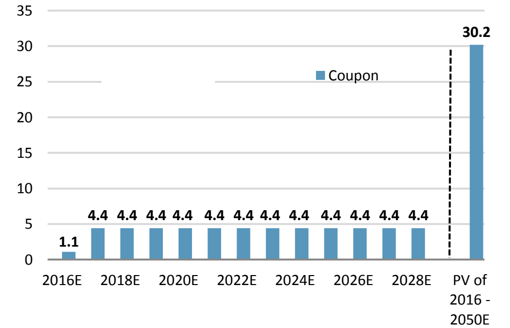
Having outlined an estimate of what we think the market's take on the prices of UKRLAN and AVINPU is, we argue that both Eurobonds should trade lower (around 11-14 cents per dollar):

1) We expect a cash coupon of 2.5% p.a. is what Ukrlandfarming and Avangardco would able/willing to pay going forward;
2) The discount rate should be higher by 5-10pp compared to 15%, taking into account company-specific risks

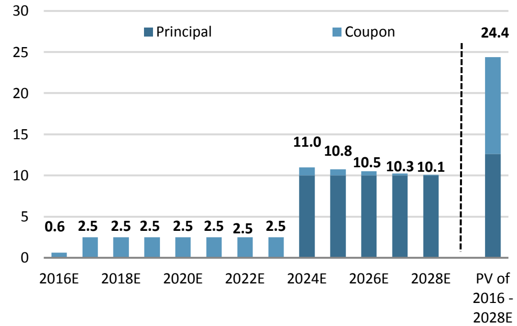
"Priced in" estimate of cash flows from ULF Eurobonds, % of par, scenario 1



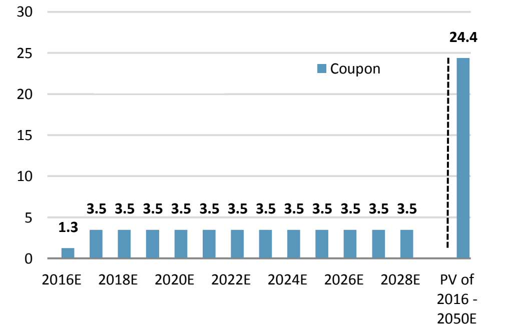
"Priced in" estimate of cash flows from ULF Eurobonds, % of par, scenario 2



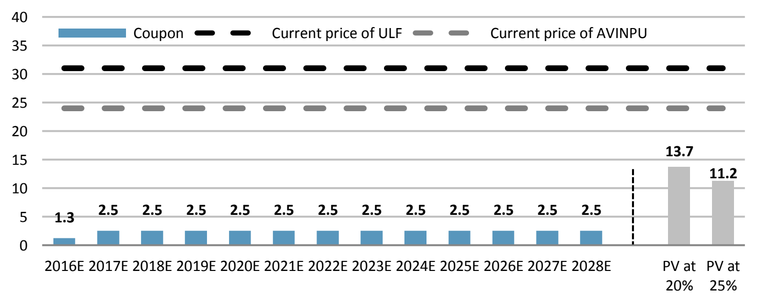
"Priced in" estimate of cash flows from Avangardco Eurobonds, % of par, scenario 1



"Priced in" estimate of cash flows from Avangardco Eurobonds, % of par, scenario 2



"Justified" price of ULF's and Avangardco's Eurobonds, % of par



Source: Concorde Capital research, Bloomberg

Earnings – hard landing after space journey

Ukrlandfarming's business consists of several key segments:

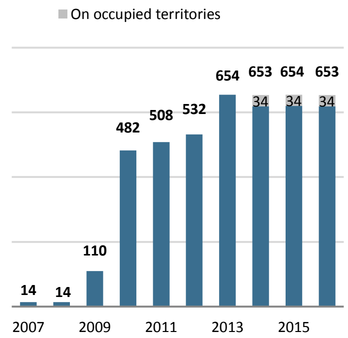
Farming. The group has a land bank of 653 kha in Ukraine, which includes 34 kha on the occupied territories (in Donbas and Crimea). Ukrlandfarming is the largest farming company in Ukraine in terms of land bank controlled.

The company harvested around 3.3 mmt of crops in 2015 (-14% yoy), mainly corn and wheat. ULF operates grain storage facilities with a total capacity of 2.58 mmt, including 1.86 mmt vertical elevators.

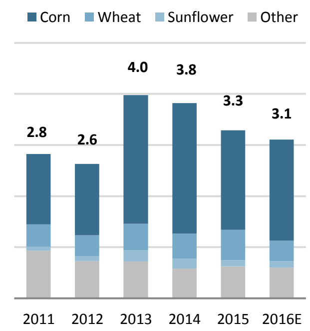
Egg business. ULF's significant subsidiary is Avangardco, which claims to be the largest egg producer in Ukraine. According to its trading updates, Avangardco's shell egg production fell 46% yoy in 2015 to 3.4 bln eggs. 85% of its shell eggs were sold domestically in 2015 (compared to 87% in 2014). The company also processes part of its shell eggs into dry egg products (9.1 kt produced in 2015, -58% yoy). 78% of its egg products were exported in 2015 (83% in 2014).

Other segments. Ukrlandfarming also has other business segments, which have together generated 28% of its revenue in 2015: 1) Distribution (fertilizers, crop protection, agriculture equipment spare parts), 2) Seed production, 3) Meat production (cattle stock was 50,500 heads as of end-2015, hog stock was 24,500 heads).

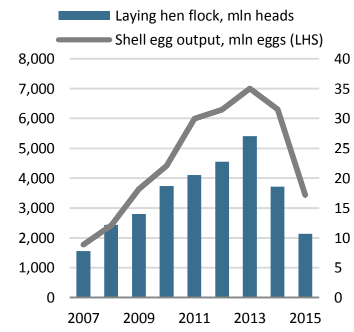
Land bank evolution, kha



Crop production, mmt



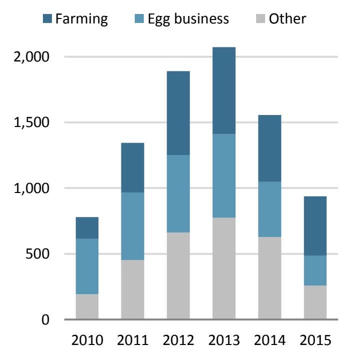
Laying hens & egg production



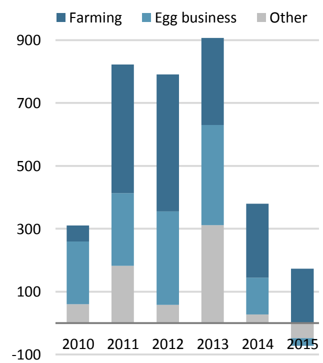
Financials deteriorated after peaking in 2013. In 2015, ULF's revenue fell 40% yoy to USD 938 mln, as the company reported sharply lower volumes in its egg business. In addition, following hryvnia devaluation in 2014-15, Avangardco's selling prices have been also beaten down. Its other segments, having sales denominated mainly in hryvnias, have suffered as well. The holding reported EBITDA as high as USD 842 mln in 2013, when it raised USD 500 mln in Eurobonds. EBITDA plunged 48% yoy to USD 434 mln in 2014 and another 44% yoy to USD 243 mln in 2015. Per segment analysis showed that 2015 EBITDA in farming were half of 2013 levels, while egg production and other segments, including unallocated expenses ,have turned red.

ULF's VAT subsidy used to generate a large chunk of its EBITDA at USD 68-174 mln, or 12-36% of the total in 2011-2015. In 2016, this subsidy will sharply decrease after changes in legislation according to which farmers receive only 15% of what they obtained previously as government grants (-75% yoy to USD 17 mln). The subsidy may be completely removed in 2017.

ULF revenue, USD mln

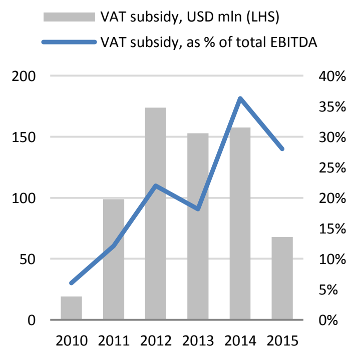


ULF EBITDA, USD mln*



**EBITDA derived from segment results, may deviate from total company's EBITDA reported*

ULF VAT subsidy



Source: Company data, Concorde Capital research

Farming EBITDA converges to peer level, egg production underperforms market

Farming performance normalizes
Ukrlandfarming used to report excellent EBITDA per hectare in its farming segment, far above its local peers or "too good to be true." In 2015, the company reported USD 324 per ha, and this result converged with the sector's median. Therefore, we believe this financial result has simply become more reliable than it was before.

Avangardco reported a large loss in its laying hen flock after a surge. By end-2015, the company returned to the point where it was before 2010, in terms of its laying hen flock (its main productive biological assets) and egg production. The flock plunged from a peak of 27 mln in 2013 to 10.7 mln by end-2015 (a 60% drop). Historically, Avangardco has demonstrated astonishing volatility in its laying hens flock, and these trends contradicted to what other local industrial egg producers have experienced, at least according to what Ukrainian official statistics and Avangardco's reports imply.

In 2010-2013, Avangardco's laying hen flock grew, while the rest of industrial producers faced declines in most cases. In 2014, during the year of active military action in Crimea and Donbas, Avangardco's flock took a hit of around 8.4 mln heads, out of which around 3.7 mln were located on the occupied territories in Donbas and Crimea. The rest (around 4.7 mln heads) was negatively impacted, having been situated close to the active military action, according to Avangardco. In 2015, the company's laying flock fell by another 7.9 mln to 10.7 mln heads, which Avangardco attributed to weak macro conditions and increased competition with households.

Comparison of Avangardco data with sector-wide statistics shows controversial trends:

- During the sole year of 2014, other industrial producers than Avangardco increased their flock 64% yoy to 24.1 mln heads. If that really were the case, this should have been a boom in a single given year in local egg industry, which we didn't observe
- In 2015, other industrial producers continued their expansion (by 1.9 mln heads), while Avangardco suffered.

Such adverse operating performance of Avangardco in 2015 is inconsistent with the market position the company enjoyed.

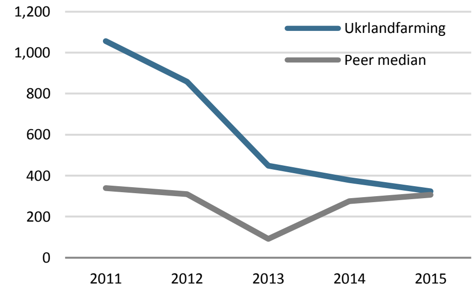
Other segments might have been weak, but data is limited. ULF's other segments, like meat production, have inputs linked to the dollar and revenue generated in hryvnias. This would explain significant deterioration of earnings (EBITDA plunged 46% yoy in 2015). However, the firm's level of disclosure of its operating performance is significantly lower than in farming and egg production, not allowing a look into much detail.

EBITDA per hectare in farming of Ukrainian companies, USD

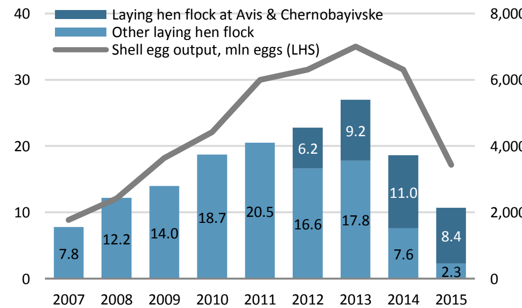
	2011	2012	2013	2014	2015
Ukrlandfarming	1056	858	448	378	324
Kernel*	405	274	-114	256	337
MHP	484	448	136	294	276
Astarta	267	290	255	344	258
IMC	274	329	401	509	562
Agroton	205	142	47	223	244
KSG Agro	685	406	33	205	484
Peer median	**339**	**310**	**92**	**275**	**307**

For Kernel 2011 = FY2012

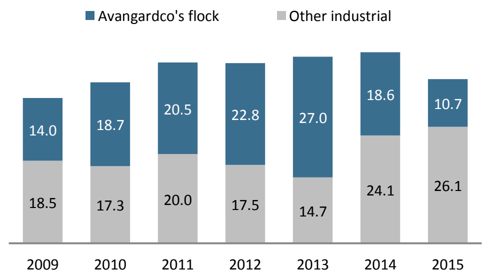
EBITDA per hectare in farming of ULF vs. Ukrainian companies' median, USD



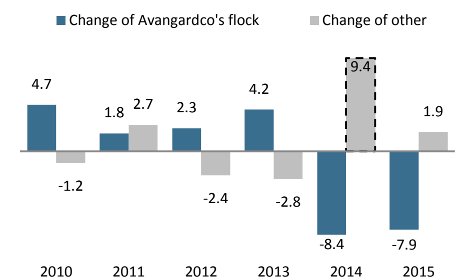
Avangardco's laying hen flock, mln heads, vs. shell egg production, mln egg



Total laying hen flock of Avangardco and other Ukrainian producers*, mln heads



Change in Avangardco laying hen flock vs. other producers*, mln heads, yoy



"Other producers" is the balance between total industrial and Avangardco's laying hens flock, implied from UkrStat and Avangardco's data

Source: Company data, Concorde Capital research, UkrStat

Debt profile – not a sustainable burden

Debt composition. The main part of Ukrlandfarming's total debt, which stood at USD 1,601 mln as of December 2015, initially stemmed from the acquisition of overleveraged companies, as we understand the story. Since 2010, the group has been raising fresh money to refinance old debt and to finance further expansion. In 2010, Avangardco placed USD 200 mln in Eurobonds. In 2011, a USD 600 mln syndicate facility from Sberbank and Deutsche Bank was secured. The total debt of Ukrlandfarming peaked in 2013 when the holding raised USD 500 mln in Eurobonds. USD 195 mln out of that money immediately went towards redeeming a chunk of the syndicate loan.

Ukrlandfarming's total debt consisted of five main parts, as of end-2015:

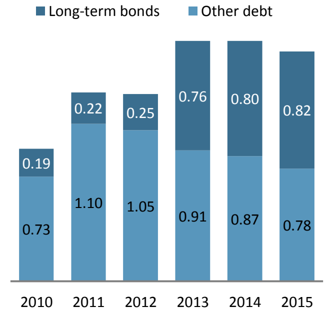
1. **USD 500 mln in Eurobonds** maturing on March 26, 2018. The annual coupon on these bonds is 10.875%. The company failed to pay a full semi-annual portion of interest due, or 5.4375% (USD 27 mln), as of end-March 2016. A consent solicitation was held among bondholders, who agreed to receive in cash just two semi-annual coupons of 1.25% each in 2016 and to capitalize the rest (the second coupon payment of 1.25% comes due in September). This capitalization of interest in 2016 will increase notes outstanding by 8% to USD 542 mln. Other scheduled payments of interest or principal in 2017-18 haven't been reviewed yet.
2. **USD 206 mln in Eurobonds of Avangardco.** ULF's second-largest subsidiary, Avangardco, holds notes maturing on October 29, 2018. These bonds, having initially a principal of USD 200 mln and a coupon of 10%, went through restructuring last year. The maturity has been shifted from October 2015 to October 2018. The cash portion of the total coupon to be paid was reduced to 25%, subject to an increase to 50% in October 2016 and to 75% in October 2017. The accrued, but not paid, balance will be capitalized. Therefore, if the capitalization occurs as it is scheduled now, the principal outstanding will increase by another 15% to USD 236 mln by 2018. Meanwhile, we estimate the risk is high that Avangardco might approach creditors requesting a reduction of the cash coupon, due to the currently adverse market for eggs in Ukraine.
3. **Syndicate loan from Deutsche Bank and Sberbank** had outstanding of around USD 201 mln as of end-2015. In April 2016, Ukrlandfarming agreed with both lenders upon a maturity extension from 2016 to 2026. The interest was reduced to 2.5% in 2016-18 (from 9-10%+Libor). After this period, the interest is scheduled to be gradually increased from 5% to 8.8% by 2026.
4. **Loans from export credit agencies (ECAs)** to ULF total USD 300 mln. In May, ULF extended the maturity by eight years for a USD 60 mln loan from a U.S. export-credit agency (the agreed terms haven't been announced) and was close to signing a similar extension with a Canadian ECA for USD 90 mln.
5. **More than USD 400 mln in banking loans** was due to banks, including local ones.

ULF bears too much debt. The high EBITDA reported in 2011-13 kept the ratio of total debt-to-EBITDA under control, within a covenant of 3x. The financial performance reported in 2014 and 2015 swelled that ratio to worrisome levels of 3.86x and 6.59x, respectively. As we expect Ukrlandfarming will report EBITDA in 2016, 2017 and future years at around USD 180 mln, the leverage ratio will worsen to 8.89x. That suggests that the solvency position of the company is questionable.

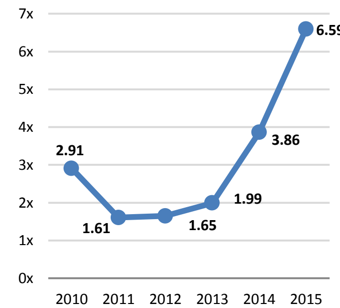
Ukrlandfarming debt breakdown

	Outstanding as of end 2015, USD mln	Current status
UKRLAN notes	500	Maturity in 2018, at risk
AVINPU notes	206	Maturity in 2018, at risk
Syndicate loan	201	Extended to 2026
ECA	300	USD 60 mln extended, other – n/a
Other	394	n/a
Total	**1,601**	

ULF debt evolution, USD bln



ULF total debt-to-EBITDA



Source: Company data, Concorde Capital research

Negative FCF generated in 5 years as high EBITDA was absorbed by elevated CapEx

ULF's accounts imply the company spent more than it earned. While having reported impressive EBITDA numbers previously, Ukrlandfarming has been running a business model that's extremely "capital intensive." The company recognized USD 2 bln as CapEx during 2010-15, while having generated just USD 1.3 bln of net operating cash flow. As a result, free cash flow during the last five years have added up to negative USD 660 mln. FCF worsened to USD 249 mln in 2015 from USD 180 mln a year before. **Simply put, almost nothing was retained from ULF's operations to repay its debt.**

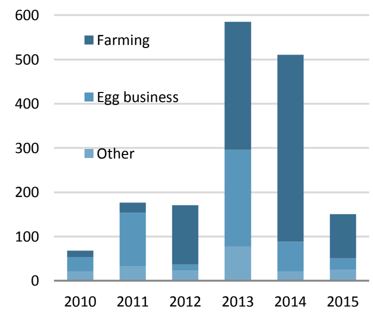
CapEx in farming looks overstated. Among ULF's publicly declared investment goals was the construction of grain silos. The group did boost storage by 0.9 mmt to 2.58 mmt between 2012 and now. No comprehensive info has been available on these investments. From media reports, we know that ULF claimed to have invested around USD 328/t in its certain grain silos. In some other expansionary projects, the group claimed CapEx was USD 230-240/t. In their public comments, officials claimed a necessary CapEx of USD 250-350/t of storage. This is far higher than what we have heard from other agri-companies (of average greenfield CapEx at USD 140/t). If NPV at a discount rate of 15% is any indication, investments into storage should be below USD 200/t to bring an NPV above zero (please refer to the chart, "NPV of CapEx in silos").

During 2013-15, Ukrainian publicly listed agri companies halted the expansion of their land banks and focused on optimizing property. While most companies had reduced CapEx from USD 200/ha p.a. to USD 22-54/ha by 2015, Ukrlandfarming spent way above that level, and intends to spend 2x-3x more than its peers as maintenance in 2016-17 (above USD 124/ha). The breakdown of historical and planned CapEx wasn't available from the ULF upon request.

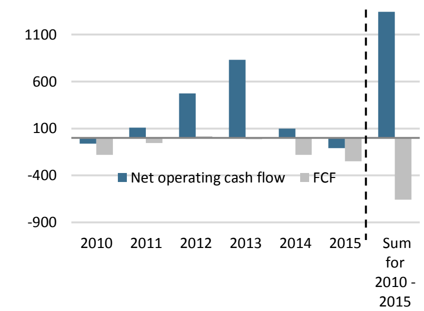
To get a sense of how high these recorded investments were, we present the following analogy. If ULF had really invested all the money it recorded as CapEx in farming (less estimated CapEx of USD 131 mln in its new 0.9 mmt silos) during 2013-15, it would be able to get all its farmland irrigated. Irrigation systems enable farmers to supply water to their crops, thus improving and stabilizing yields. In the case of farmer and sugar producer Astarta, its pilot project installing irrigation at one of its land plots involves CapEx of around USD 1,111/ha.

ULF constructed new egg production facilities at a higher cost than its competitors. Another point of concern for us is the investment outlays that Avangardco has recorded historically, or USD 1.2 bln recognized as purchases of PP&E during 2007-15. The company spent USD 738 mln, including USD 467 mln in 2010-14, on its two key investment projects which were the Avis and Chornobayivske egg production complexes. We estimate the average CapEx per new laying hen head was USD 56 for Avis and USD 41 for Chornobayivske starting from 2010. This is 61% and 20% higher than what a local peer, Ovostar, recorded for its expansion program.

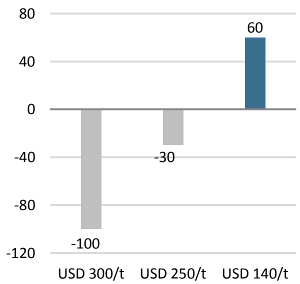
ULF CapEx, USD mln



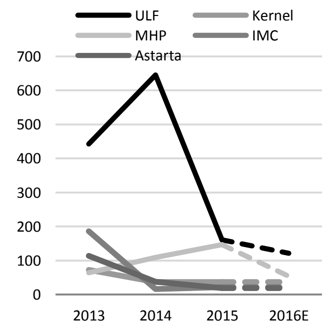
ULF operating and free cash flow, USD mln



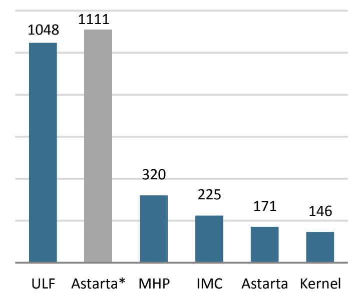
NPV of CapEx in silos, at discount rate of 15% USD/t



CapEx in farming, USD/ha



Cumulative CapEx in farming in 2013-15, USD/ha



**Astarta's separate investment project of installing irrigation system*

Historical investments in laying hens:

ULF

	Laying hen flock in 2009, mln heads	Laying hen flock in 2015, mln heads	CapEx in 2010-14, mln USD	CapEx into laying hen flock, USD/head
Avangardco - Avis	0.8	5.2	246	55
Avangardco - Chornobayivske	0.6	6.0	221	41

Ovostar

	Laying hen flock in 2010, mln heads	Laying hen flock in 2015, mln heads	CapEx in 2011-15, mln USD	CapEx into laying hen flock, USD/head
Ovostar	2.1	5.3	110	34

Source: Company data, Concorde Capital research

Guidance for 2016-17: negative or lean FCF to persist

While negotiating the capitalization of the interest on its Eurobonds with its creditors in April 2016, Ukrlandfarming presented a set of financial projections for 2016-17 in a consent solicitation memorandum. The projections have been outlined in "base and upside case scenarios," which differ depending on what the future price of grain would be. We have grouped certain items of these projections to show how management presents the company's financial stance and prospects.

Base-case scenario. In the base case, Ukrlandfarming sees its EBITDA at USD 156 mln in 2016 (-36% yoy) and USD 171 mln in 2017 (+10% yoy).

The group's total investments, which are named "maintenance CapEx", have been projected at USD 106 mln per year, including USD 77 mln set for farming and other segments, excluding Avangardco, or USD 124/ha. Maintenance should be around or below USD 50/ha, according to our consultations with local farmers. We argue that outlays of USD 29-30 mln as maintenance CapEx for the egg segment would take 12-16% of revenue, which is too high for the fully invested egg business.

FCF would be negative at USD 29 mln in 2016 and USD 7 mln in 2017. The company's cash would be "negative" at USD 14 mln by end-2017. Therefore, ULF will have to adjust some of its expenses in 2017. Its interest costs on bonds, which are budgeted in 2017 at USD 73 mln – as if they were fully paid – are at risk. Large debt redemptions aren't possible in this case.

Upside-case scenario. The alternative (upside-case) scenario foresees Ukrlandfarming's EBITDA in 2016 and 2017 at 56% and 73% higher respectively (at USD 242 mln and USD 296 mln) as compared to the base case. As most of the expenses are projected at the same level as in the base case, free cash flow would come in positive at USD 58 mln and USD 102 mln in 2016 and 2017 respectively (normalized at USD 78/t, if adjusted for the impact of working capital). As a result, closing cash at the end of 2017 would be as high as USD 182 mln.

Management's assumptions shadowed. Despite revealing these financial projections, the company has not disclosed exact grain prices being the basis for each scenario, but rather how the upside case differs from the base case. For the upside case, export corn prices are assumed to be 22-24% higher vs. base case prices, and export wheat prices are 26-31% higher (domestic grain prices are assumed to be 35-49% higher). Another management assumption for the upside case is a 10% yoy higher sown acreage in 2017, subject to "favorable macro and political conditions." The actual harvested acreage in 2016 will be close to 473 kha (-12% lower yoy).

We estimate that ULF is experiencing a base-case scenario, according to our examination of the commodities market, (see slide 12). Certain developments (egg, wheat prices) may be even worse than expected initially. Negative FCF is projected in the base case, which would even put coupons to bondholders at risk. There is certain risk that the company will refer to adverse commodity markets as an excuse for the lack of liquidity.

ULF projections* of cash flows, presented for consent solicitation, mln USD

Base-case scenario	2016	2017	Upside-case scenario	2016	2017
Opening cash	65	22	Opening cash	65	109
Revenue	**811**	**796**	**Revenue**	**896**	**1027**
VAT subsidy	26	21	VAT subsidy	29	29
OpEx	-682	-647	OpEx	-682	-759
EBITDA*	**156**	**171**	**EBITDA***	**242**	**296**
Interest on loans	-34	-30	Interest on loans	-34	-30
Interest on bonds	-25	-73	Interest on bonds	-25	-73
Tax expenses	-3	-3	Tax expenses	-3	-5
Working capital	-17	34	Working capital	-17	21
Net operating CF*	**77**	**100**	**Net operating CF***	**163**	**209**
Maintenance CapEx	-106	-106	Maintenance CapEx	-106	-106
Debt principal repayment	-13	-29	Debt principal repayment	-13	-29
Debt restructuring fees	-1	0	Fees	-1	0
Closing cash	22	-14	Closing cash	109	182
FCF*	**-29**	**-7**	**FCF***	**58**	**102**

Farming and other segments*

Base-case scenario	2016	2017	Upside-case scenario	2016	2017
EBITDA*	**122**	**121**	**EBITDA***	**209**	**246**
Interest on loans	-30	-29	Interest on loans	-30	-29
Interest on bonds	-20	-62	Interest on bonds	-20	-62
Net operating CF	-51	-91	Net operating CF	-51	-91
Maintenance CapEx	-77	-77	Maintenance CapEx	-77	-77
Debt principal repayment	-3	-6	Debt principal repayment	-3	-6
FCF*	**-18**	**-30**	**FCF***	**69**	**79**

Egg and egg product*

Base-case scenario	2016	2017	Upside-case scenario	2016	2017
EBITDA*	**34**	**50**	**EBITDA***	**34**	**50**
Interest on loans	-4	-1	Interest on loans	-4	-1
Interest on bonds	-5	-11	Interest on bonds	-5	-11
Net operating CF	18	53	Net operating CF	18	53
Maintenance CapEx	-29	-30	Maintenance CapEx	-29	-30
Debt principal repayment	-10	-23	Debt principal repayment	-10	-23
FCF*	**-11**	**23**	**FCF***	**-11**	**23**

**Items grouped by Concorde Capital*

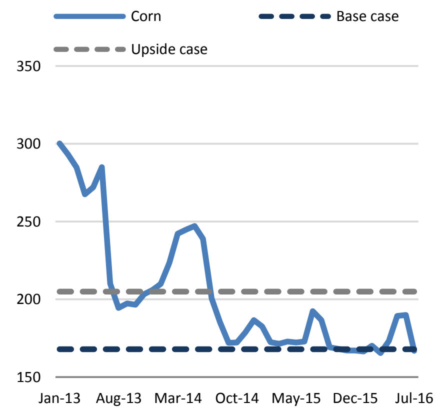
Source: ULF consent solicitation memorandum, Concorde Capital research

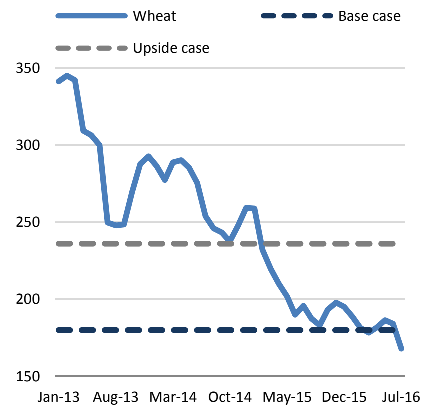
Commodity prices seem to follow low case, or worse

Base scenario (the worst of the two) is unfolding in farming. Though ULF isn't disclosing the basic inputs to its financial projection scenarios, we assume these prices could have been the prevailing market prices in February-March 2016, before the consensus solicitation documents were presented to the market. Export wheat prices were USD 180/t, on average, in February-March, while corn prices were USD 168/t, FOB, Black Sea port.

The short-term recovery in grain prices seen in March-April reversed themselves to levels at the beginning of the year. Therefore, in our view, the farming segment operates in a business environment that corresponds to the base scenario: EBITDA of USD 121-122 mln and negative FCF in 2016-17 projected by management.

Spot grain prices, FOB, Black Sea, USD/t, vs. estimated prices for ULF's base & upside cases



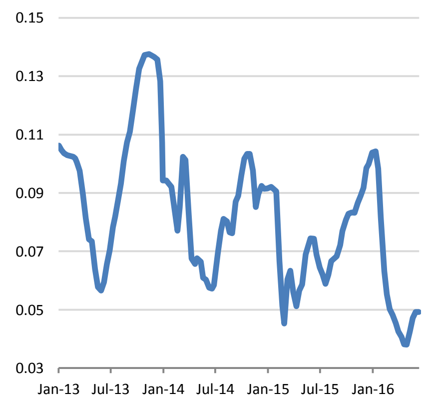


Egg prices plunged to the level of cash costs. In 2Q16, local egg prices in Ukraine dipped 30% qoq to USD 0.045/egg in dollar terms. The seasonal downturn in the spring on the local market was magnified by problems with exports as certain destinations, like Iraq, were not accessible. As such, prices in 2Q16 reached the level of cash costs per egg (which Avangardco reported in 1Q16 at USD 0.046/egg). This means Avangardco might be merely breaking even at the 2Q16 EBITDA level.

Usually, egg prices recover by the year end. We assume a 14% qoq recovery in local prices to USD 0.051/egg in 3Q16 and 48% qoq growth to USD 0.075/egg in 4Q16. Given such assumptions prove themselves to be correct, we project Avangardco's EBITDA at USD 20 mln in 2016 and USD 33 mln in 2017, which is lower than ULF's forecasts (see slide 11).

Liquidity gaps might be claimed by ULF's management soon so we should expect a new round of negotiations on Eurobond restructuring.

Local egg prices, USD/egg



Source: APK-Inform, The Union of Poultry Breeders of Ukraine, UkrStat, Concorde Capital research

CapEx is what ULF controls – creditors should get a grip over it

ULF might stay overleveraged for a long period, as earnings remain relatively low. Amid current market conditions, Ukrlandfarming has the potential to generate EBITDA of around USD 180 mln p.a., according to our estimates (see Annex 1 for assumptions). The forecast is closer to management's base-case scenario projections. The key contributor to that EBITDA is the farming segment. Though drastically lower compared to previous years, it looks more achievable compared to past performance.

The total debt-to-EBITDA level in this case is 8.8x. This gives little breathing room for development. It also escalates the risks to ULF remaining a going concern.

Optimizing CapEx would unlock value. External factors defining EBITDA – like the hryvnia exchange rate, grain and egg prices, the availability of land on the occupied territories – lie outside of ULF's and creditors' direct influence. Naturally, stakeholders need to focus on internal FCF factors – namely, optimizing the company's CapEx.

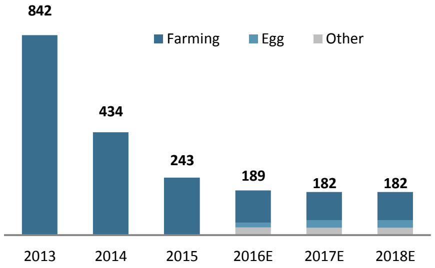
Currently, there are two possible options:

1) the group records CapEx at USD 106 mln annually, as set out in management's cash flow projections. This implies "maintenance CapEx" of USD 124/ha over controlled land, or USD 163/ha over harvested land. This maintenance CapEx is 2-3x higher than other Ukrainian farmers usually spend. In this case, normalized free cash flow (without the impact of working capital) would be just USD 11 mln per year. Total debt could be repaid in 45 years, with a gradual reduction of interest expenses taken into account;

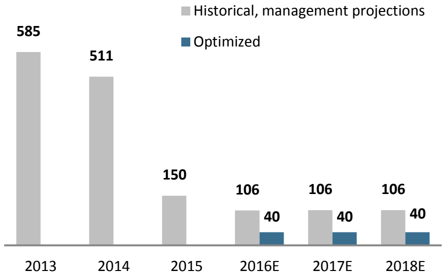
2) creditors manage to negotiate an optimized CapEx, which we estimate at around USD 40 mln per year. This estimate includes USD 50/ha in expenses for its controlled land bank and a charge of roughly 3% for Avangardco's revenue. In this case, the time horizon for debt repayment decreases to 16 years under the same assumptions.

It is in the direct interest of creditors to get CapEx under control. Once successful, directing earnings not onto recorded investments, but towards distribution between creditors, will improve debt valuation.

ULF EBITDA, mln USD



CapEx under management projections vs. optimized scenario, USD mln



ULF selected financial items, mln USD

	2016E	2017E	2018E
Total debt	1,588	1,559	1,559
EBITDA	189	182	182
Financial expenses, USD mln	-64	-62	-62
Taxes, USD mln	-3	-3	-3
Working capital, USD mln	-17	34	0
CapEx under management's projections	-106	-106	-106
Free cash flow	0	45	11
Years to repay debt*			45
CapEx optimized	-40	-40	-40
Free cash flow	66	112	77
Years to repay debt*			16

**Based on the assumption that the company directs all its free cash flow towards debt repayment, thereby reducing its annual financial expenses.*

Source: Concorde Capital research

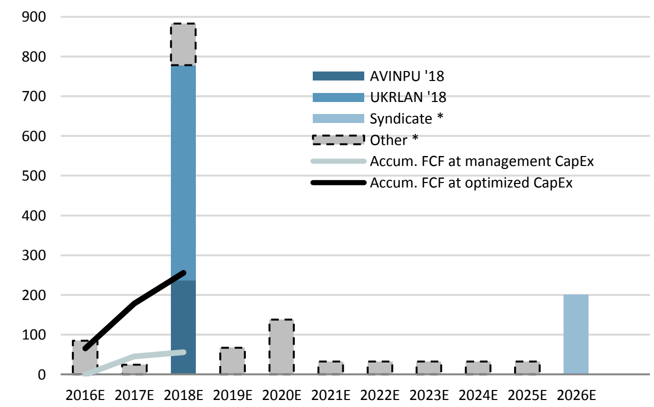
Restructuring unavoidable

Debt maturity is skewed towards 2018, restructuring is imminent. USD 542 mln of ULF's Eurobonds and USD 236 mln of Avangardco's Eurobonds will mature in 2018. (USD 78 mln in unpaid coupons will be capitalized on top of USD 700 mln in notes, provided no new restructuring is organized).

Free cash flow accumulated in 2016-18 wouldn't be sufficient to avoid a liquidity event. Ukrlandfarming will have to approach creditors for a number of concessions. We anticipate one or more of the following suggestions will be offered to creditors:

- Large haircut (around 70% in order to bring total debt-to-EBITDA to around 3x);
- Reduction of cash coupon (up to 2.5%, if other terms are left unchanged), dropping the interest capitalization provision;
- Maturity extension (for up to ten years).

Estimated ULF debt maturity vs. accumulated FCF, USD mln



**Debt maturities in dash-lines are estimated according to public information available*

Source: Concorde Capital research

ULF assets worth a fortune, though recoverability seems low

There is certain value in ULF's assets. We have performed a sum-of-the parts valuation of ULF's assets in order to indicate what's at stake for owners and what value creditors could potentially claim. The estimated value of its various businesses amounts around USD 800 mln, or 50% of total ULF's debt.

Actual recoverability of ULF's assets might be low. Creditors' ability to extract that value is at risk. We have noticed that Ukrlandfarming's subsidiaries have undergone a significant legal restructuring since the publication of the company's prospectus for USD 500 mln in Eurobonds in 2013. The bulk of subsidiaries, being surety providers for these Eurobonds, were directly owned by Ukrlandfarming, according to the prospectus. These surety providers accounted for 85% of EBITDA in 2012 (their contribution should not have fallen below 75% during the following years, according to the terms of the prospectus).

As we have observed from open public sources, the legal structure has become more complicated and Ukrlandfarming's direct control of its key assets has been dispersed between the group's other subsidiaries. The following considerations are points of concern to us:

1) In certain cases (#1-11, see slides 17-18), while Ukrlandfarming might have retained its effective controlling interest over its subsidiaries, its direct ownership over certain surety providers has been shifted to the Ukrainian legal entity Upravlinske Tovarystvo ULF (UT ULF), or some new companies located in Cyprus;
2) As a result, additional levels of control via Ukrainian legal entities have emerged between Ukrlandfarming plc and certain surety providers, which would require additional legal steps for anybody trying to seize control over the pledged assets;
3) No public disclosure in regards to these changes that we highlighted below has been made;
4) In most cases, it remains unclear what exact property or assets are behind certain legal entities;
5) We suspect that certain assets might have legal claims from different groups of creditors simultaneously (the entity may serve as a surety provider, and its equity and/or assets might be pledged). In 2012-13, most of the surety providers had claims on their equity and assets from banks.

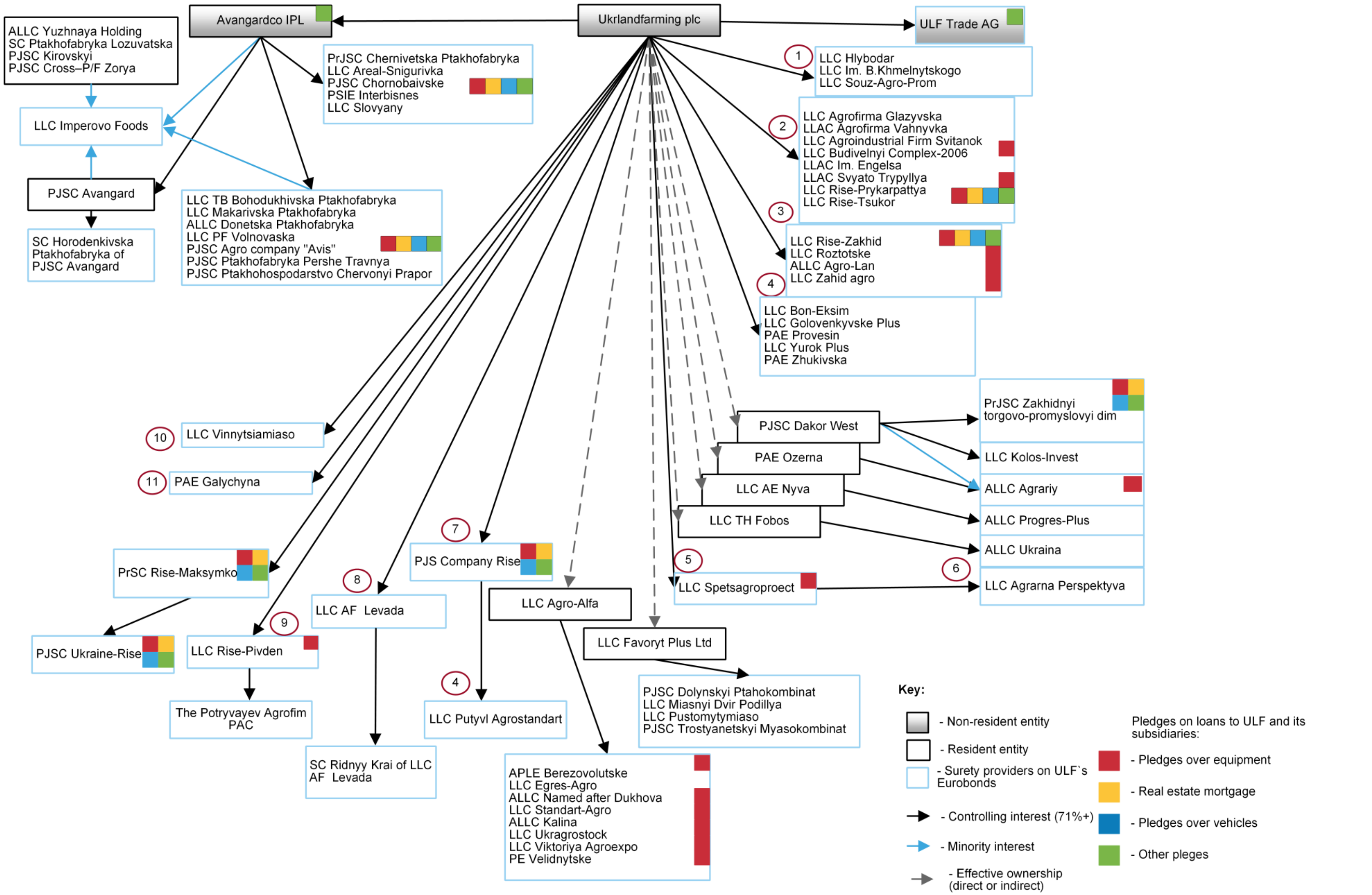
Mriya-style takeover isn't an option for ULF assets. We think such legal changes have required significant effort, which could have been aimed at protecting these assets from a possible work out by creditors. In the case of another Ukrainian farming company Mriya, which defaulted on its debt in 2014 and was overtaken by creditors, it was enough for them to claim their rights to a number of key offshore companies at the parent level in order to claim assets. In our view, Mriya's case can't be repeated with Ukrlandfarming. In the worst-case scenario, a claimant would have to deal with the Ukrainian courts in trying to get control over different entities. This process might take time, and the success rate is doubtful.

Sum-of-the-parts recovery value, USD mln

Recovery value	
Land bank	248
Storage	264
Egg business	163
Land plots in port	62
Sugar division	41
Meat division	21
Total	**799**
Total debt	**1601**
Recovery value as % of debt	50%

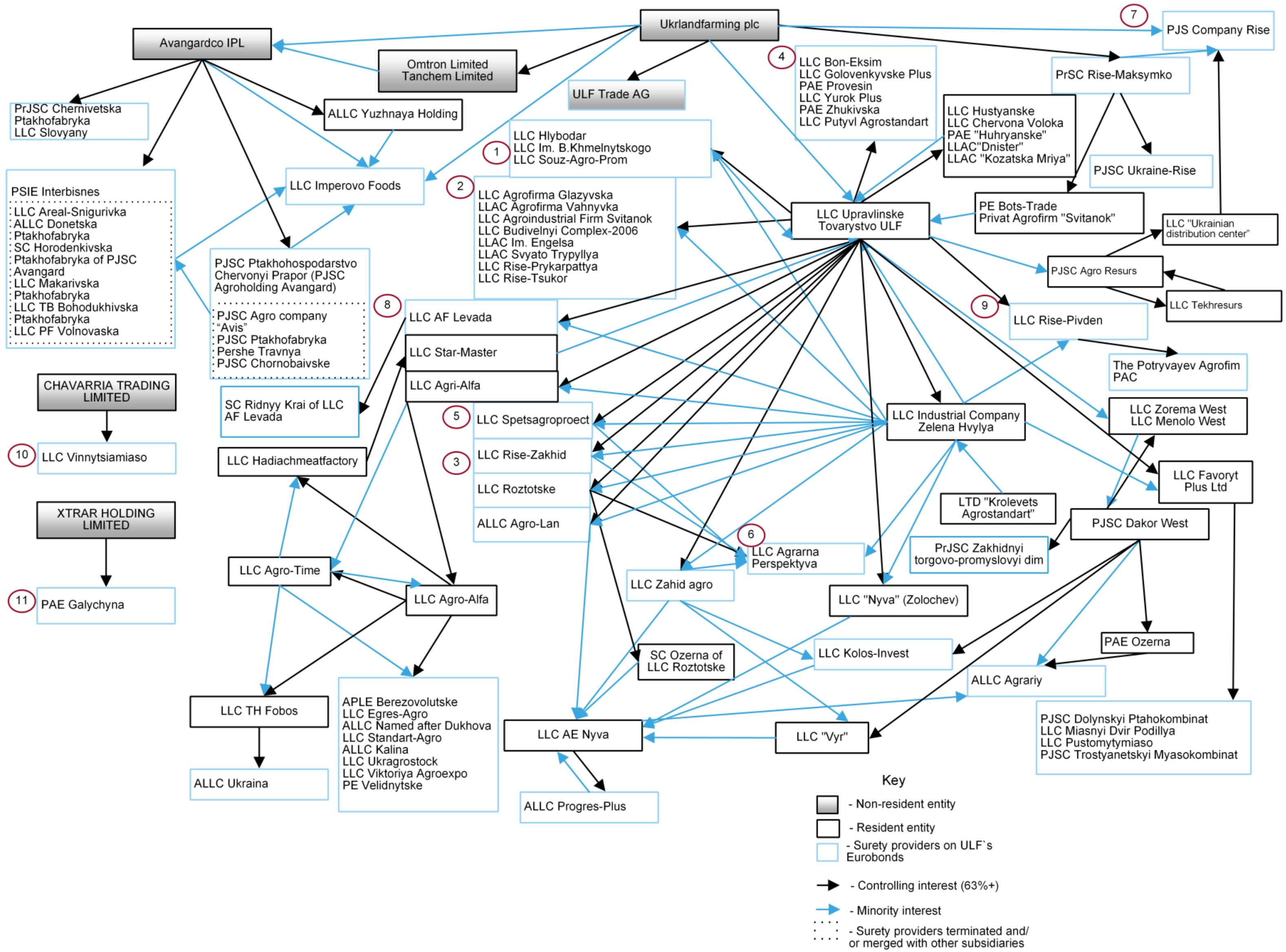
Source: Concorde Capital research

Issuer's (Ukrlandfarming plc.) surety providers, as of 31 December 2012



Source: Concorde Capital research, based on prospectus of Ukrlandfarming's USD 500 mln Eurobonds

Issuer's (Ukrlandfarming plc.) surety providers, as of July 2016



Source: The Ukraine's Single State Register of Legal Entities, Individual Entrepreneurs and Community Groups, www.smida.gov.ua

NBU vs. Bakhmatyuk: legal conflict's outcome is uncertain

Below, we provide as an example the May 2016 court hearings, related to the assets and liabilities of Oleg Bakhmatyuk, the majority shareholder of Ukrlandfarming (UKRLAN):

- Kyiv's Pechersk district court ruled on May 12 to arrest all the property that belongs to Bakhmatyuk. The court's ruling was based on an appeal submitted by the National Bank of Ukraine (NBU), which was trying to recover UAH 4.0 bln in loans provided to Finansova Initsiatyva Bank. The bank had been controlled by Bakhmatyuk and failed in 2015. The loans were backed by some property and property rights, as well as a financial guarantee from Bakhmatyuk himself, according to the NBU. This arrested property consisted of stakes in 72 companies, whose ultimate beneficiary is Bakhmatyuk. Of them, 62 companies were reported as subsidiaries of Ukrlandfarming in its 2015 annual report.
- The same Pechersk district Kyiv local court ruled on May 26 to cancel its own ruling to arrest all the property that belongs to Bakhmatyuk, which had been imposed on May 12. The court based its May 26 ruling on Bakhmatyuk not being a direct owner of the rights in any of the 72 companies.

On the one hand, it's good for the other creditors (not the NBU) that the risk of interrupted operations at the holding's companies was minimized. On the other hand, this is an illustration of the poor protection of creditor rights in Ukrainian courts.

Source: Interfax-Ukraine, Concorde Capital research

Reinstating the value within, or points to negotiate for creditors

A large haircut, not bankruptcy, is what ULF is aiming for. In our understanding, while Ukrlandfarming has undergone a significant legal restructuring to avoid a replication of Mriya's case, this was also set up as a contingency plan in case negotiations with creditors go in a completely wrong direction and they tried to accelerate payments and work out assets.

At the same time, we think that the outright bankruptcy of Ukrlandfarming isn't a viable solution for the company's current shareholders and management. Furthermore, long-lasting legal battles, imminent liquidity gaps and a reduced number of business partners ready to deal with a company in a corporate war would make operations at Ukrlandfarming much more troublesome. The value of assets, challenged in courts by creditors, would be also much lower than during the ordinary course of business.

Put simply, ULF shareholders and management would rather avoid bankruptcy. The escalation of this threat is among the few options available to creditors in gaining concessions from the company, in terms of improvement in corporate governance.

We recommend that creditors demand improved corporate governance in exchange for concessions.
We see certain key points that large creditors, including the holders of large chunk of notes, might demand from Ukrlandfarming in return for a maturity extension or haircut, which could be discussed soon. Achieving the following points would renew value in ULF's and Avangardco's Eurobonds:

1) Simplifying the legal structure;
2) Conducting an audit or due diligence, as if the business would be sold to third parties;
3) Imposing covenants for capital expenditures (i.e. maintenance CapEx for farming no more than USD 50/ha, expansion CapEx for new grain storage no more than USD 140/t);
4) Introducing a supervisory board to include representatives of creditors. This supervisory board approves an annual budget, including CapEx;
5) Regular publication of financial reports on the company website (currently available only upon request). Higher frequencies (quarterly financials, monthly operating performance) would be preferable.

Source: Concorde Capital research

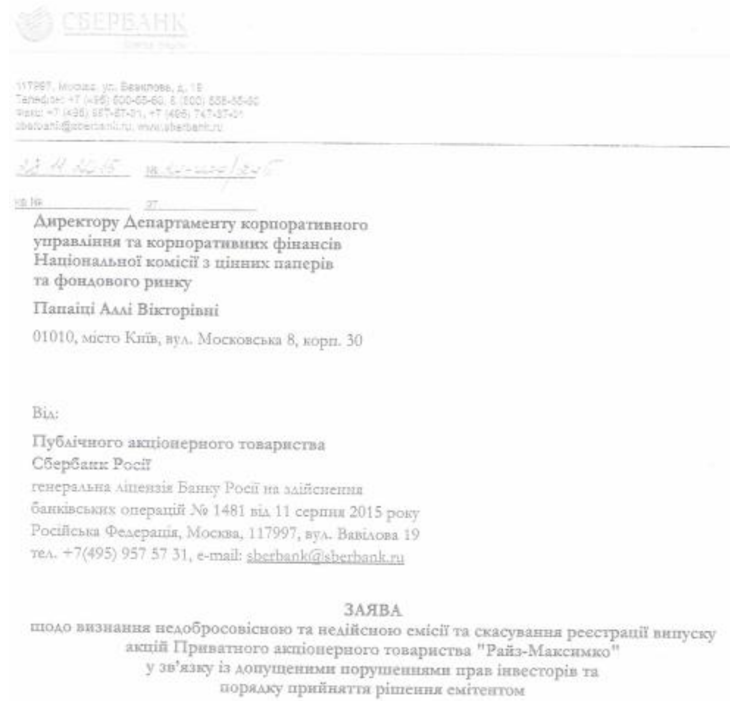
Rise-Maxymko case: certain efforts bring results

Another case out of ULF's relations with creditors proves that an active approach to defending creditor interests brings certain results. Below is a summary of the Rise-Maxymko case, based on what is public, that includes details from a letter of Sberbank to the National Securities and Stock Market Commission of Ukraine sent in November 2015:

- In 2011, Sberbank and Deutsche Bank issued a USD 600 mln loan facility to Ukrlanfarming plc, USD 401 mln of which was provided by Sberbank. Against this facility, 100% of the equity of ULF subsidiary Rise-Maxymko company (a farming company in the Poltava region) was pledged (11.8 mln shares with a nominal value of UAH 365 mln);
- A default on principal payments occurred. As of end-2015, USD 146 mln in principal (out of the remaining USD 201 mln) and USD 18 mln in interest were overdue;
- In a letter, Sberbank informed the Commisson that it became aware of a significant increase in the equity capital of Rise-Maxymko, approved at a September 2015 AGM, and subsequently registered by the Commission. The equity capital after this increase would have been UAH 3.3 bln (108 mln in new shares were to be issued). This would have diluted the value of shares that Sberbank and Deutsche Bank held as collateral to 10% from 100% and would make control over this subsidiary impossible;
- Sberbank argued that the increase of equity occurred without the consent of creditors and requested the Commission to cancel the registration;
- What happened next wasn't fully public, but two outcomes are apparent. 1) From official databases, we see that the nominal value of the equity capital of Rise-Maxymko remained at USD 365 mln (11.8 mln in shares); 2) In April 2016, Ukrlandfarming announced that it agreed to a restructuring with Sberbank and Deutsche Bank of a USD 201 mln loan, including a maturity extension from 2016 to 2026.

As the case of Rise-Maxymko demonstrates, a proactive approach can better protect creditor interests. While the Ukrainian courts may not be very helpful, other authorities could compensate for that and prove helpful.

Scan of Sberbank head's letter to the National Securities and Stock Market Commission of Ukraine with regards to Rise-Maxymko



СБЕРБАНК

Директору Департаменту корпоративного
управління та корпоративних фінансів
Національної комісії з цінних паперів
та фондового ринку

Папаіці Аллі Вікторівні

01010, місто Київ, вул. Московська 8, корп. 30

Від:

Публічного акціонерного товариства
Сбербанк Росії
генеральна ліцензія Банку Росії на здійснення
банківських операцій № 1481 від 11 серпня 2015 року
Російська Федерація, Москва, 117997, вул. Вавілова 19
тел. +7(495) 957 57 31, e-mail: sberbank@sberbank.ru

ЗАЯВА
щодо визнання недобросовісною та недійсною емісії та скасування реєстрації випуску
акцій Приватного акціонерного товариства "Райз-Максимко"
у зв'язку із допущеними порушеннями прав інвесторів та
порядку прийняття рішення емітентом

Source: Concorde Capital research, smida.gov.ua, electronic media

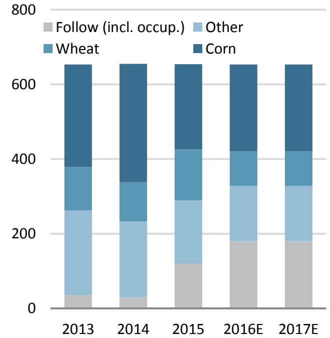
Annex 1. Concorde Capital's assumptions for ULF's financial model

We have developed a number of assumptions below in order to project cash flows that Ukrlandfarming, as a group of businesses, will generate going forward:

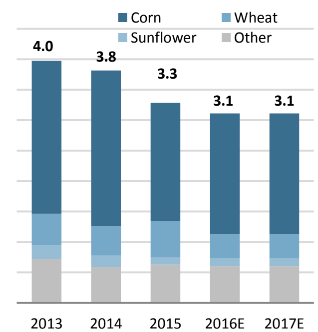
Farming:

- The company, being constrained by lack of working capital, will harvest 473 kha of land in 2016 and 2017, leaving 180 kha fallow;
- Corn will remain the key crop with 49% of total harvested land and 64% of produced crop. Wheat will retain second place at 19% and 13%, respectively;
- Our internal assumptions on selling prices and farming costs lead us to project 2016 EBITDA of USD 288 per ha. A further reduction of EBITDA per hectare to USD 251/ha in 2017 is a result of zero VAT subsidies assumed for next year. Should any equivalent of state subsidies be reinstated in Ukrainian legislation, we see normalized EBITDA closer to USD 288/ha.

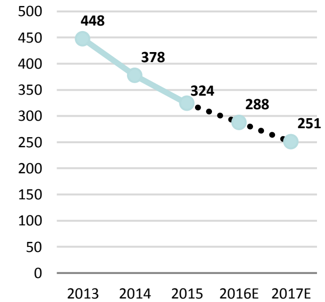
Harvest acreage, kha



Crop production, mmt



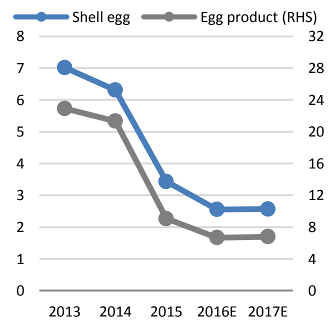
Farming EBITDA, USD/ha



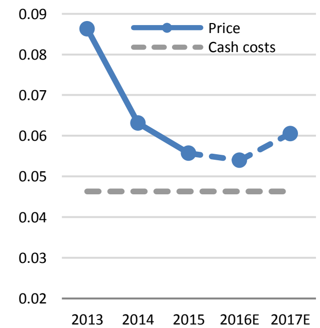
Eggs and egg products:

- We model the laying hen flock flat at 10.7 mln heads in 2016 and following years;
- Total shell egg production will decrease 26% yoy to 2.6 bln eggs in 2016, while sales of shell eggs will fall 30% yoy to 2.0 bln eggs in 2016. Egg product output will decline 26% yoy to 6.7 kt in 2016. In 2017 and onwards, we project production of eggs and egg products to remain stable;
- We model the average selling price of eggs to decline 3% yoy to 5.4 cents in 2016. Expectations of seasonal egg price recovery in 3Q16 (+14% qoq) and 4Q16 (+48% qoq) are the basis of this projection. We model an average egg price of 6.5 cents in 2017 (+11% yoy);
- We assume egg product prices of USD 5.5/kg (-3% yoy) in 2016, and remaining stable in 2017, based on the most recent prices the company published for 1Q16;
- We estimated the costs for eggs and egg products based on actual reported 1Q16 numbers.

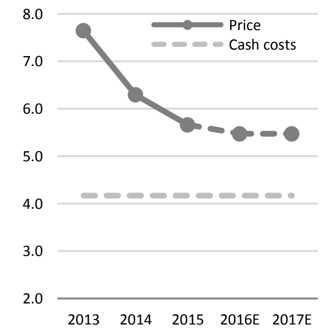
Output of shell eggs (bln units) and egg products (kt)



Price and cash costs in 2016-2017 for shell eggs, USD/egg



Price and cash costs in 2016-2017 for egg products, USD/kg



Other segments:

- We assume that the profitability of ULF's other segments (meat production, distribution and seeds) in 2016 might reach 2015 levels, while the top line of these segments would be impacted by the weaker hryvnia;
- We project combined revenue from these three segments at USD 216 mln in 2016 (-14% yoy) and at USD 203 mln (-6% yoy) in 2017, according to our estimates of the average hryvnia FX rate;
- We assume the total average EBITDA margin of these segments at 15% in 2016-17, on par with 2015, resulting in EBITDA of USD 33 mln and USD 31 mln in 2016 and 2017 respectively.

Other segments selected financial items, USD mln

	2013	2014	2015	2016E	2017E
Revenue	613	622	252	216	203
EBITDA	126	71	38	33	31
EBITDA margin	*21%*	*11%*	*15%*	*15%*	*15%*

Source: Company data, Concorde Capital research

Annex 2. Recovery value

We have run a sum-of-parts valuation of Ukrlandfarming's assets to highlight the value of the property at stake in forthcoming negotiations between the company and its creditors.

Land bank

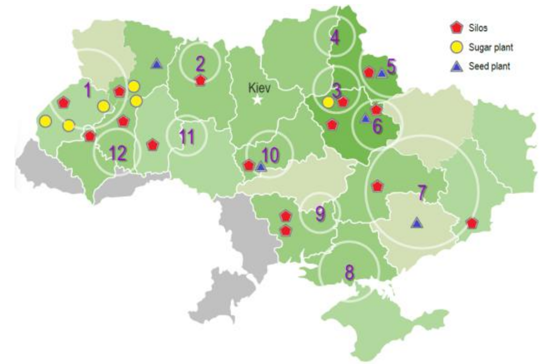
We have estimated the value of land lease rights held by Ukrlandfarming. The group's land bank comprises 653 kha, with 34 kha on the occupied territories of Donbas and Crimea, which we exclude from valuation.

We have applied certain multiples to different clusters of ULF's land. These multiples reflect Concorde Capital's rough estimate of the average market value of land in different regions of Ukraine.

The land value in 12 ULF clusters amounts to USD 248 mln.

Estimated value of ULF's land bank

	Name of cluster	Land bank, kha	Estimated value of land bank, USD/ha	Estimated value, USD mln
1	Northwestern	84	400	34
2	Polissia	49	425	21
3	Northeastern	67	450	30
4	Desnianske	59	450	26
5	Northern	69	450	31
6	Eastern	77	325	25
7	Prydniprovske	49	-	-
	less occupied land	22	-	-
	on Ukraine's controlled area	27	325	9
8	Southern	39	-	-
	less occupied land	13	-	-
	on Ukraine's controlled area	26	175	4
9	Prychornomorske	69	200	14
10	Central	31	550	17
11	Western	32	675	21
12	Prykarpattia	29	550	16
	Land bank on controlled area	**619**		**248**
	Total nominal land bank	**653**		**-**



Storage. Ukrlandfarming operates grain storage facilities of around 2.58 mmt totally, including 1.86 mmt in vertical silos. Valuating vertical steel elevators at USD 120/t and horizontal ones at USD 40/t, we estimate the market value of its storage business at around USD 264mln.

Estimated market value of storage

Storages	Capacity, mmt	Market price, USD/t	Estimated value, USD mln
Vertical	1.86	120	223
Horizontal	1.03	40	41
Total	**2.58**		**264**

Egg business. Avangardco is experiencing tough times currently, since egg prices at the local market plunged to the level of production costs in 2Q16. We see this as a seasonal development and expect prices to recover by the year end. That said, we estimate the company is able to earn annual EBITDA of around USD 30 mln+. Assigning an EV/EBITDA multiple to its egg business at 5x, we get its value of USD 163 mln.

Estimated value of egg business, mln USD

Assumed mid-term EBITDA	Applied EV/EBITDA	Enterprise value
33	5.0x	163

Source: Company data, Concorde Capital research

Port

Ukrlandfarming controls around 211 ha in Yuzhniy port, as the public scheme of the port implies. Around 5.5 ha of this area is being challenged in Ukrainian courts by another company. We evaluate the remaining land plot at average multiple of USD 0.3 mln per ha. As a whole, we estimate the value of the land plots in Yuzhniy at around USD 62 mln.

Land plots in port Yuzhniy controlled by ULF

Sugar

The group has six sugar refining plants, with a total capacity of 450 kt of sugar annually. These facilities haven't operated for several seasons in a row.

We evaluate these six plants at a liquidation value based on what amount of scrap metal could be obtained from a property. The estimated amount is around USD 41 mln.

Meat

We estimate the value of Ukrlandfarming's meat division based on the live weight of its 51,000 heads of cattle and 25,000 hogs. The valuation amounts to USD 21 mln.

Estimated value of ULF livestock, USD mln

	Stock, thousand heads	Average live weight in Ukraine, kg/head	Estimated live weight, kt	Average price of live weight, USD/kg	Estimated value of livestock, USD mln
Cattle	51	371	18.7	1	19
Hogs	25	108	2.6	1	3
Total					**21**

Total

The value of Ukrlandfarming's business, as the sum of its parts, is around USD 800 mln, which amounts to 50% of its total debt.

Sum-of-the-parts recovery value, USD mln

Land bank	248
Storages	264
Egg business	163
Land plots in port	62
Sugar division	41
Meat division	21
Total	**799**
Total debt, USD mln	**1601**
Recovery value	50%

Source: Company data, Concorde Capital research

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