

Agricultural industry



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Dear Reader,
It is my great pleasure to introduce you to our new publication about attractive sectors of Ukraine, made in partnership with Deloitte.

We developed these brochures to make information about sectors of Ukraine accessible and easy to understand. The booklets provide analysis of economic attractiveness, as well as comparative characteristics and undiscovered opportunities.

Ukraine enjoys a long industrial tradition, robust transportation and technical infrastructure, rich natural resources, strong secondary and tertiary education, a broad network of research and development institutes, and a large pool of technically skilled labor. As a WTO member since 2008 and having signed International Agreements for the Avoidance of Double Taxation with 63 countries, Ukraine is a fair player in the business world, a transparent and predictable partner.

InvestUkraine offers individual support to investors and is here to assist potential investors with setting up production in Ukraine. We offer professional support in obtaining information and analysis, legal advice, site visits, site selection services, assistance in communication with local authorities, and an aftercare program.

I encourage you to consider Ukraine as a place for your future business and discover all the benefits of locating your company's operations in our country.

I look forward to welcoming you in Ukraine.

Sergiy Yevtushenko,

Head

InvestUkraine

State Agency for Investment and
National Projects of Ukraine



A favorable geographic position, vast consumer market, ample resources and high level of education – all these factors ensure great investment potential for the economy of Ukraine.

At present, Ukrainian market is at the development stage. There are many niches and opportunities for introducing new players and strengthening the positions of existing ones. However, most of Ukraine's industries lack investments, though international investors are highly interested in them. We believe that foreign investments will be very successful and promote economic growth if a favorable investment climate is created in Ukraine.

To assist you in determining the most promising areas to invest in and get an insight into Ukrainian market, Deloitte experts in cooperation with InvestUkraine have conducted this research.

We hope that this overview will be useful and interesting for all companies interested in investing in various industries of our country.

Vladimir Vakht,
Managing Partner
Deloitte

Table of contents

Executive summary	5
Land resources	6
Crops production	8
Infrastructure	11
Sugar market	11
Meat market	13
Egg market	15
Dairy market	15
Main agri players	16
Government regulation and support	18
Establishments and institutions	20
List of references	22

Executive summary

Main advantages of Ukrainian agricultural sector

Exceptionally fertile soil and favorable weather conditions for crops production

Ukraine has the largest area of agricultural land in Europe with approximately 43 m ha of land out of which 32.5 m ha are used for crop production. Fertile soil (Ukraine ac-

counts for c.25% of global black soil, known as “chernozem”) and moderate climate give Ukrainian agri producers strong competitive advantages.

Export opportunities

Currently Ukraine is a world market leader in exports of sunflower oil and barley. In recent years Ukraine has been producing around 40-50 m t of grain per year and has

regained its status of a major supplier of grains to world markets. Ukraine’s agricultural export propensity is supported by additional geographic advantages.

High profitability of Ukrainian agri companies

Ukrainian agricultural holdings have higher efficiency than world peers mainly due to low production costs (inexpensive labor force and low land rent rates). On the other

hand, fertile soils allow reaching comparatively high crop productivity at a low fertilizer usage.

Risks

Political risk

Agricultural markets and agricultural production generally are subject to production and selling restrictions and limitations in the

form of quotas, tariffs and other mechanisms to protect national producers both at international and domestic levels.

Weather risk

Weather risk is typical for the industry, but weather conditions in Ukraine are generally favorable.

Prices volatility risk

Prices of agricultural commodities are influenced by a variety of unpredictable factors that are out of control of local agri compa-

nies, among them weather conditions and changes in global supply and demand.

Opportunities for investments

Infrastructure opportunities

To ensure 100% of harvested grains can be safely stored in Ukraine, investments in the

construction of 15-20 m t of storage capacity are needed.

Significant potential to increase yields; relatively inexpensive labor and land lease costs

Ukraine has the capacity to produce much greater volumes of grains, oilseeds and livestock products than its shrinking population

can be expected to consume. Productivity of fertilizers in Ukraine is 1.7 higher than the world average in 2010.

Market niche in meat & dairy sector

Meat supply in Ukraine is limited, as the livestock headcount has decreased by 82% since 1987. Dairy market is unconsolidated.

Meat and dairy markets have good prospects for quick growth.

Egg market shows growth

In spite of high market concentration, a large percent of household egg production (c.42%) in Ukraine could be occupied by

industrial producers. Ukrainian egg sector has good export opportunities for shell eggs and egg products.

Industry consolidation underway

With large vertically integrated agri businesses currently operating on 10-15% of total arable land in Ukraine, industry consolidation in the long run is expected, espe-

cially in view of the expected land trade liberalization. There are small farms in Ukraine as well as successfully working agri businesses that could be acquired.

No special requirements of licensing; favorable tax regime for agri producers

No special requirements of licensing are imposed on participants of agricultural sector in Ukraine. Ukrainian tax legislation allows

agricultural producers to choose between special tax regimes and the general system of taxation.






Land resources

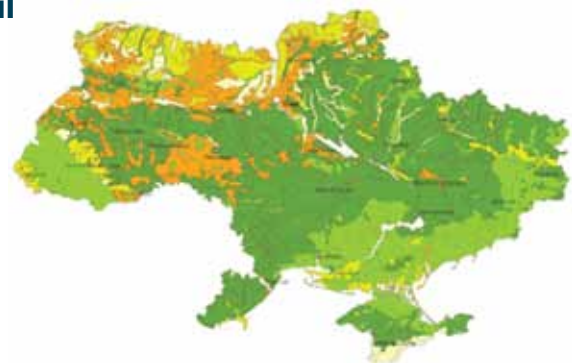
Ukraine possesses 32.5 m ha of arable land

Ukraine has 42.8 m ha of agricultural land comprising 71% of the country's total area, of which 32.5 m ha is arable (excl. pastures, grasslands, permanent plantings etc.). Ukraine has favorable climate for large scale agriculture, rich agricultural soils and access to abundant land and water resources.

Arable land represents 76% of Ukrainian agricultural land. The total amount of Ukrainian arable land equals 30% of the European Union's arable land and represents 2.4% of the world's total arable land, according to FAO and Eurostat. In the table below agricultural area of Ukraine is compared to agricultural areas in selected countries in 2009:

Depth of humus layer in Ukrainian soil

	Most favorable (>65cm)
	Favorable (51-65cm)
	Satisfactory (36-50cm)
	Unsatisfactory (20-35cm)
	Very poor (<20cm)



Source: Ukrainian Agriculture Ministry, Dragon Capital

Agricultural land, m ha

Country	Total agricultural area	Arable land
China	523	110
United States of America	411	163
Brazil	265	61
Russia	215	122
European Union	185	108
India	180	158
Argentina	133	31

Country	Total agricultural area	Arable land
Canada	68	45
Ukraine	43	33
France	29	18
United Kingdom	18	6
Germany	17	12
Poland	16	13
World	4 884	1 381

Source: Food and Agriculture Organization, Dragon Capital Research

Exceptionally fertile Ukrainian soil and favorable weather conditions

Ukraine is richly endowed with chernozem (also known as “black soil”), one of the most fertile soils worldwide. Ukraine accounts for about 25% of the global chernozem area. Chernozem, a black-colored soil that contains a very high percentage of humus (3% to 15%) along with phosphoric acids, phos-

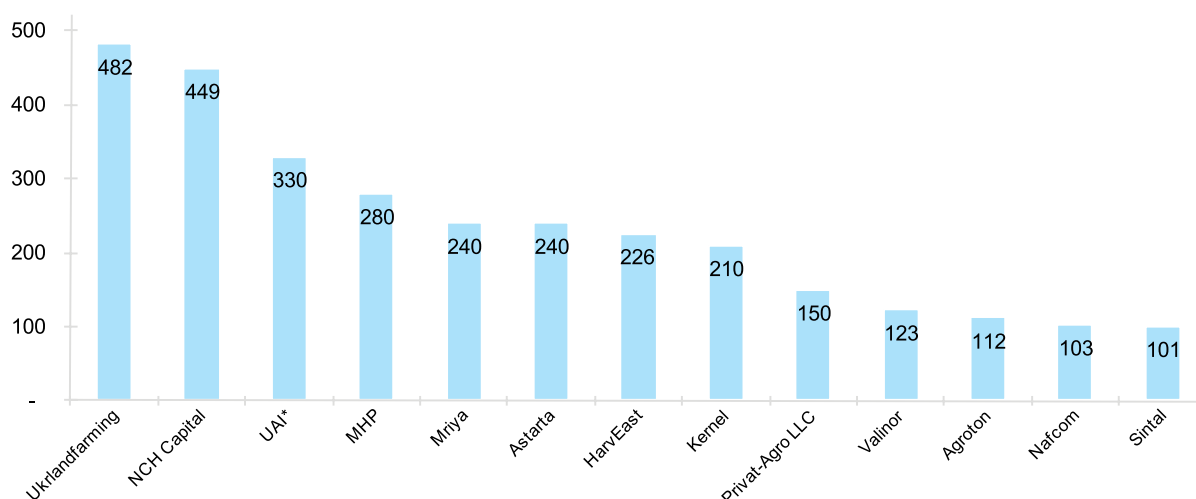
phorus and ammonia, occupies 41% of Ukraine’s total area and even more of its agricultural land (54%), and plow land (58%). Only two chernozem belts exist worldwide: one extending from northeast Ukraine to Russia, and the other – in the Canadian Prairies.

Large operators control 20% of leased arable land

According to industry researches which are based on information from individual companies and media reports, large agri businesses presently lease over 3.5 m ha

of land, or 10.8% of total arable land and 20% of leased arable land, with the smallest company in this group controlling over 30 thsd ha.

Land bank of largest Ukrainian agri business in 2011, k ha



* UAI - Ukrainski agrarni investytsii

Source: Media reports, Companies' Reports, Deloitte's analysis

Low land lease rates

Overall land rent rates are relatively low, especially if compared with those in the EU or US.

Crops production

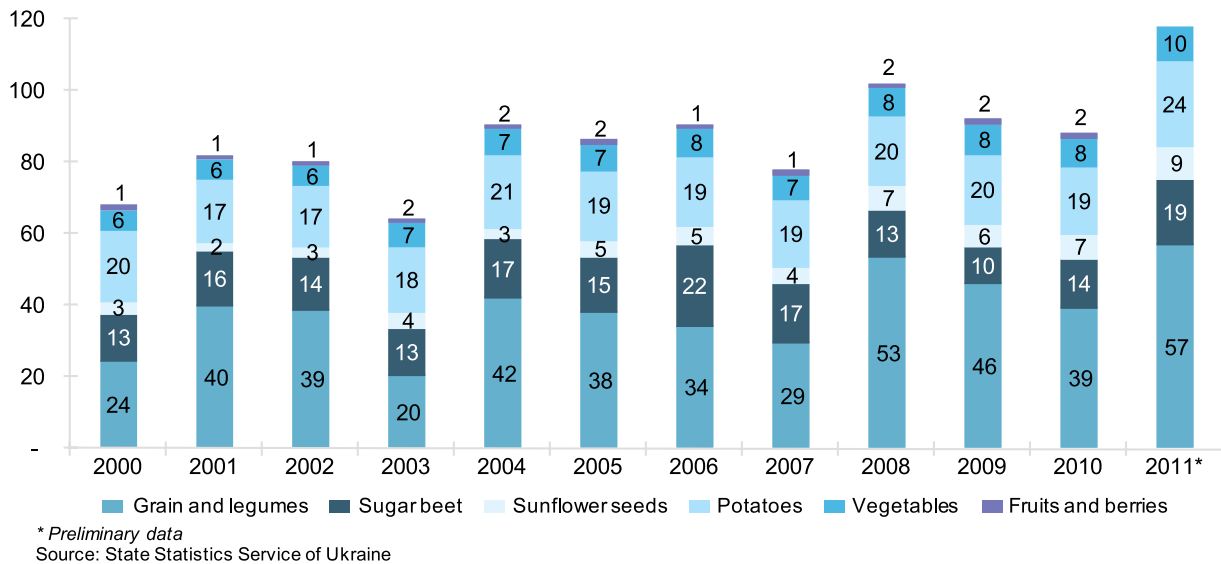
Ukrainian agricultural producers enjoy inexpensive labor

In 2011, 3 m Ukrainians were working in Ukraine's agricultural industry, or 15% of all labor force. Ukrainian agricultural producers enjoy a number of competitive advantages over their foreign peers, particularly low labor costs. Labor force is inexpensive and highly qualified. Domestic agricultural companies pay farm workers USD 2/hour on average

compared to USD 40/hour in Germany, USD 6-10 in CEE countries, and USD 3 in Russia.

Among the popular crops in Ukraine are wheat, corn, sugar beets, sunflowers, legumes, tobacco, vegetables and fruits. The production volumes are shown in the table below:

Production of main crops in Ukraine, m t



Yields lower than in European Union countries mainly caused by low fertilizer usage

Due to insufficient fertilizers and crop protection products application and lack of modern machinery in the fields, agricultural

yields in Ukraine are lower than average in European Union and the world.

Agricultural yields in 2010/2011, t / ha

	Wheat	Corn	Barley	Sunflower	Rapeseed	Soybean
World	2,9	5,0	2,4	1,4	1,8	2,6
European Union	5,2	7,0	4,3	1,8	3,0	2,8
Ukraine	2,7	4,5	2,0	1,5	1,7	1,6

Source: United States Department of Agriculture

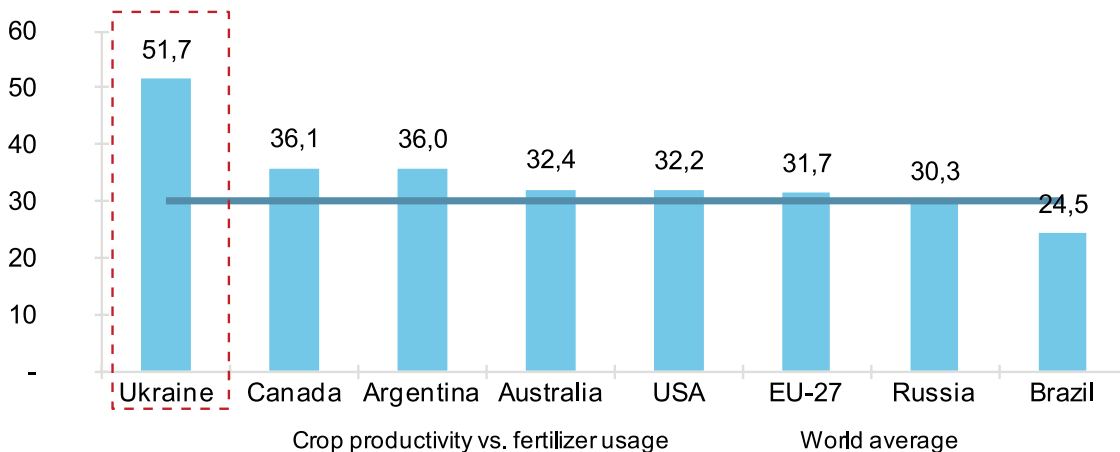
Ukrainian farms demonstrate superior crop productivity per unit of fertilizer

Ukraine’s current fertilizer rate stands at 78 kg/ha used for 2011 harvest, which is higher than in neighboring Russia (33 kg/ha), but still lower than, for example, in Slovenia (195 kg/ha), China (130 kg/ha) or developed EU countries (120 kg/ha on ave.). The US reports the highest fertilizer usage rate in the world of 150 kg/ha. Despite low

fertilizer usage, Ukrainian farms have demonstrated superior crop productivity per unit of fertilizer applied thanks to the country’s fertile soil.

Ukraine reported 52 kg of crop output per 1 kg of fertilizer applied in 2010.

Crop productivity vs. fertilizer usage in 2010, kg /kg



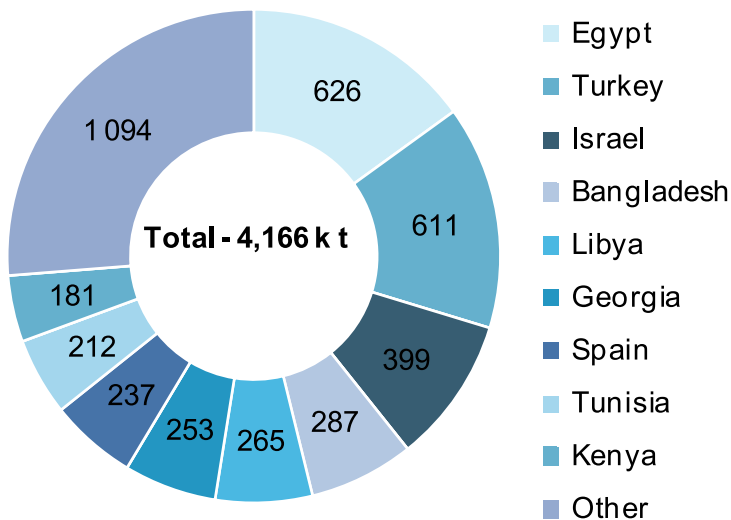
Source: International Fertilizer Industry Association, State Statistics Service of Ukraine, Dragon Capital Research

Ukrainian wheat production is enough for both domestic consumption and export

Ukraine harvested 39.2 m t of grain with an average yield of 2.7 t/ha in 2010. This enabled the country to export more than 15 m t of grain in 2010/11, while retaining almost 25 m t for domestic consumption. In 2010/2011 Ukraine exported 4.2 m t of wheat, 2.8 m t of barley and 4.9 m t of corn

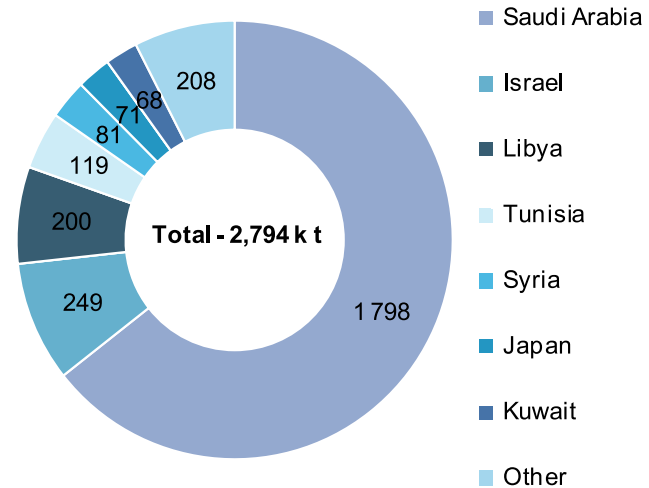
(9.2, 6.3, 5.1 in 2009/2010, respectively). Middle East and Northern Africa were major geographies of Ukrainian grain export in 2010/11. Saudi Arabia was the largest importer of Ukrainian barley (64% of total exported barley), Egypt was the largest importer of wheat (15%) and corn (19%).

Ukrainian wheat export by countries in 2010/2011, k t



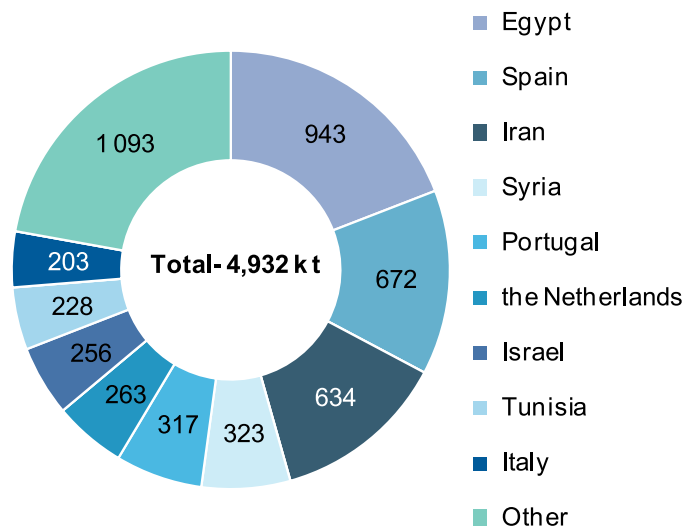
Source: APK Inform

Ukrainian barley export by countries in 2010/2011, k t



Source: APK Inform

Ukrainian corn export by countries in 2010/2011 (Oct-Sep), k t



Source: APK Inform

Ukraine is the world's largest exporter of sunflower oil

In 2009/2010 agricultural year, Ukraine accounted for 58% of the global sunflower oil export market. The table below shows volumes of sunflower oil exported from major

sunflower oil producing countries during the period from 2004/2005 to 2010/2011 agricultural year:

Sunflower oil exports, k t

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Argentina	1 176	1 221	853	1 219	850	578	950
European Union	184	128	147	109	120	150	160
Russia	226	616	711	322	802	504	140
Turkey	22	99	34	54	131	68	130
Ukraine	642	1 579	1 867	1 325	2 098	2 645	2 500
World	2 527	3 907	4 038	3 486	4 560	4 555	4 353

Source: United States Department of Agriculture

Infrastructure

Ukraine's existing transportation and storage infrastructure provides a solid basis for further development of the agricultural sector and commodity exports.

Low transportation costs and developed transportation infrastructure are the main advantages of agricultural logistics in Ukraine

Ukraine's shorter transportation distances, low transportation costs, and more developed transportation infrastructure provide greater cost advantages for agricultural exporters compared with its closest neighbors, particularly Russia and Kazakhstan, which are Ukraine's competitors in exports to the international markets.

Ukraine has a well developed infrastructure for transportation. To ensure 100% of harvested grains can be safely stored in Ukraine, investments in the construction of 15-20 m t of storage capacity are needed.

Ukrainian agricultural infrastructure: main KPIs

Sea and river ports	Railway network	Storage facilities
Capacity (30 m t per annum): <ul style="list-style-type: none"> • 10 large and mid-size ports on the Black Sea, • 3 ports on the Sea of Azov, • 3 Dnieper river ports, • 3 other river ports, • a number of smaller ports along Ukraine's waterline. 	<ul style="list-style-type: none"> • Six local railway networks, • railway transportation costs are relatively low in Ukraine, • railway transport tariffs are state controlled, • all regional railways constitute state owned company Ukrzaliznytsya. 	<ul style="list-style-type: none"> • c. 600 grain and oilseed silos operate in Ukraine, with total storage capacity of 36 m t and daily loading capacity of 1.5 m t, • c. 15% of the country's grain and oilseed silos are state-owned, • storage capacities are not distributed proportionally throughout Ukraine, • with the average harvest of 45 m t of grains and 10 m t of oil seeds, Ukraine may experience a 10 m t deficit of silo capacity.

Source: Deloitte analysis

Sugar market

Despite the volatility of sugar production in Ukraine, positive structural changes took place in the industry in the past decade, driving the increase in sugar beet yields from 17.7 t per hectare in 2000/01 agricultural year to 32 t per hectare in 2011/12 agricultural year according to the State Statistics

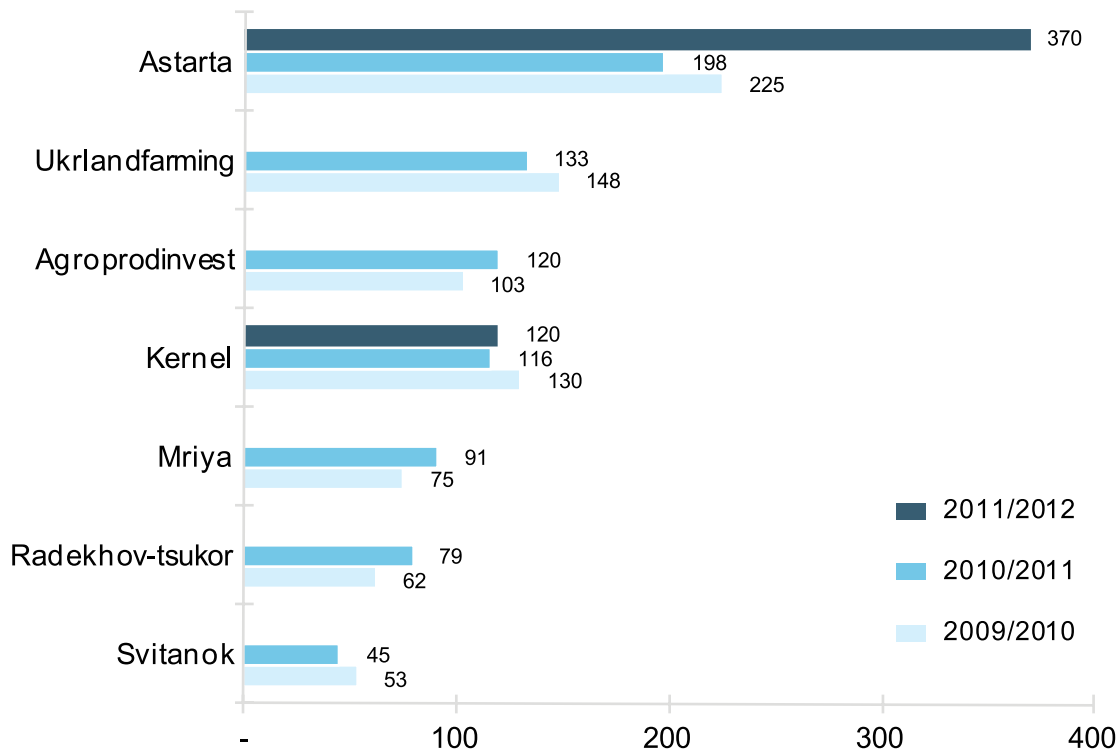
Committee of Ukraine. During the same period, harvest losses decreased from 23% to 0.8%, according to the Agency of Industrial News (AIN). These changes were primarily attributable to the integration of sugar beet and sugar production.

Sugar market is highly concentrated

Sugar beet harvest in 2011 was the highest in the last decade and 18.7 m t of sugar beets were produced in Ukraine compared

to 13.7 m t in 2010 (+36.2%). Seven largest Ukrainian producers accounted for c.54% of total sugar output in 2010/11.

Sugar production by main players in Ukraine, k t



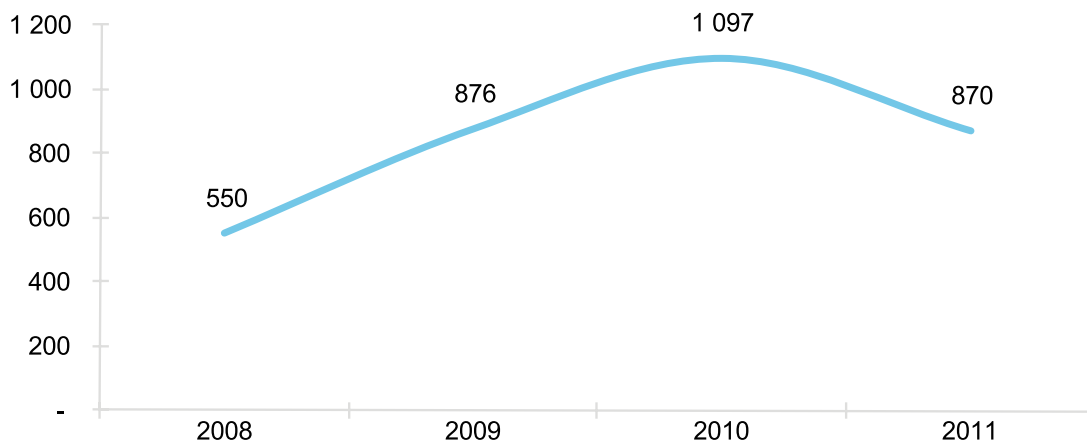
Source: Media reports, Companies' Reports, Deloitte's analysis

Significant 2011 harvest of sugar beet caused decline of sugar prices

Sugar production in Ukraine declined before 2009, domestic market was protected from imports and experienced sustained deficit. These facts caused increase in sales prices

up to USD 1,000 per t by the end of 2010. Sugar sales prices declined in 2011 due to a big harvest in a situation of export limitations.

Average sugar sales prices in Ukraine, USD / t



Source: National Association of Sugar Producers of Ukraine "Ukrtsukor"

“Non-waste” production

The by-products of the sugar beet crops such as pulp and molasses could add c. 10% to the value of the harvest. Bio-tech-

nologies like biogas production are possible and could be very profitable in Ukraine.

Potential opportunities for investments

Ukraine has a number of sugar production capacities that are not in use. According to Ukrtsukor (Ukrainian sugar producers' union), in 2010 out of 73 sugar plants that received quotas for sugar production, only 20 plants used their quota to full extent,

while 7 of the plants did not produce sugar at all due to unavailability of raw material. Investments in these plants will cause improvement of processing efficiency and sugar conversion ratios, and decrease of production costs.

Meat market

Meat market is considered to be relatively stable compared to the markets of other agricultural commodities. This is explained by a limited role of meat prod-

ucts as staple foods along with the limited storage capacities availability that hinders buying meat products in bulk in cases of panic on the market.

Meat consumption is growing in Ukraine

In accordance with a global trend, meat consumption in Ukraine has grown in line with increasing national income level. The table below reveals a pronounced correla-

tion between the level of meat consumption (measured by processed weight) and per capita income of the Ukrainian population.

Meat consumption

	2003	2004	2005	2006	2007	2008	2009	2010
Beef and veal, kg/capita	8.5	10.7	11.2	11.7	10.9	10.5	8.4	8.3
Pork, kg/capita	13.1	12.8	11.6	12.6	15.4	18.0	15.6	17.0
Broiler, kg/capita	4.5	10.1	9.1	11.2	13.2	17.7	17.1	17.5
Nominal GDP, USD/capita	1,056	1,377	1,843	2,319	3,089	3,921	2,568	2,999

Source: Food and Agricultural Policy Research Institute

The following table shows relative distribution of meat consumption in Ukraine and selected countries between beef, poultry and pork in 2010. According to the State Statistics Committee of Ukraine, meat pro-

duction in Ukraine grew by 7.4% in 2010 reaching 2.06 m t (slaughtered weight) from 1.92 m t in 2009. The table below presents the meat production volumes in Ukraine in 2007-2010.

Meat consumption structure in FY10

Country	Beef	Pork	Poultry
China	8%	74%	18%
European Union	20%	53%	26%
Former Soviet Union	32%	34%	33%
Ukraine	20%	41%	40%
United States	33%	24%	43%
World	24%	43%	33%

Source: United States Department of Agriculture

Meat supply in Ukraine is limited, as the livestock headcount has decreased substantially since the Soviet Union collapse. The table below shows historical dynamics of cattle headcount in Ukraine.

Cattle headcount in Ukraine

m heads	1987	1991	1996	2000	2005	2006	2007	2008	2009	2010	2011
Cattle stock	26,7	24,6	17,6	10,6	6,5	6,2	5,5	5,1	4,8	4,7	4,5

*Preliminary data

Source: State Statistics Service of Ukraine

Per capita consumption of meat in Ukraine remains below the levels of developed countries. In 2010, per capita consumption of meat in Ukraine was 42.8 kg per year

Poultry production has a low fodder ratio

Poultry processors will continue to enjoy competitive advantage over other meat producers thanks to poultry being the least fodder-intensive type of meat (2 kg of grain per 1 kg of poultry as compared to 6.0 kg for beef). Thanks to large players in this industry investing heavily in modernization and new capacities, they boast much more advanced technologies compared to pork and beef producers. Poultry consumption in Ukraine is moderately high by international standards.

Meat production in Ukraine

k t	2007	2008	2009	2010
Beef & Veal				
Production	542	480	400	400
Consumption	505	483	385	378
Ending Stocks	15	15	15	15
Net Exports	37	(3)	15	22
Pork				
Production	635	590	527	650
Consumption	715	828	713	770
Ending Stocks	22	22	22	22
Net Exports	(80)	(238)	(186)	(120)
Broiler				
Production	475	570	620	650
Consumption	609	814	782	795
Ending Stocks	-	-	-	-
Net Exports	(134)	(244)	(162)	(145)

Source: Food and Agricultural Policy Research Institute

against 90 kg per year as nutrition standard. Such low level of market saturation leaves significant room for growth.

The biggest share in the structure of pig breeding is still maintained by households, but it is very likely that in the nearest future households will lose ground to agricultural enterprises.

Development of pig breeding in Ukraine is following the route of gradual formation of highly concentrated production conglomerates. By volumes of breeding, twenty largest enterprises accounted for 36.5% of overall volume of pig breeding of the year 2010.

Egg market

Ukraine's egg market grew during 2005-11, reaching 18.7 bn pieces in 2011. Per capita consumption stood at 281 eggs in 2010, up from 240 five years before. Notably, egg consumption continued to expand in 2009 even as household income declined, as eggs are a relatively cheap source of protein.

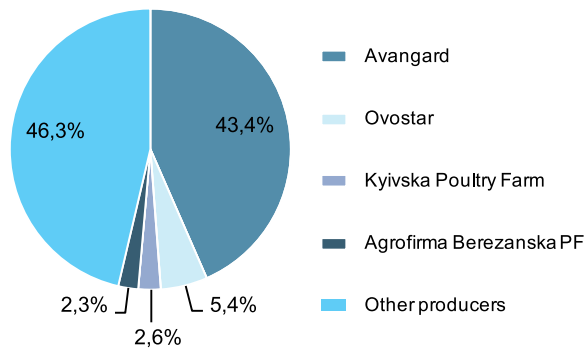
Consumption of eggs in Ukraine is high and already saturated on per capita basis (c.16.2 kg per capita compared to 13.1 kg per capita in Europe). Expansion in local market is mainly possible through structur-

al changes – i.e. squeezing out household production.

Egg products are represented by dry egg powder and are sold mainly to the food industry (producers of bread, sauce, confectionary etc.). The market for egg products in Ukraine has enjoyed much faster growth than the shell egg market. Dry egg products are easy to export as they are not fragile like shell eggs and have a much longer storage period as well as much lower transportation costs.

Households accounted for c.42% of egg production. An egg industrial market is concentrated

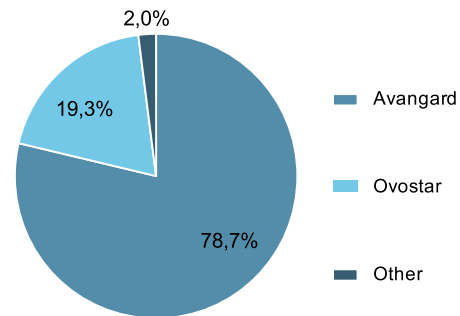
Industrial production of eggs by peers in Ukraine in 2010, m pcs



Source: Public information

Egg market in Ukraine is highly concentrated. Household production took c.42% of total production of shell eggs in 2010. Among industrial producers Avangard has leading positions on the egg market (market share

Dry egg products produced by peers in Ukraine in 2010, t



Source: Public information

is 44% in shell eggs segment and 79% in egg products) in 2010. The second largest eggs producer is Ovostar Group, which debuted on the WSE in 2010 (5% in shell eggs segment and 19% in eggs products).

Dairy market

Milk is one of the traditional products of livestock breeding, its share in the structure of output of the sector makes up nearly 30%. However, recent years have been marked with unflinching negative trend – volumes of production have been decreasing. Over the last decade production of milk decreased by 12-15% while the population of cows decreased by 47%. According to the State Statistics Committee of Ukraine, volumes of milk production have been saved from the same sharp decline due to improvement of productivity which nearly doubled. The overall output of milk in 2011 was 11,094 m t (all producers) or 1.4% down

from the level of 2010. Milk production is traditionally concentrated in households. The share of agricultural enterprises in the overall production of raw milk does not exceed 18-20%. It is remarkable that in 2010 volumes of milk production at agricultural enterprises decreased only by 0.9%.

Large agri holdings with free cash flows available for long-term investments see high demand for quality dairy products going forward and seek cooperation with international dairy companies to take advantage of their industry experience.

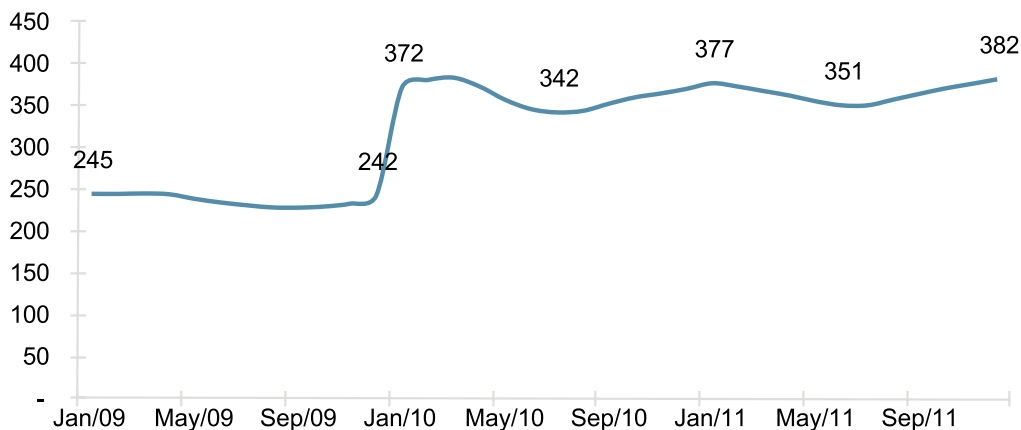
Hard cheese and dry skimmed milk were the most significant export items

In 2010, dairy exports accounted for 8% (flat y-o-y) of total Ukrainian milk production (1,895 thsd t, +1% y-o-y), while dairy imports accounted for only 2% (-0.7pp y-o-y) of total domestic consumption. In 2010, Ukraine exported 79 thsd t of hard cheese, mainly to Russia. Skimmed milk powder (SMP) was the second largest export item

with 21% of total dairy exports, sold mainly to Bangladesh, Russia and Kazakhstan.

Average prices for milk increased by 53.5% in January 2010 mainly due to changes in tax privileges, as well as due to a deficit of milk in Ukraine, growth in prices for cows' fodder and decrease in production volumes.

Milk average sales price in Ukraine, USD/ t



Source: State Statistics Service of Ukraine

Main agri players

Over the last five years the term “agroholding” has emerged and became common for description of agricultural production in Ukraine. This type of production structure having several competitive advantages in production as well as in investment sphere is expanding its influence at nearly every field of agricultural activity, actively consolidating through leasehold the main production resource – agricultural land.

Last tendencies in the Ukrainian agroholdings activities:

- The grain market in 2010/2011 was characterized by a high level of administrative intervention, i.e. quotas (till 31 March 2011 and the export duties to 1 January 2012), which led to the revision of the priorities of export-oriented agricultural holdings specialized in soybean, rape seed and corn.
- Low quotas and high tariff made the barley crop less attractive for growing, while corn has become very attractive due to high economic returns and stable excess demand in foreign markets.
- Sugar segment is characterized by a high degree of consolidation as a result of assets purchase transactions of Kernel and Ukrlandfarming sugar companies. This trend will continue.
- In the dairy sector, the selling price of milk and dairy products increased by 60% as a result of which the profitability of milk production amounted to 17.5%. Moreover, there is a lack of quality raw milk products. Due to such factors, the sector is attractive for investors.
- In livestock, integration processes dominated the poultry industry; however in 2010 they also started to play a notable role in the pig breeding industry. In the near future, consolidation and expansion of production capacity will continue.
- Today, agricultural holdings are paying careful attention to the cultivation of potatoes (Mriya, Svarog, IMC). The barriers faced in this field are as follows: the need in costly investments in the infrastructure, logistics and marketing.

Resources consolidation

During 2010 and the first half of 2011 the process of consolidation of land resources kept going and even considerably sped up

as compared to 2009. In the middle of 2011 there were 79 large holdings in Ukraine with total land bank of 5.1 m ha.

The leaders of the agri market in terms of land resources TOP 10

Company name	Land bank, thsd ha	Specialization	Main crops	Livestock
Ukrlandfarming	482	89/11	Corn, sugar beet, grain, barley, rape seed	Milk, cows, pigs
NCH Capital	449	94/6	Grain ,rape seed, soybean, sunflower, corn	Milk, pigs, cows
Ukrainian Agrarian Investments	330	99/1	Grain, sunflower, rape seed, corn, soybean	Milk, cows
MHP	280	10/90	Corn, grain, sunflower, fruits, soybean	Poultry, eggs, cows
Mriya	240	99/1	Sugar beet, grain, potatoes, rape seed, barley	Milk, pigs, cows
Astarta	240	83/17	Sugar beet, grain, soybean, corn, sunflower	Milk, cows, pigs
HarvEast	226	51/49	Grain, sunflower, barley, corn, peas	Milk, cows, pigs
Kernel	210	86/14	Sugar beet, grain, corn, sunflower, barley	Milk, cows, pigs
Privat Agro holding	150	74/26	Sunflower, corn, grain, soybean, barley	Milk, pigs, cows
Valinor	123	95/5	Grain, sunflower, corn, barley, rape seed	Milk, cows, pigs

* Production structure: Crops / Livestock

Source: Public information, Top 100 Rating of the best companies in Ukraine (#3, October, 2011)

A number of Ukrainian agri businesses are public and listed

Since the downturn of 2009, agricultural companies have been the undisputable leaders of IPO activity, and currently 15 ag-

ricultural and food processing companies from Ukraine are listed on foreign and domestic stock exchanges.

Ukrainian agri holdings are highly profitable

Ukrainian agricultural holdings have higher efficiency than world peers mainly due to

low production costs (inexpensive labor force and low land rent rates).

Main financial indicators for the last financial year: Ukrainian public agri holdings vs. the world

Company/ Region	Revenue, USD m	EBITDA, USD m	Net profit, USD m	Net debt/ EBITDA	EBITDA margin, %	EBIT margin, %	Profit margin, %
Kernel Holding	1,899	310	226	1.0 x	16.3	14.6	11.9
MHP	944	325	215	2.0 x	33.0	26.0	21.0
Avangard	440	194	185	0.3 x	44.0	41.0	36.0
Milkiland	343	59	29	0.95 x	17.1	13.5	8.5
Astarta Holding	291	134	106	1.1 x	46.0	40.0	36.0
Mriya Agro Holding	162	158	144	n/a	n/a	n/a	n/a
Agroton	97	35	16	0.1 x	36.0	30.0	16.0
Ukrainian average					34.6	27.4	27.5
USA					12.1	8.2	3.6
Latin America					12.9	8.7	10.2
Western Europe					20.4	17.3	11.6
Eastern Europe					7.9	3.4	3.4
Middle East, Africa					15.2	4.5	4.9
Asia developed countries					6.6	3.3	4.4
Asia-developing countries					17.7	12.1	8.8

Source: Companies' annual reports, Top 100 Rating of the best companies in Ukraine (#3, October, 2011)

Government regulation and support

Licenses, permits and restrictions

No special requirements for licensing are imposed on participants of agricultural sector.

However some trade restrictions in a form of quotas and export duties (both direct and indirect like cancellation of VAT reimbursement for traders) intended to cover State budget deficit are usually not imposed for a long period of time. In addition, the Government of Ukraine has a power to control prices for agricultural commodities in a number of ways: e.g. setting limits on extra charges or discounts for certain types of agricultural commodities; setting limits on profitability of wholesale and retail traders; setting minimum and maximum intervention prices for certain types of agricultural commodities.

At the same time there exist a number of ways for companies to limit their exposure to such restrictions and regulation. It is therefore important to properly disclose impact of trade restrictions and specific regulations on a business and its financial performance. Among the recent state incentives in the agri sector the removal of the grain export quotas should be noted. The abolishment of the regulated prices for some agri foodstuffs is debated about from time to time. Production of either animal or vegetable foodstuffs involves compliance with sanitary rules and other standards.

Basic regulatory acts and authorities

The basic regulatory acts are the Land Code and the Laws of Ukraine “On state support of agriculture”, “On safety and quality of food-stuffs”, “On prices and pricing policy”, “On grain and grain market in Ukraine”, “On state regulation of production and marketing of sugar” etc.

The main regulatory authorities in the sector are the Ministry of Agrarian Policy of Ukraine and the Ministry of Economic Development and Trade of Ukraine. The regulatory authority related to pricing is also exercised locally by municipal bodies.

Moratorium on sale of agricultural land

The turnover of agricultural land being the basis for the agricultural production is subject to durational moratorium effective from 2002. In particular, the moratorium has been set for sale and purchase or other transfer, as well as for changing the designation purpose of agricultural land. Legislation that will enable the land market operation and cancellation of the moratorium in Ukraine is

yet to be adopted. In particular, the law of Ukraine on land market is expected to be adopted during 2012.

As long as the moratorium is not cancelled all the market players in the agricultural industry operate on the basis of land lease agreements.

Taxation and state support to agricultural producers

Ukrainian tax legislation allows agricultural producers to choose between special tax regimes and the general system of taxation. Two of the most beneficial state-offered advantages of the special tax regime for the agricultural producers are subsidy VAT regime, and the fixed agricultural tax (further “FAT”). A company is eligible for both subsidies if more than 75% of the company’s total gross revenue is generated from agricultural activity. The rules for calculation of this 75% ratio slightly differ for VAT and FAT regimes.

Companies that qualify for the subsidy VAT regime are entitled to retain VAT on sales of agricultural products, net of VAT paid on purchases, for use in agricultural production. In accordance with the Tax Code of Ukraine, the VAT rate will be decreased from currently effective 20% to 17% from

1 January 2014. The special VAT regime for agricultural industry will be effective till 1 January 2018.

FAT regime exempts the agricultural companies from CIT, land tax, water usage tax and trade patent fees. The advantage of the FAT regime is that the amount of FAT does not depend on the amount of a company’s income. Instead it is calculated based on the total area and value of the land which is either owned or rented by the taxpayer.

The agricultural companies which did not opt for the FAT are required to pay the land tax imposed on owners and users of land. The amount of tax payable depends on the use (e.g. farmland) and location of the land. Agricultural land is taxed at a rate of 0.03-0.1% of the estimated value which is normally immaterial for most of agricultural producers.

Establishments and institutions

Establishment/institution	Description	Contact details
Ministry of Agrarian Policy of Ukraine	Governmental institution. Mission is to work for the development of rural areas and improvement in agriculture and livestock production	24, Khreshchatyk str., Kyiv 01001 Email: minister@minapk.gov.ua Tel: (+380 44) 279-84-74 web-site: www.minagro.gov.ua
Organic Federation	Governmental institution. Mission is the conservation and regeneration of the environment through the introduction of organic technologies in production	4, Obolonska str., Kyiv 04071 E-mail: ofu@organic.com.ua Tel: (+380 44) 425-55-25; Fax: (+380 44) 425-45-90 web-site: www.organic.com.ua
Agrarian Fund	Governmental institution. Mission is the realization of the pricing policy on behalf of the state	1, Borisa Grinchenko str., Kyiv 01001 Tel: (+380 44) 278-78-43, 277-27-00 Fax: (+380 44) 279-74-01 web-site: www.af.gov.ua
Ukrainian Agrarian Confederation	All-Ukrainian public organization. The aim of this organization is to maintain a sustainable development of Ukrainian agro-industrial complex and promote its integration into the world market	53/80, Saksaganskogo str., office 807, Kyiv 01033 E-mail: agroconf@agroconf.org Tel./Fax: (+380 44) 287-65-66, 289-97-21 web-site: www.agroconf.org
Agrarian Union of Ukraine	All-Ukrainian public organization. Mission is to unite the efforts of large farms for increasing production, improving its quality and efficiency of management based on market demands; create favorable conditions for living and work of the agro workers	24, Khreshchatyk str., off. 504-505 01001 Kyiv E-mail: agrouu@gmail.com Tel. (+380 44) 226-30-42; Fax (+380 44) 278-29-84 web-site: www.aau.org.ua
Association of Farmers and Private Land Owners of Ukraine	All-Ukrainian public organization. The purpose of the Association is to promote mass farming movement in Ukraine and proper public control over the authorities in protecting the rights and legal interests of farmers and landowners	21, Patrisa Lumumby, off.411 01042 Kyiv E-mail: afzu@farmer.co.ua Tel: (+380 44) 501-78-73, 228-48-19 web-site: www.farmer.co.ua
Ukrainian Grain Association	All-Ukrainian public organization. Mission is to protect its members' interests both on domestic and international levels and develop the domestic grain market	13, Predslavynska Str., 03680 Kyiv E-mail: inbox@uga.kiev.ua Tel: (+380 44) 528-67-64 Fax: (+380 44) 528-67-99 web-site: www.uga-port.org.ua
Union of Poultry Farmers in Ukraine	All-Ukrainian public organization. Mission is to consolidate the efforts of the industry players to address the common problems and support the interests of the poultry farmers in front of the state administration	E-mail: karpenko@ptaha.kiev.ua Tel: (+380 44) 494-49-30

National Association of Milk Producers of Ukraine “Ukrmolprom”	All-Ukrainian public organization. Mission is to consolidate the efforts of the industry players to address the common problems and support interests of the milk producers in front of the state administration	1,Grinchenko str, 01001 Kyiv E-mail: e-mail@ukrmolprom.kiev.ua Tel: (+380 44) 226-27-83, (+380 44) 279-83-89; Fax: (+380 44) 279-73-89
Association “Ukroliyprom”	All-Ukrainian public organization. Mission is to coordinate and support its members in addressing common organizational, economic, technical and other issues	1,Grinchenko str, 01001 Kyiv E-mail: admin@ukroilprom.kiev.ua Tel/Fax: (+380 44) 226-31-38 (+380 44) 279-63-56, (+380 44) 279-82-45, (+380 44) 279-68-89 web-site: www.ukroilprom.kiev.ua
National Association of Sugar Producers of Ukraine “Ukrtsukor”	All-Ukrainian public organization. Mission is to coordinate and support its members in addressing common organizational, economic, technical and other issues	1,Grinchenko str, 01001 Kyiv E-mail:mail@ukrsugar.com Tel: (+380 44) 227-31-41 Fax: (+380 44) 279-66-83 web-site: www.sugarua.com
Association “Winegrowers and Winemakers of Ukraine”	All-Ukrainian public organization. The mission is to promote the development of viticulture and wine-making in Ukraine	4, Vinogradniy lane, off. 2 01021 Kyiv E-mail: doa@list.ru Tel: (+380 44) 253-07-06, (+380 44) 253-26-83 web-site: www.awwu.org.ua
Association Ukrainian Agribusiness Club	All-Ukrainian public organization. Organization’s objective is realizing and protecting the civil, social, economical, professional and other interests and liberties of its members through assistance in implementation of educational and scientific activities in agricultural business sphere	20A,Velyka Zhytomyrska str., office 53 01034 Kyiv E-mail: info@agribusiness.kiev.ua Tel: (+380 44) 201-49-50 Fax: (+380 44) 201-49-51 web-site: www.agribusiness.kiev.ua
APK Inform	Educational and scientific activities in agricultural business sphere	21,Checherina str,3rd floor 49006 Dnipropetrovsk E-mail:info@apk-inform.com Tel/Fax: (+380 56) 232-07-95 web-site: www.apk-inform.com
Ukragroconsult	Consulting and analytical services for agro and food sectors	29B,Tymoshenko str,off.5 04205 Kyiv Tel: (+380 44) 451-46-34 Fax: (+380 44) 451-46-34 web-site: www.ukragroconsult.com
Agroperspectiva	Information and Analytical Centre for agricultural and chemical businesses	LLC “Agrarika” PO Box 90 03191 Kyiv E-mail: client@agroperspectiva.com Tel/Fax: (+380 44) 220-24-51 web-site: www.agroperspectiva.com

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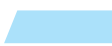
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