



**What if Ukraine's land
market starts
functioning tomorrow?**

Small farms vs large scale farms

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Sao Paulo – Brazil

April 2011

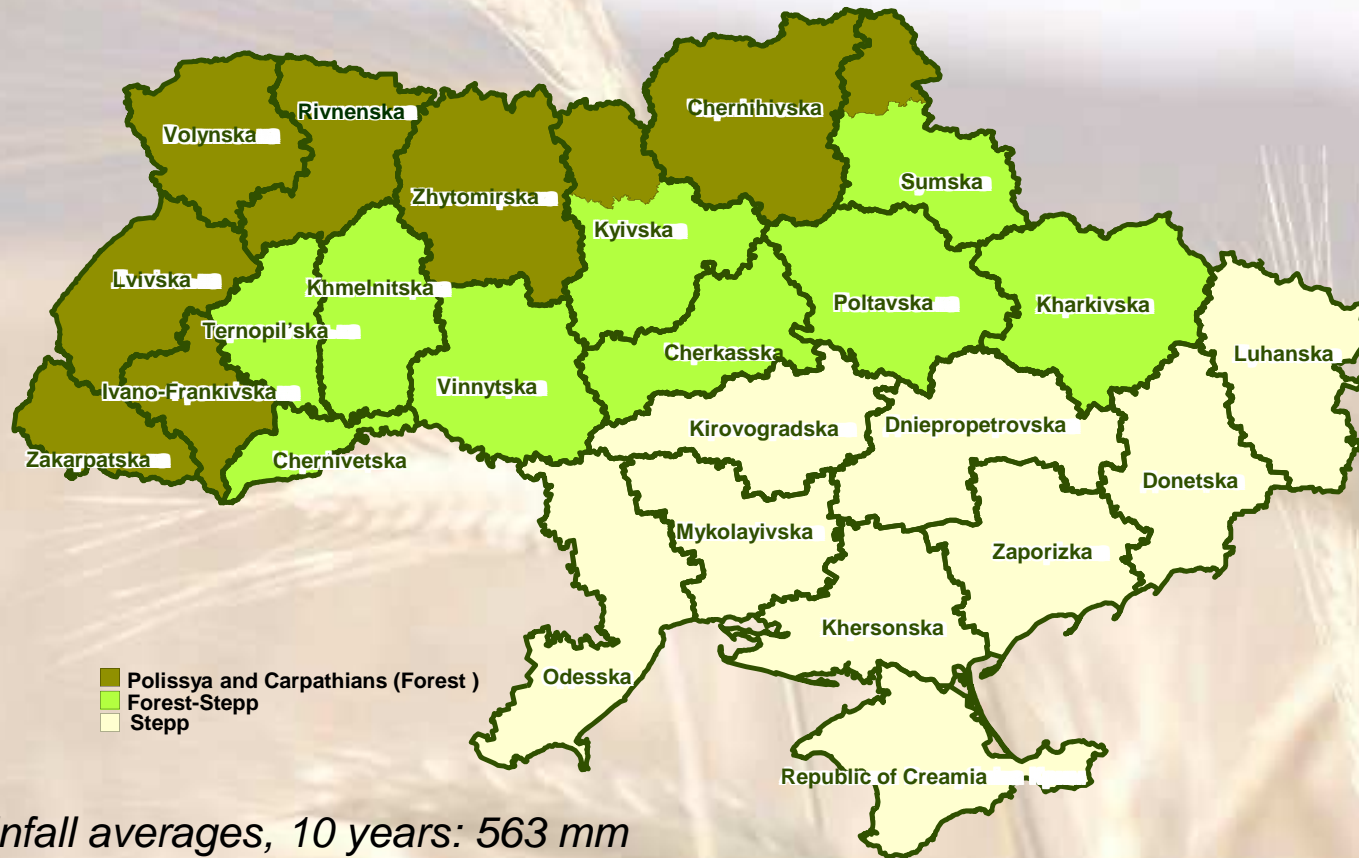
Ukraine: climatic zones

Belarus

Russia

Poland

Romania



Annual rainfall averages, 10 years: 563 mm

Average annual temperature, 10 years: 9.2 °C

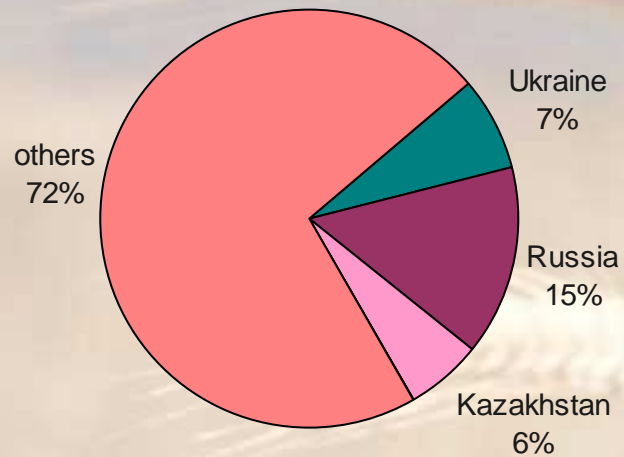
Range: -28 °C to +44 °C

Commonwealth of Independent States

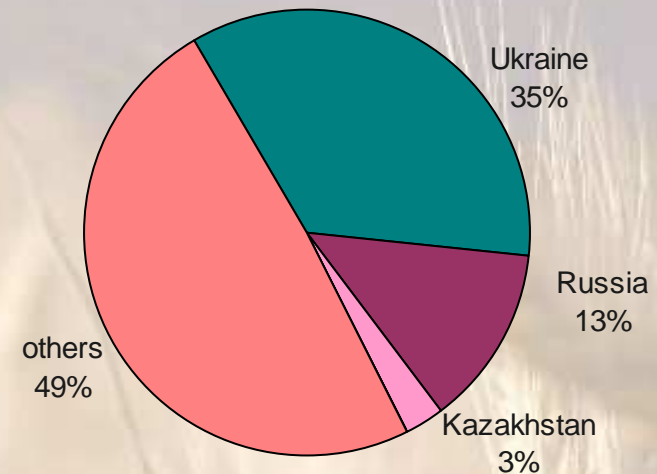


Ukrainian grain in the world market, 2008-2010

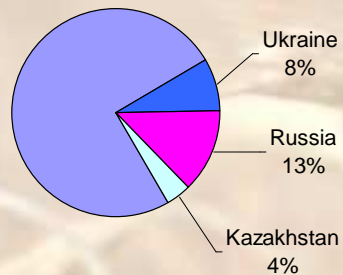
World Wheat Export, 2009/10 season



World Barley Export, 2009/10 season

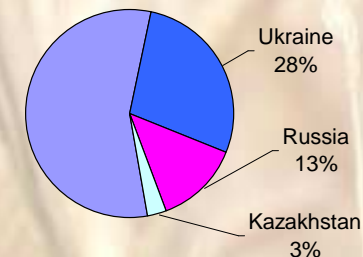


World Wheat Export



2008/09

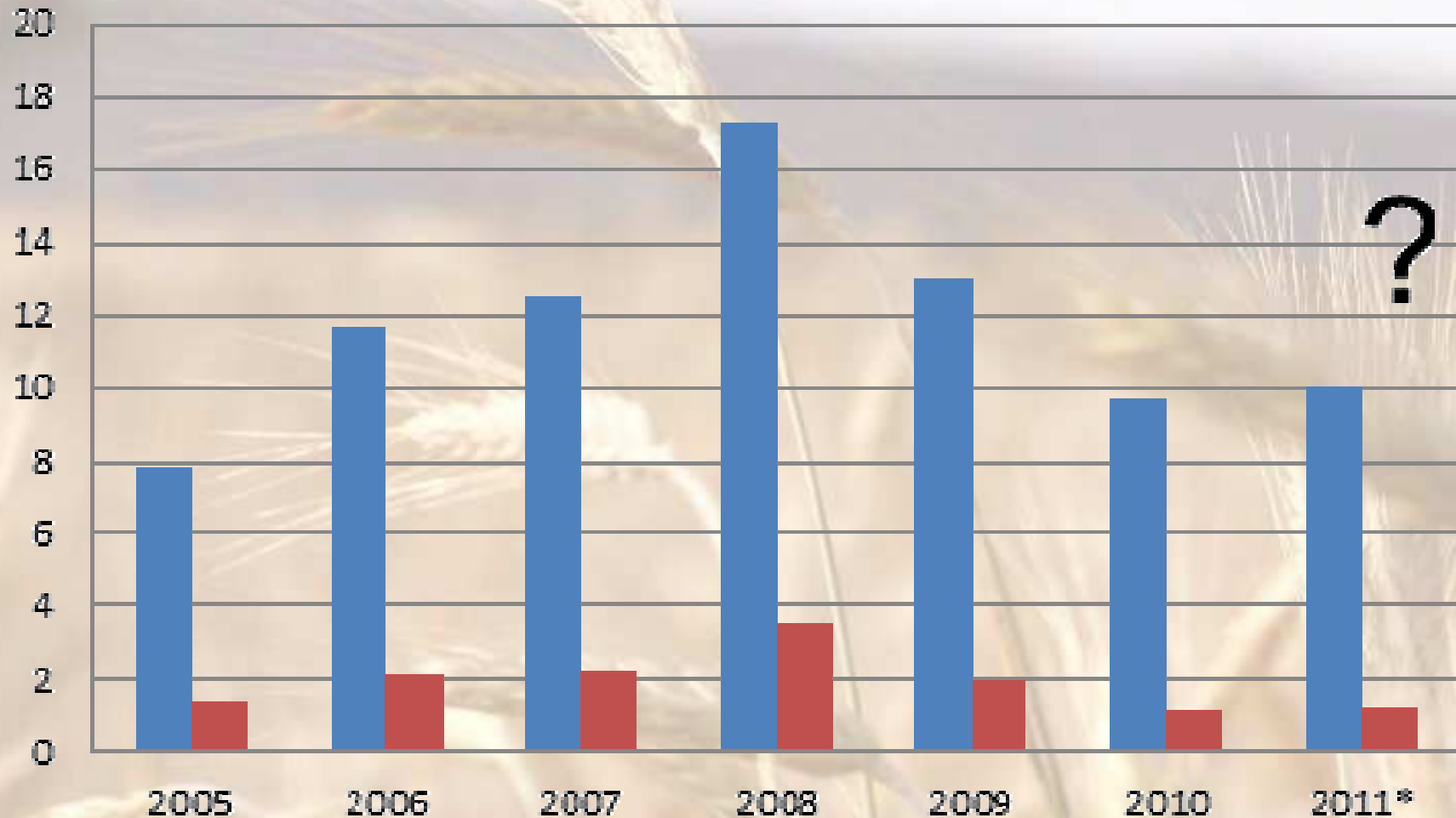
World Barley Export



Finances for farming, \$BI estimation

		2010	2020
• <u>Working capital</u>			
- Ukraine	<u>\$400 per ha</u>	<u>12.0</u>	<u>\$1000/ha 31</u>
- Russia	<u>\$350 /ha</u>	<u>25-30</u>	<u>\$ 750/ha 55-60</u>
• <u>Infrastructure,</u>			
<u>logistic, machinery</u>			
- Ukraine	<u>\$500/ha</u>	<u>10-15</u>	<u>\$1500/ha 40-50</u>
- Russia	<u>\$800/ha</u>	<u>65-70</u>	<u>\$1100 90-97</u>

Ukraine: Bank lending to agrarian sector, UAH/\$



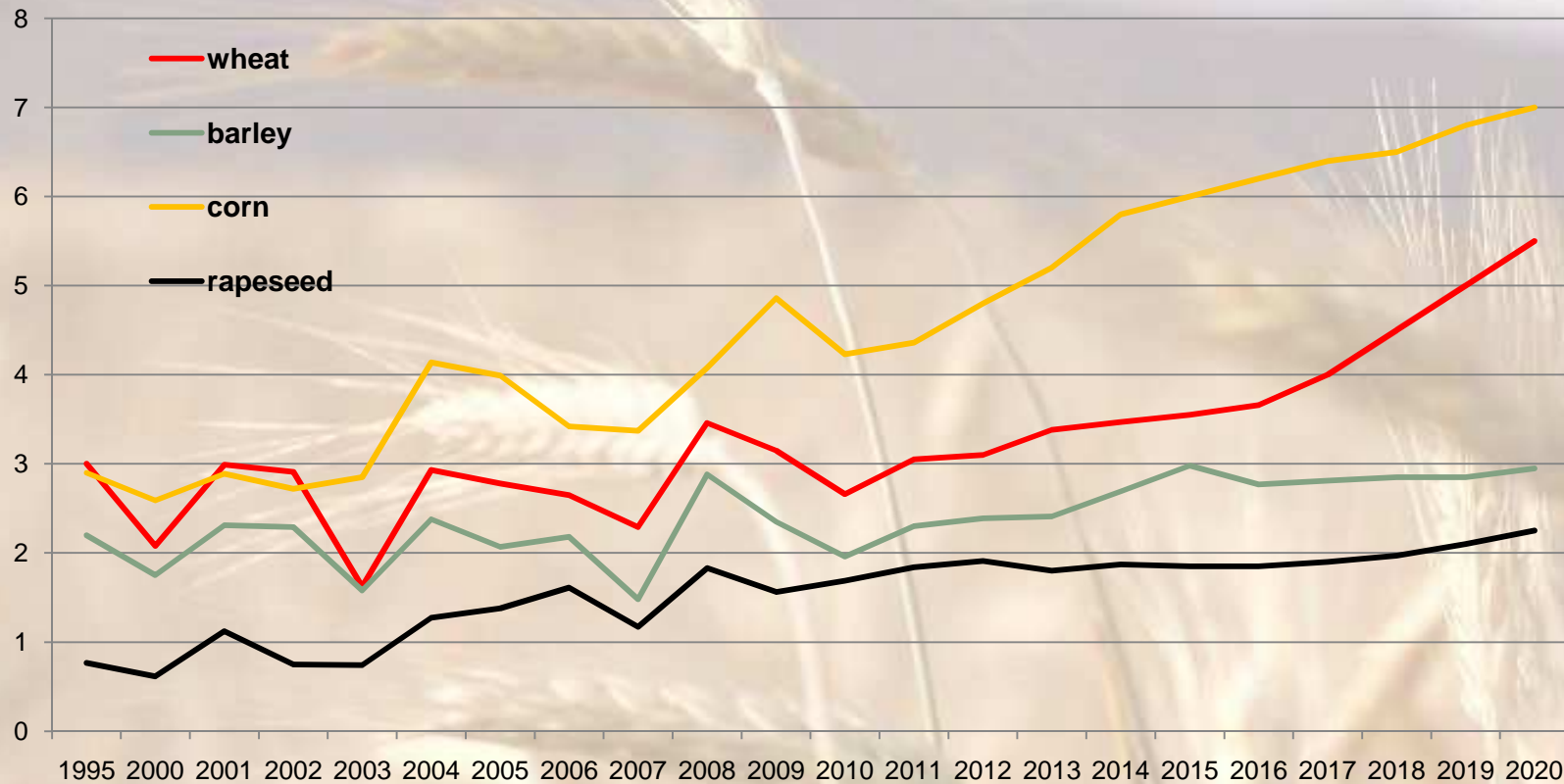
Other sources of financing for the ag sector

- **Increasing role of commodity credits from input suppliers/traders - \$ 400-600MI**
- **International donors :**
 - **International Financial Corp – about \$ 230 MI (2010)**
 - **European Bank for Development and Reconstruction – Euro 340 MI (2010)**

Ukraine: Increasing role of the public and private investors

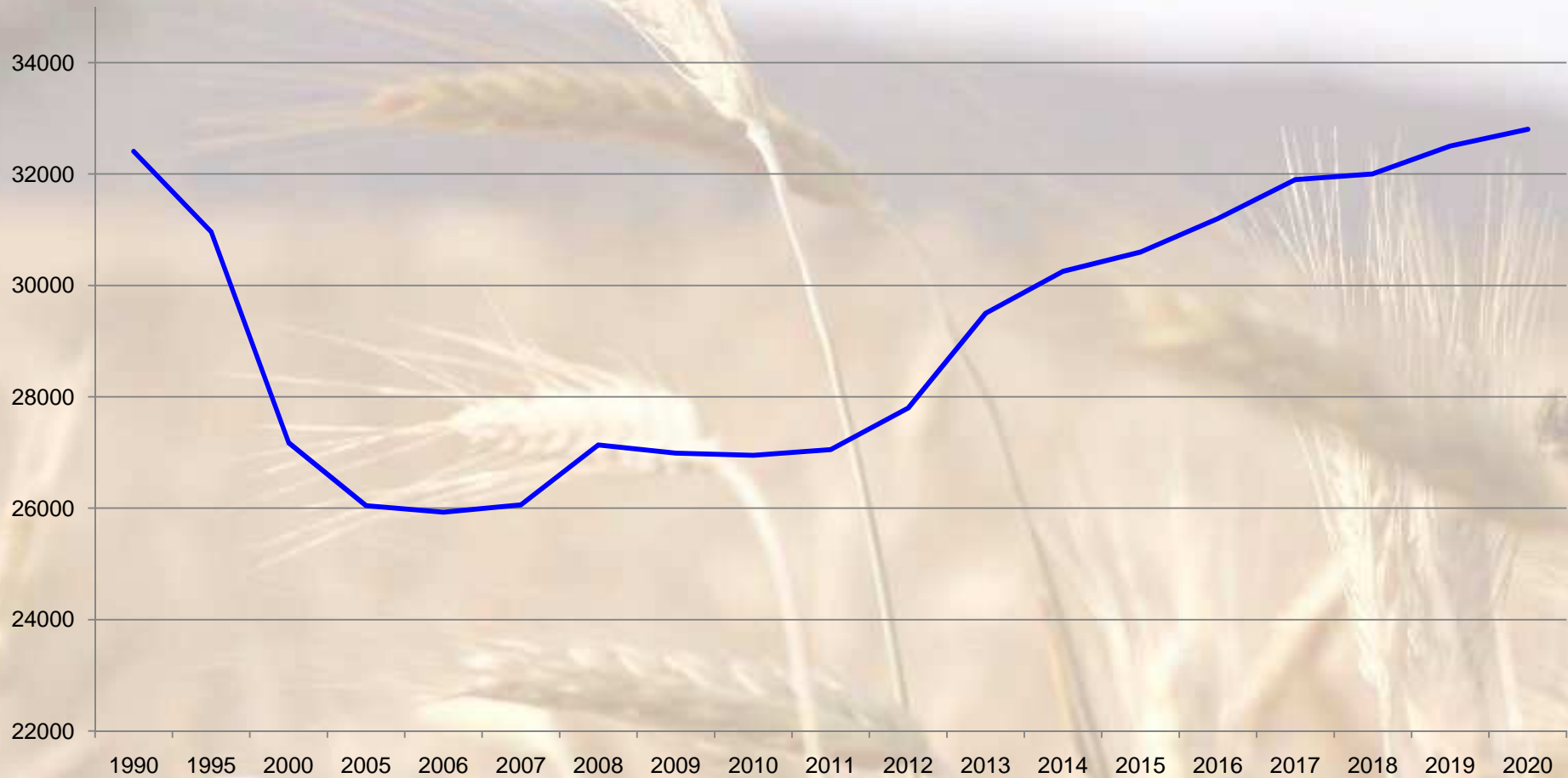
- **IPO - 2010 - \$1500MI**
- **In 2011 another 2-3 companies may place IPO for - \$400-600MI (est.)**
- **Eurobonds, 2011 - \$1 – 1.5 BI**
- **Additional emission and share sales in 2011 - \$450 MI**
- **Private placement - \$500 MI**

Ukraine: forecast of crops' yield, 2011-2020

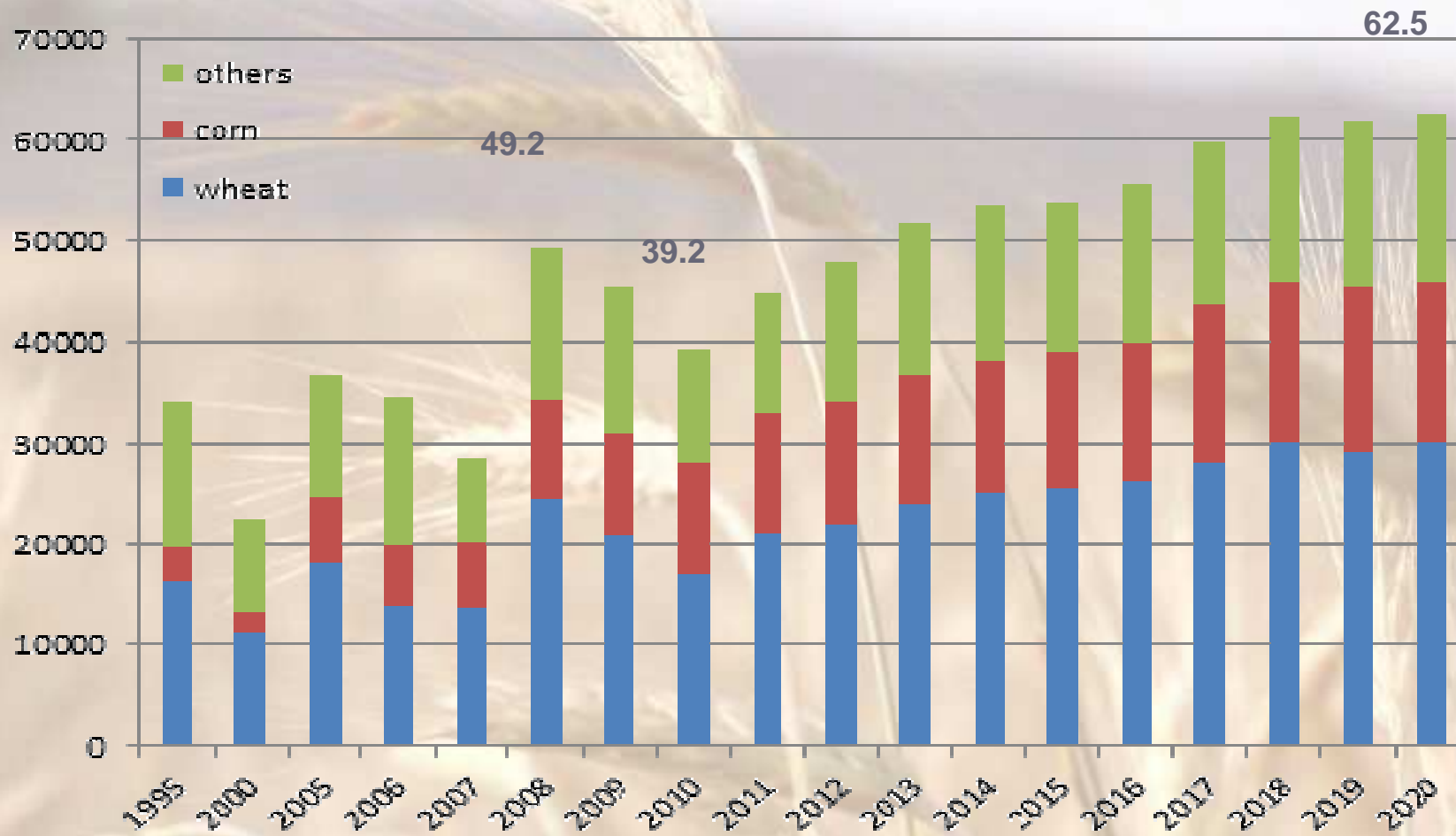


Ukraine: planted area

Th. ha, 2011-2020 - forecast

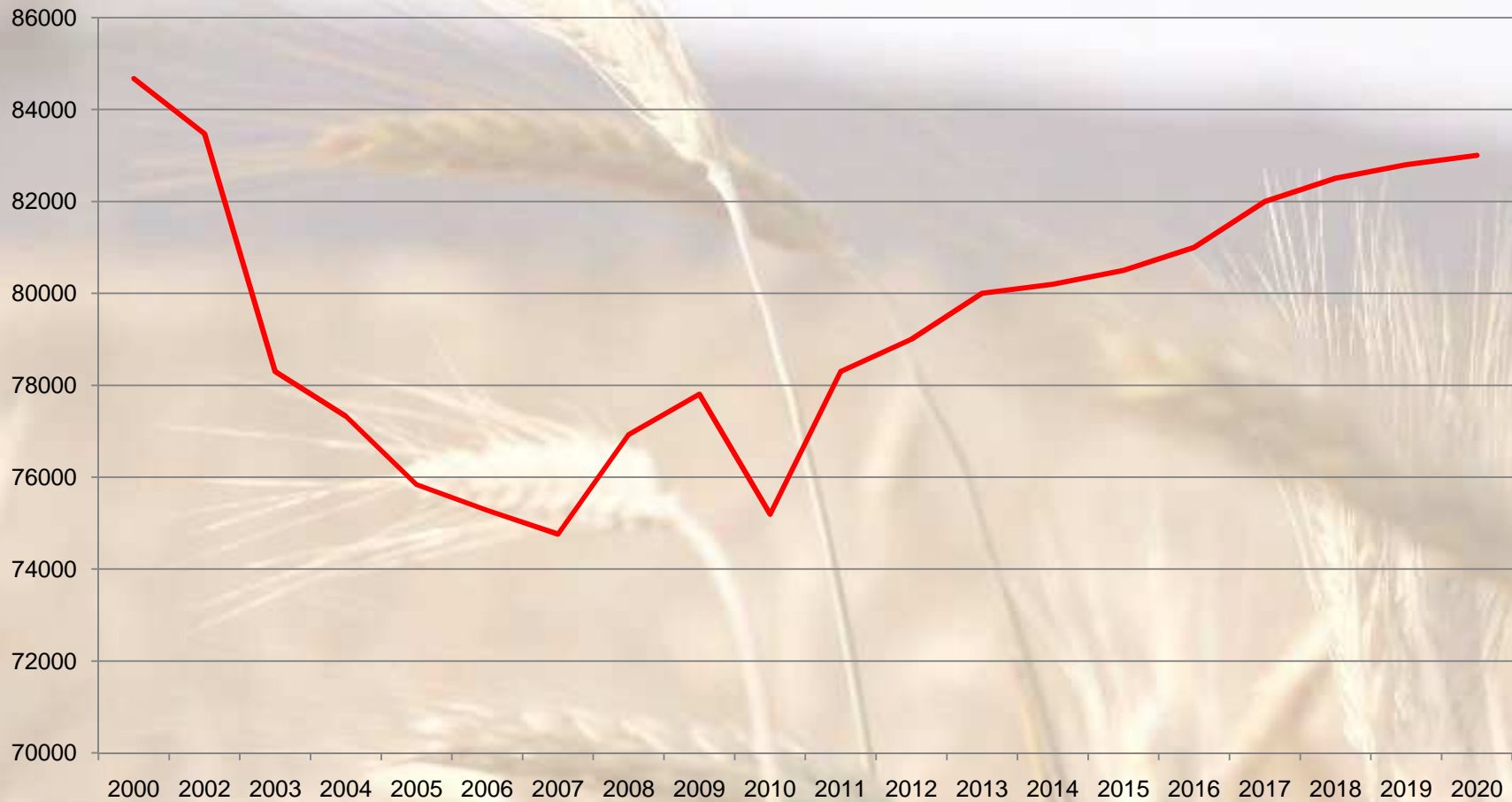


Ukraine: grain production forecast, 2011-2020

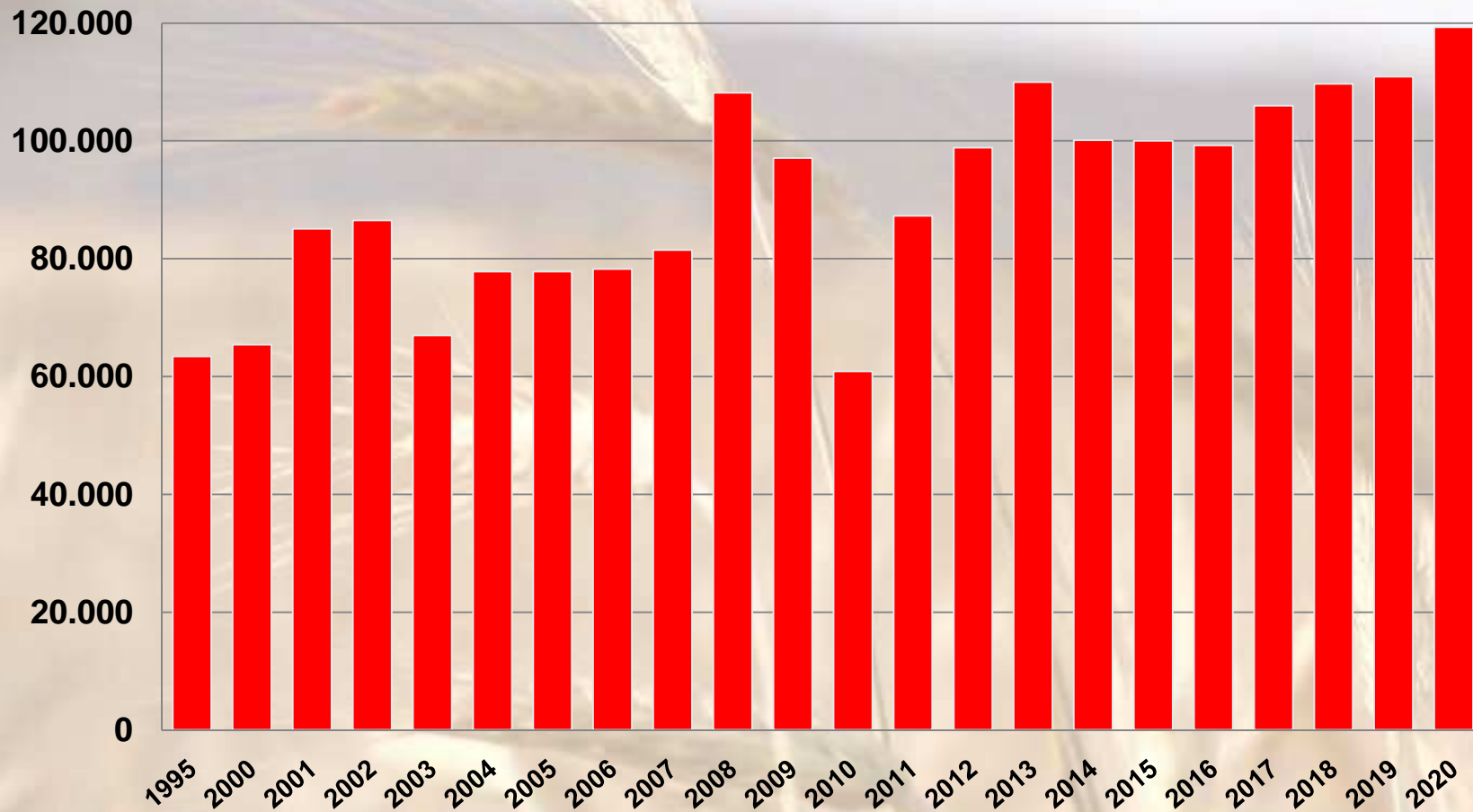


Russia: Planted area

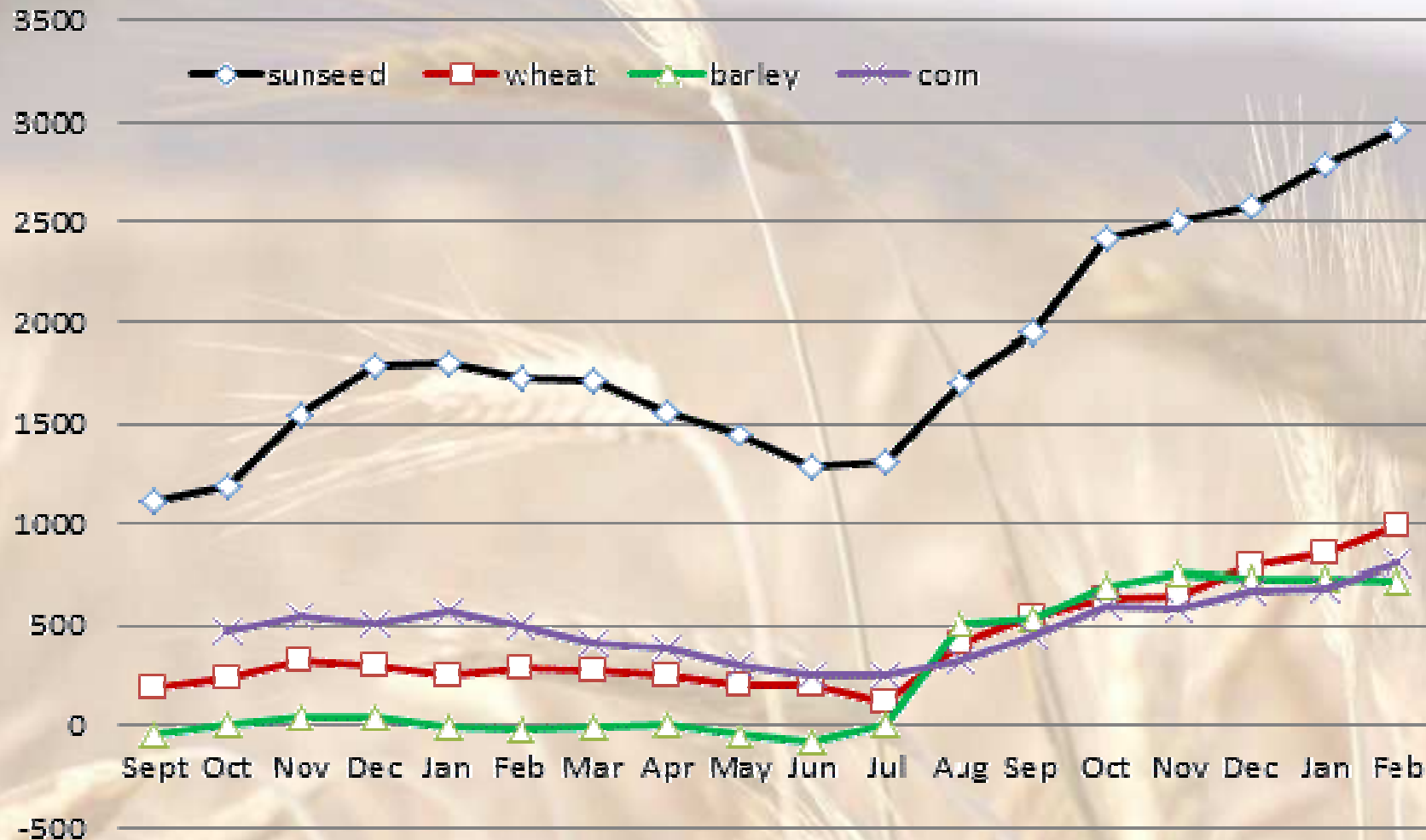
Th. ha 2011-2020 - forecast



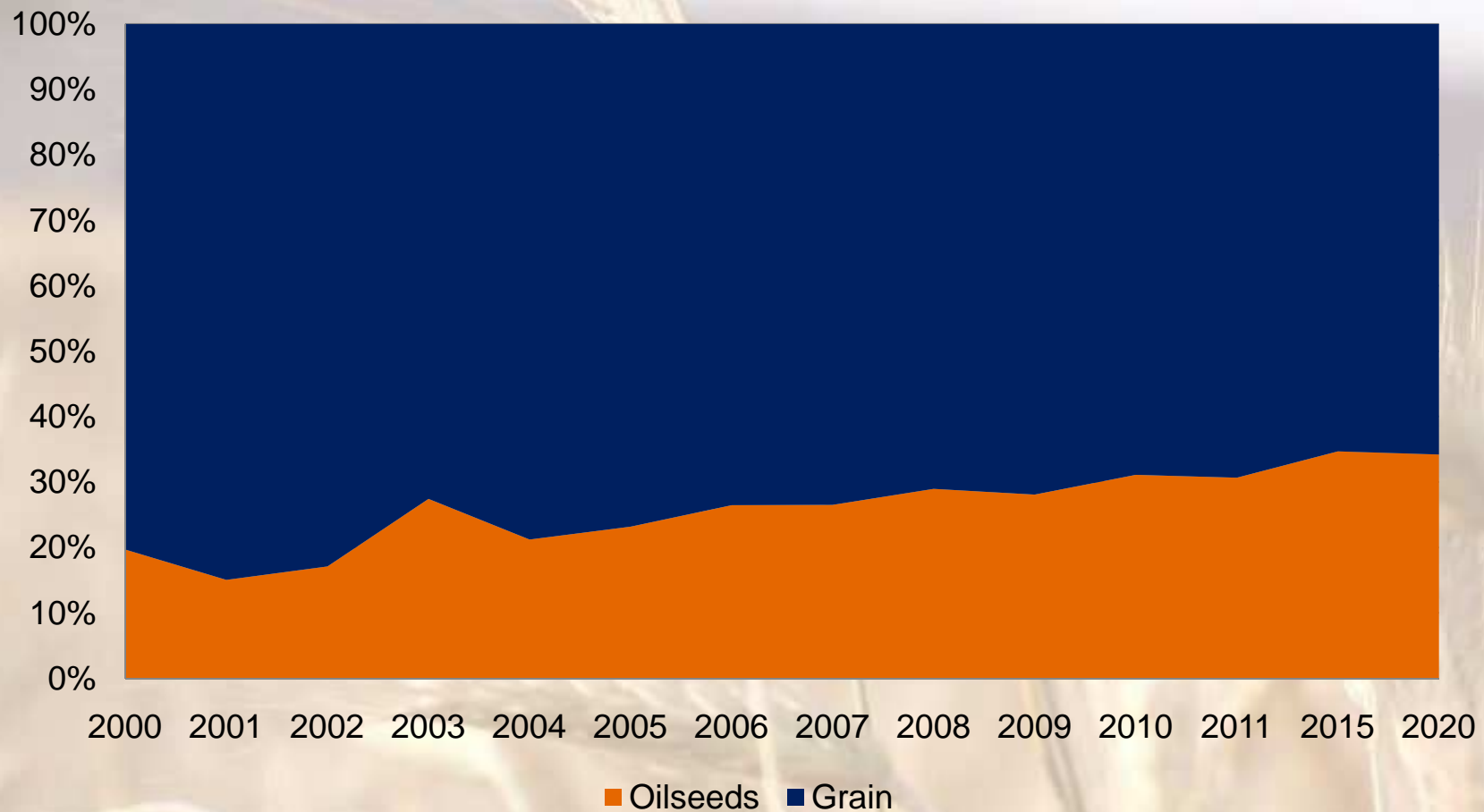
Russia: Grain production forecast, 2011-2020



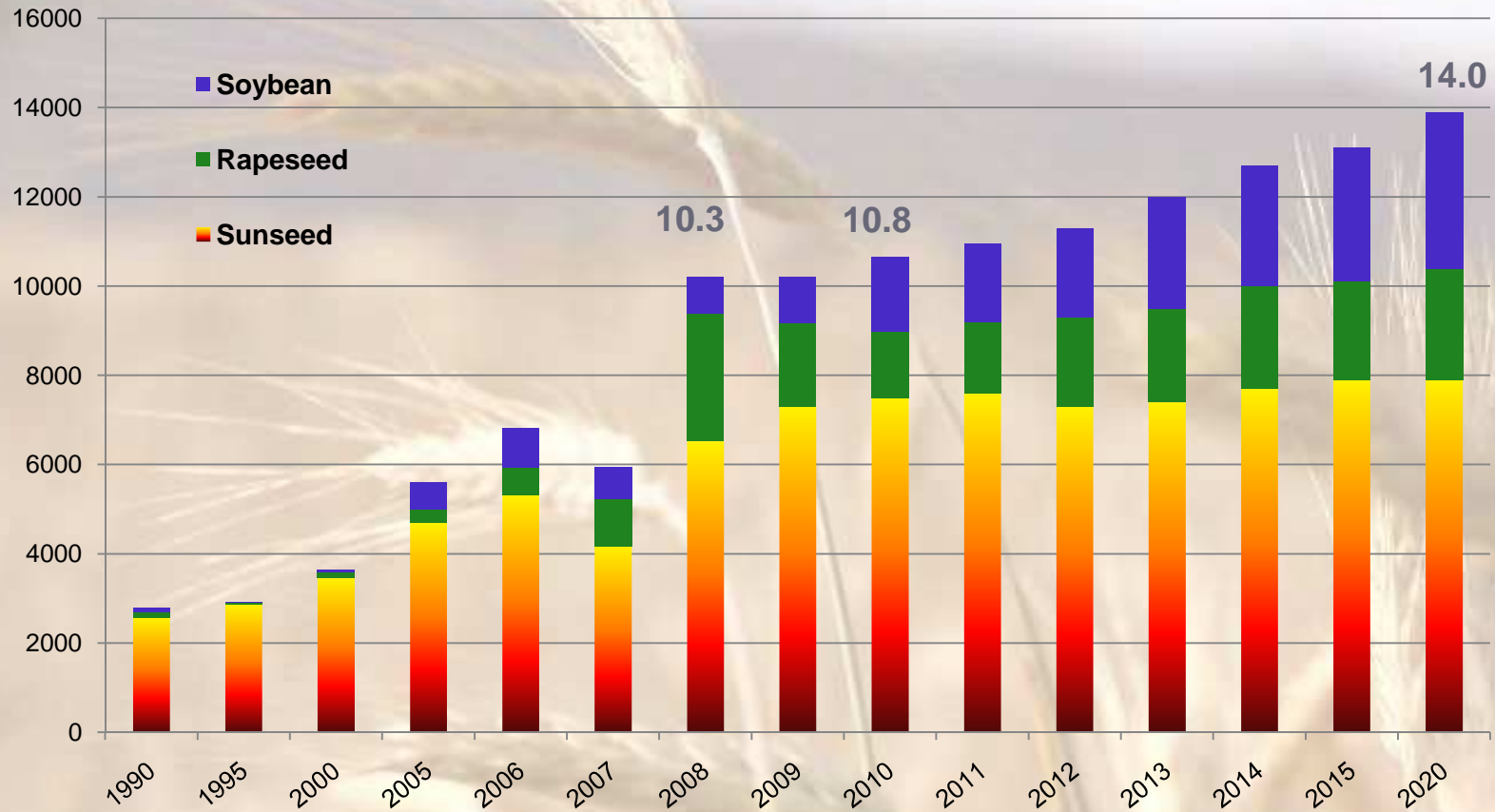
Ukraine: Production margins and farmers' choice of crops, UAH/mt, 2009-2011



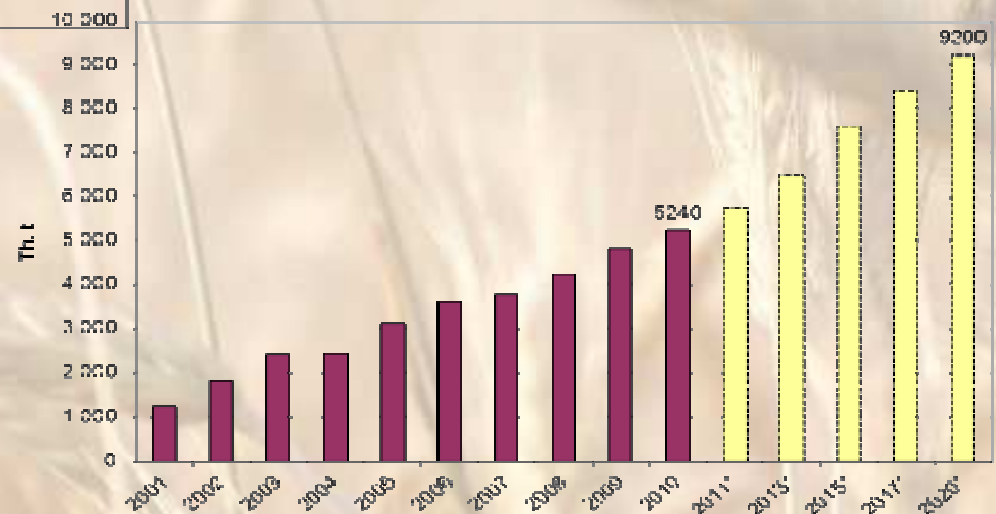
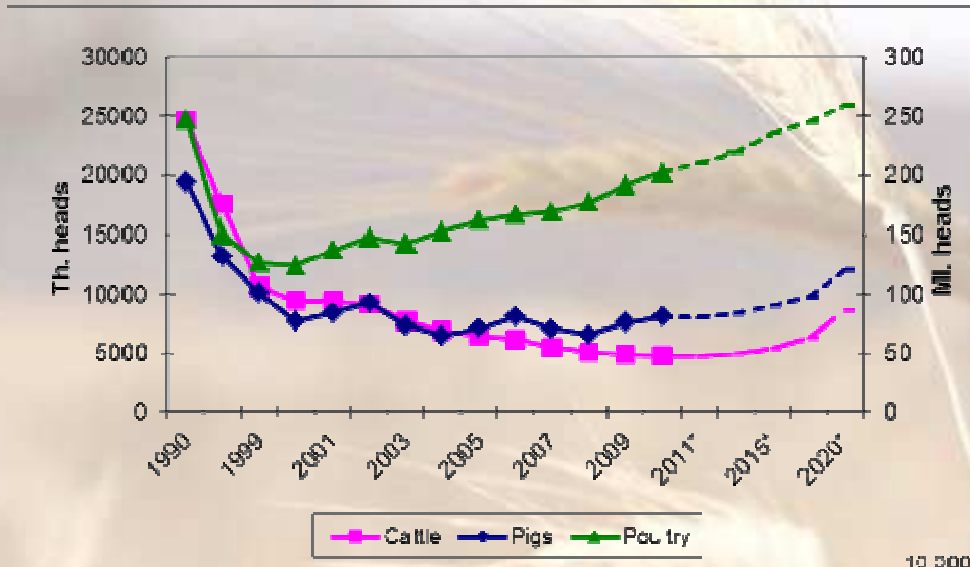
Ukraine: grain area vs. oilseeds area



Ukraine: oilseed production forecast, 2011-2020

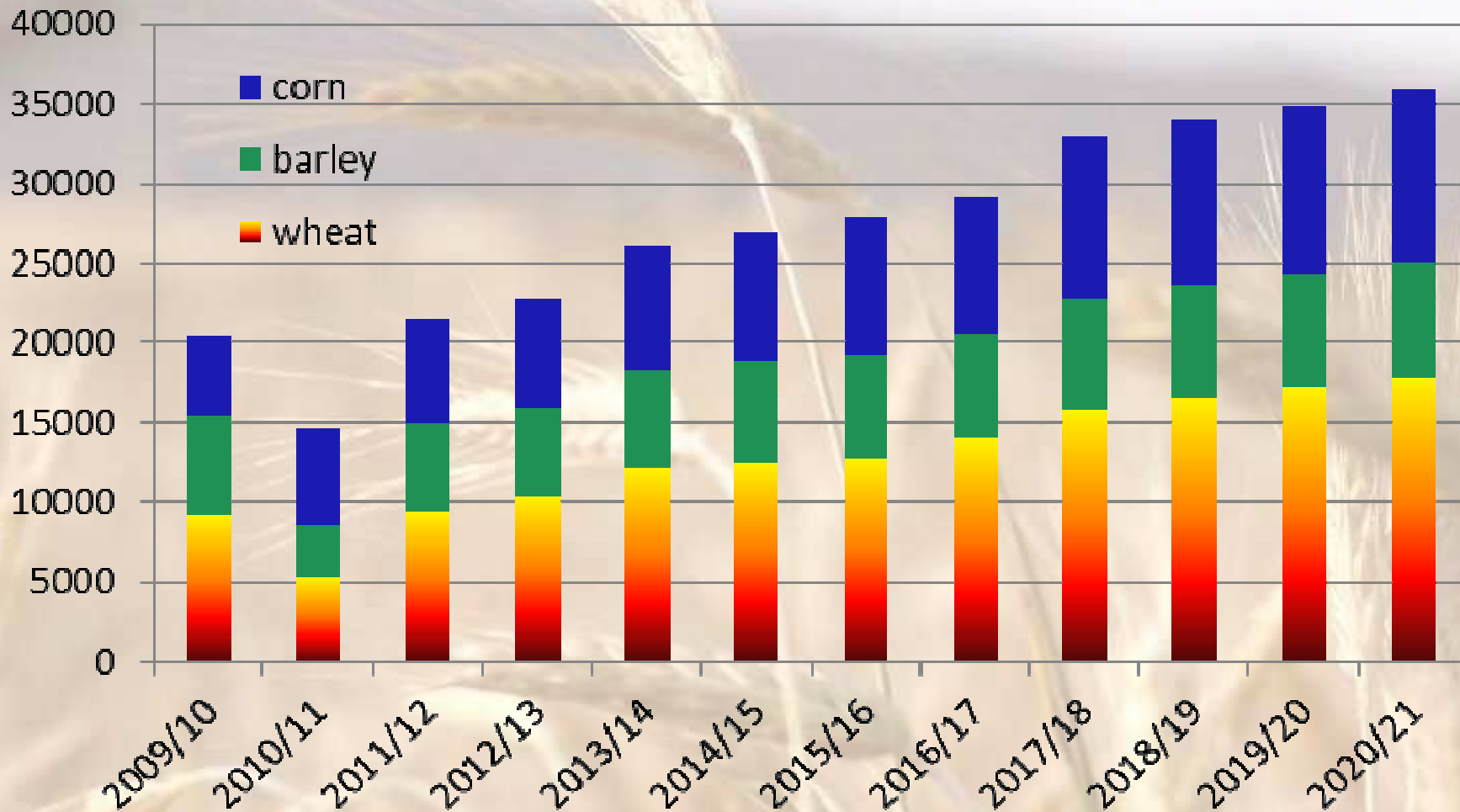


Ukraine: Poultry and Animal Inventories and Compound Feed production

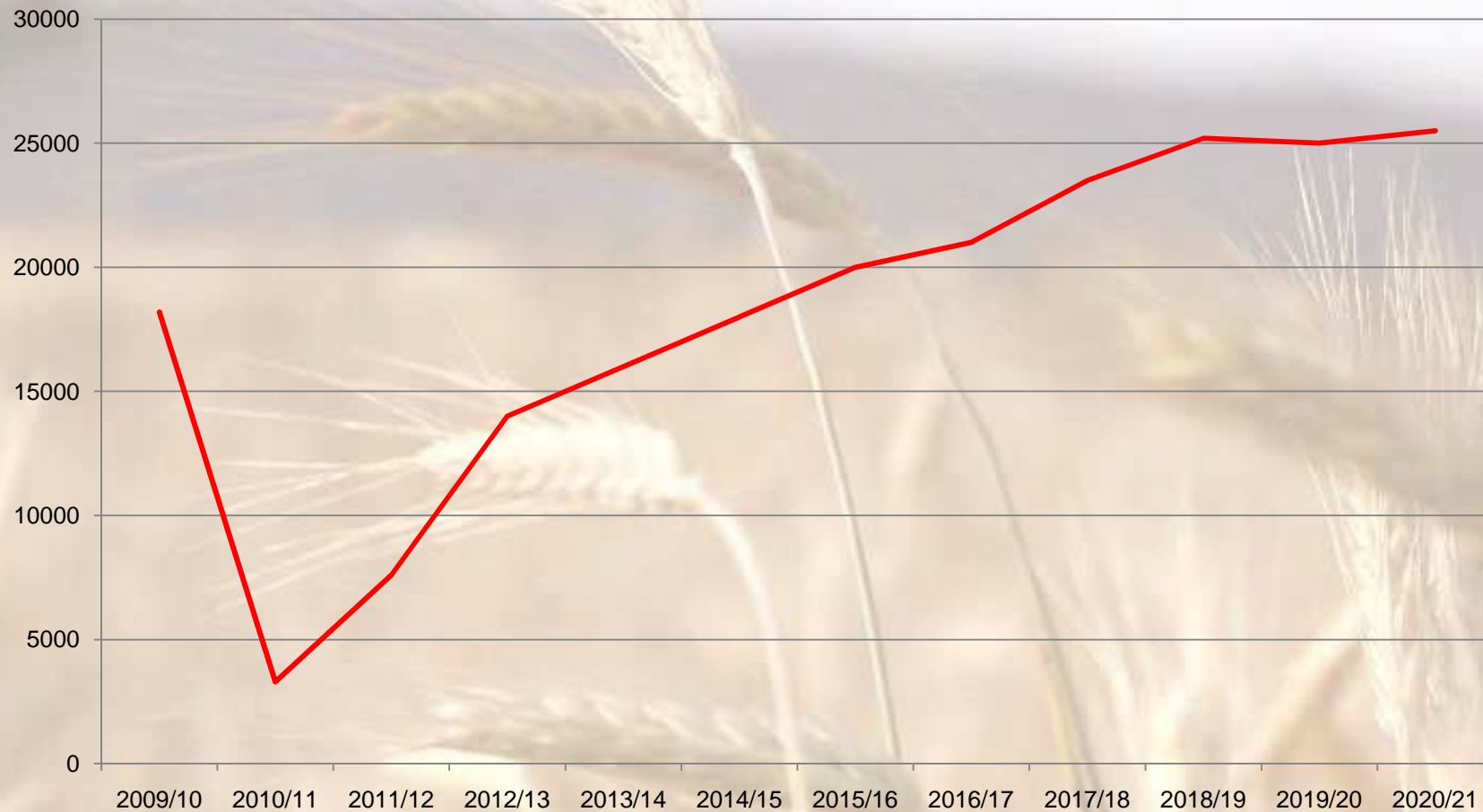


Ukraine: key crops export

MI t forecast, 2011-2020



Russia: Wheat export, M t forecast, 2011-2020



UKRAINE : NO LAND MARKET

Ukraine: start of the land market ?

The Government position:

- **To open the land market starting from Jan 01, 2012**
- **The Parliament is able to vote in all requested legislation in 2011**
- **To establish the State Land (Mortgage) Bank to start operation from January 2014 with a Statutory Fund of \$12.5 BI. Bank loans shall not cost more than 10% per annum**

Ukraine: start of the land market

Most likely Land Market in Ukraine will start operation from January 01, 2012.

But – poor legislation would result only in formal functioning of the market – it would be possible to make deals on sale and purchase of agricultural land but to receive a State Deed confirming the ownership will be a problem – very costly or/and time consuming

Ukraine: Investments in land buying

- Lifting of the Moratorium on the agricultural land sale could attract national and foreign investments of from \$10BI to \$40BI
- Most likely this money might be invested during the next 4-8 years

Ukraine: the best illiquid investment – FARMING

Key factor - access to ag land - is available in Ukraine though land market does not function and only land lease is allowed

Ukraine: start of the land market ?

Ukraine's Banks:

- They would be happy if Ukraine's Government guarantees transparent procedures to allow transfer of land lease rights from poor farmers to more efficient farmers. This would open new opportunities for the banks.
- This would be the first step to establish land market

Ukraine: the best illiquid investment – FARMING

Time structure of land lease contracts

- Less than 5 years 18%
- Up to 10 years 56%
- Up to 25 years 22%
- Up to 49 years 4%

Ukraine: land lease payments

- Land lease payments in Ukraine vary from \$30 to \$ 60 per hectare per annum
- The Land lease fee tends to increase for the last 1-2 years. The payments could be between \$50 and \$80 in 2-3 years

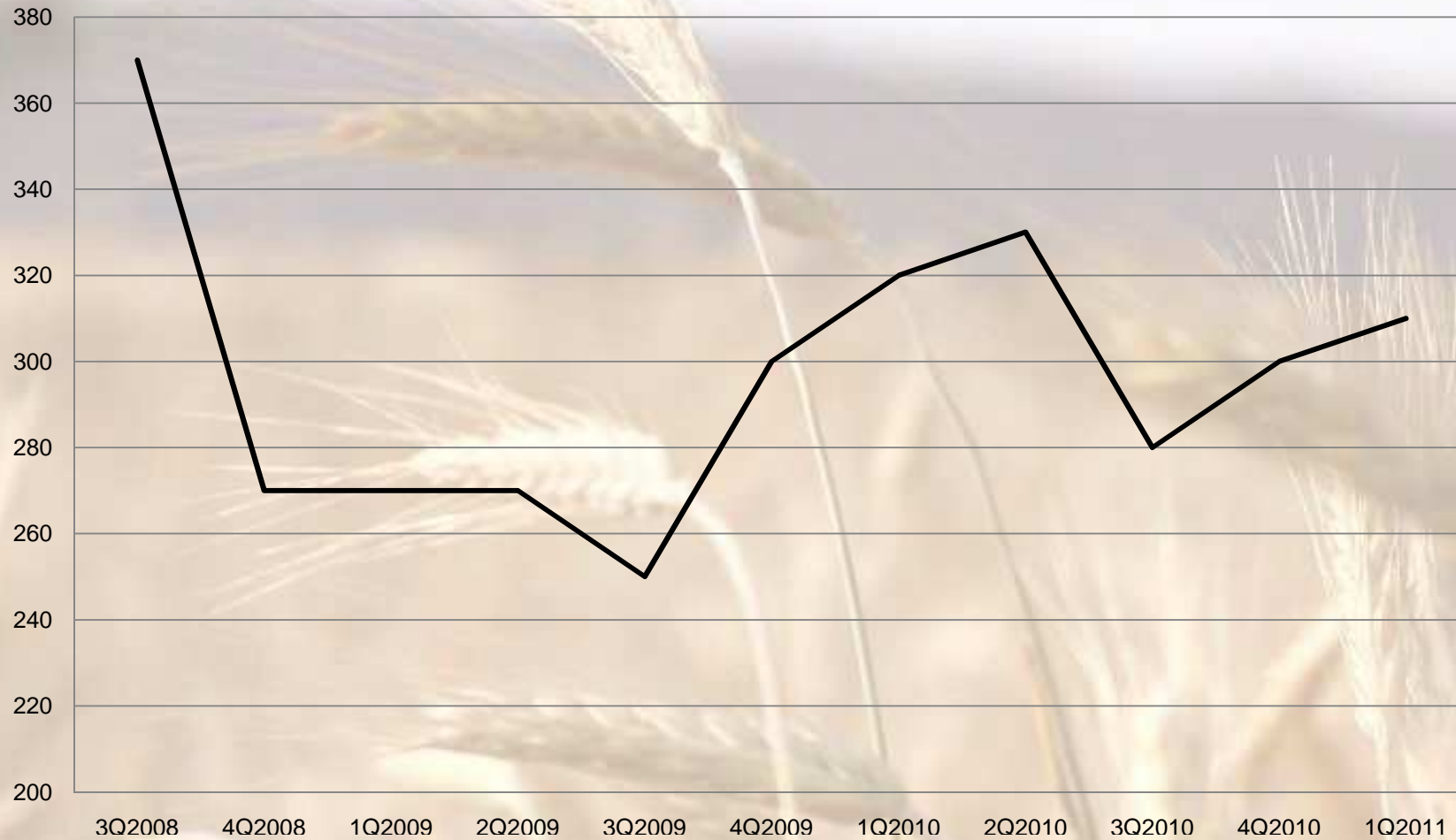
Ukraine: start of the land market ?

- Foreign individuals, legal entities and states are prohibited from owning of agricultural land. They are allowed to lease land. However it is not excluded that finally Ukrainian legislation will allow foreign ownership.
- In practice if a Ukrainian company which owns/leases land is owned by another Ukrainian company, even if the second company is 100% foreign owned, then the first Ukrainian company should not face any legal problems related to the land ownership/lease

Ukraine: Foreign Investor steps in farming

Most typically for an investor to start farming is to buy a Ukrainian agrarian enterprise (corporate rights of existing legal entity) which has already leased land

Ukraine: Acquisition costs for taking over land leases, \$ per ha

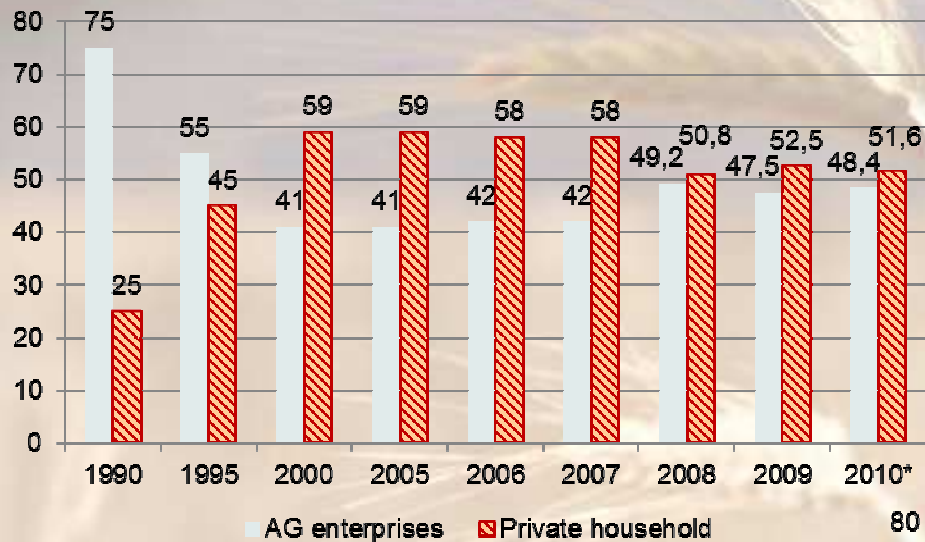


A background image of a wheat field with golden stalks and heads of wheat, slightly blurred to emphasize the text.

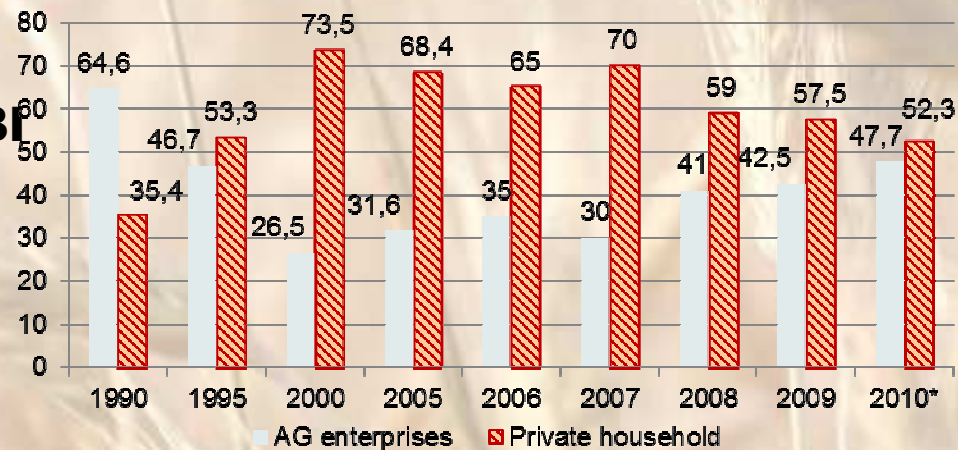
**Ukraine: large scale
farms - the best liquid
investment**

Ukraine: share of small private households in agricultural production decreases

Total Farming production, %



Meat production (incl. poultry, beef, pig), %



Total M&A are estimated at \$2B annually

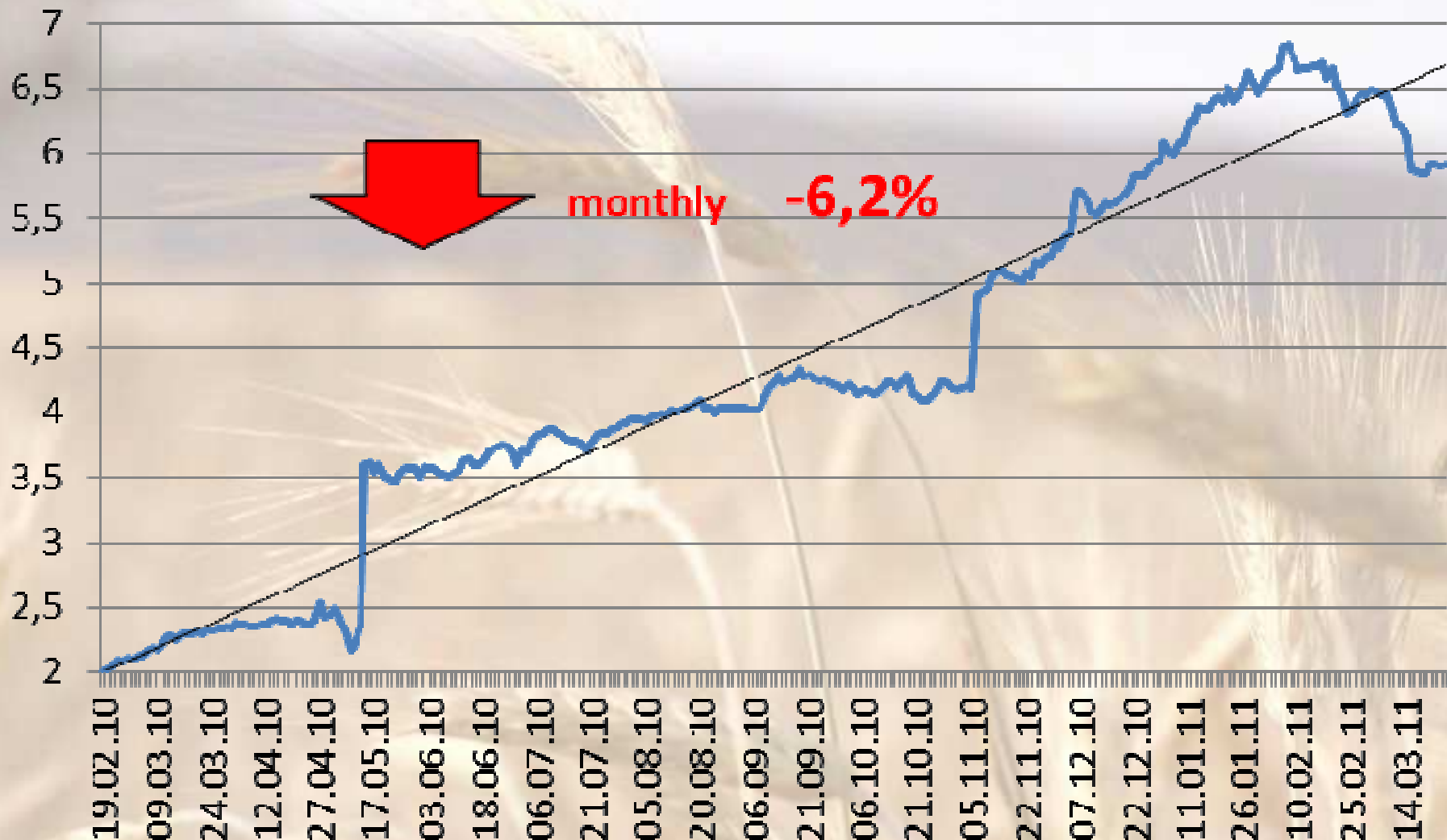
Ukraine: capitalization of the large scale farms

Company	Code	Currency	Mkt capitalization, MI	Mkt capitalization, \$MI
Landcom International Ltd	LKI:LSE	GBP	21.23	33,87
Sintal Agriculture PLC	SNPS:FRA	EUR	110.35	154,49
MHP	MHPC:LSE	USD	2013.75	2013.75
Kernel Holding SA	KER:WSE	PLN	5736.56	1998
Mryia Agro Holding Public Ltd	MAYA:DEU	EUR	770.31	1078,43
Agroton Public Ltd	AGT:WSE	PLN	812.63	283,05
Astarta Holding NV	AST:WSE	PLN	2050.00	714
MCB Agricole Holding AG	4GW1:FRA	EUR	34.49	55,29
Agrogeneration SA	ALAGR:PAR	EUR	60.04	84,06
Avangard	AVGR:LSE	USD	1041.11	1041.11
Milkiland	MLK:WSE	PLN	1275.00	444,07

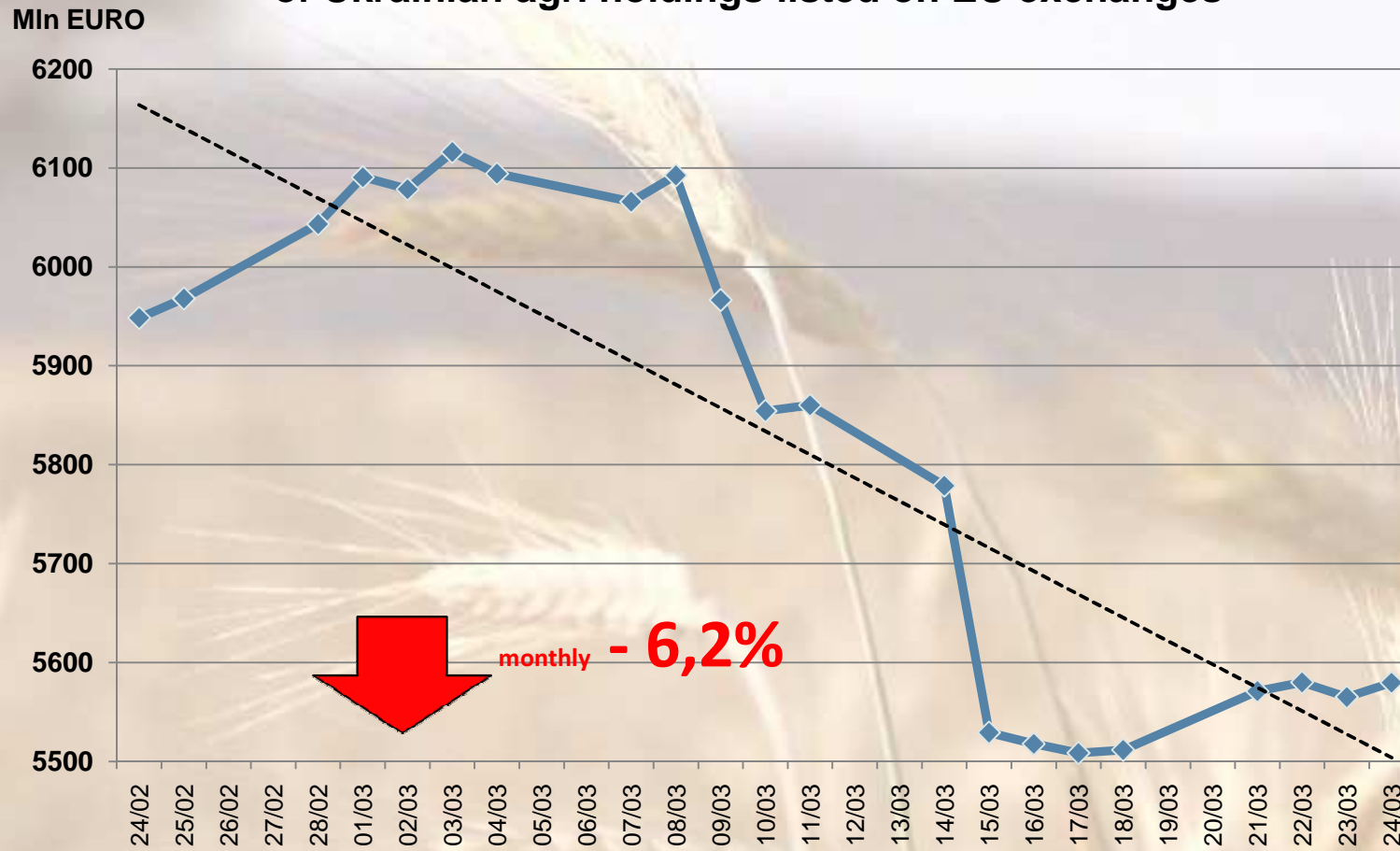
Ukraine: key activities of the large scale farms (2010/11)

	MHP	Avangard	Kernel Holding
• <u>Land bank, Th ha</u>	280	420	187
• <u>Key market Th t</u>	340	4.4 Bl eggs	630
	poultry meat		sunflower oil
• <u>Other markets:</u>			
- Crop production,Th t	513	660	222
- Sugar	-	-	174 Th t
- Sunflower oil,Th t	196	-	-
- Meat products,Th t	50	-	-
- Dry products from eggs	-	79% of total production	-

The best liquid investment : Ukrainian Agrarian Investment Index, UAIndex



Subtotal Capitalization (SC) of Ukrainian agri holdings listed on EU exchanges



Ukraine: Macroeconomic risks

- **Greater risks of the countries with emerging markets**
- **Global instability, slower growth of the GDP, continuing recession after the 2008 crisis**
- **Political risks. Instable government, instable agrarian policy**
- **Land Market starts its operation in Ukraine not so quickly as expected earlier, quite possible even in 2013**
- **New restrictive export regulation and attempts of the government to monopolize the grain export**

Ukraine: company level risks

- Effectiveness of management team and company strategy
- Adequacy of the access to finance
- Instability of the Agrarian Policy, interference in a company activity (crop production/rotation)
- Export restrictions
- Currency related risks
- Rights to agricultural lands (incl. for leased land) could be disputed
- Prime production costs could increase quickly.
Corruption may amount up to 20% of general costs

Commodity market Analyst

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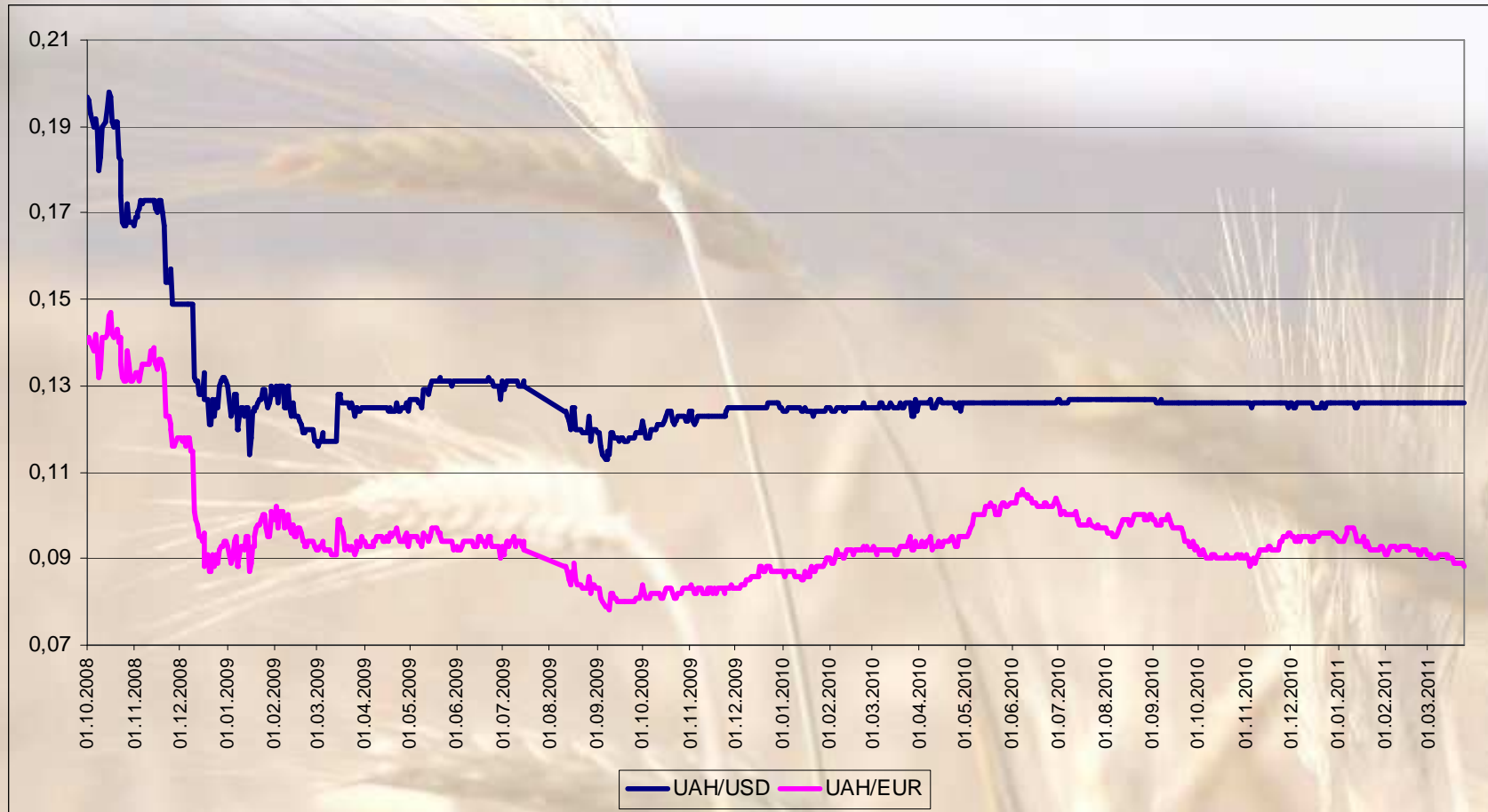
site: www.ukragroconsult.com

www.blackseagrain.net

tel.: +380 44 451 4634



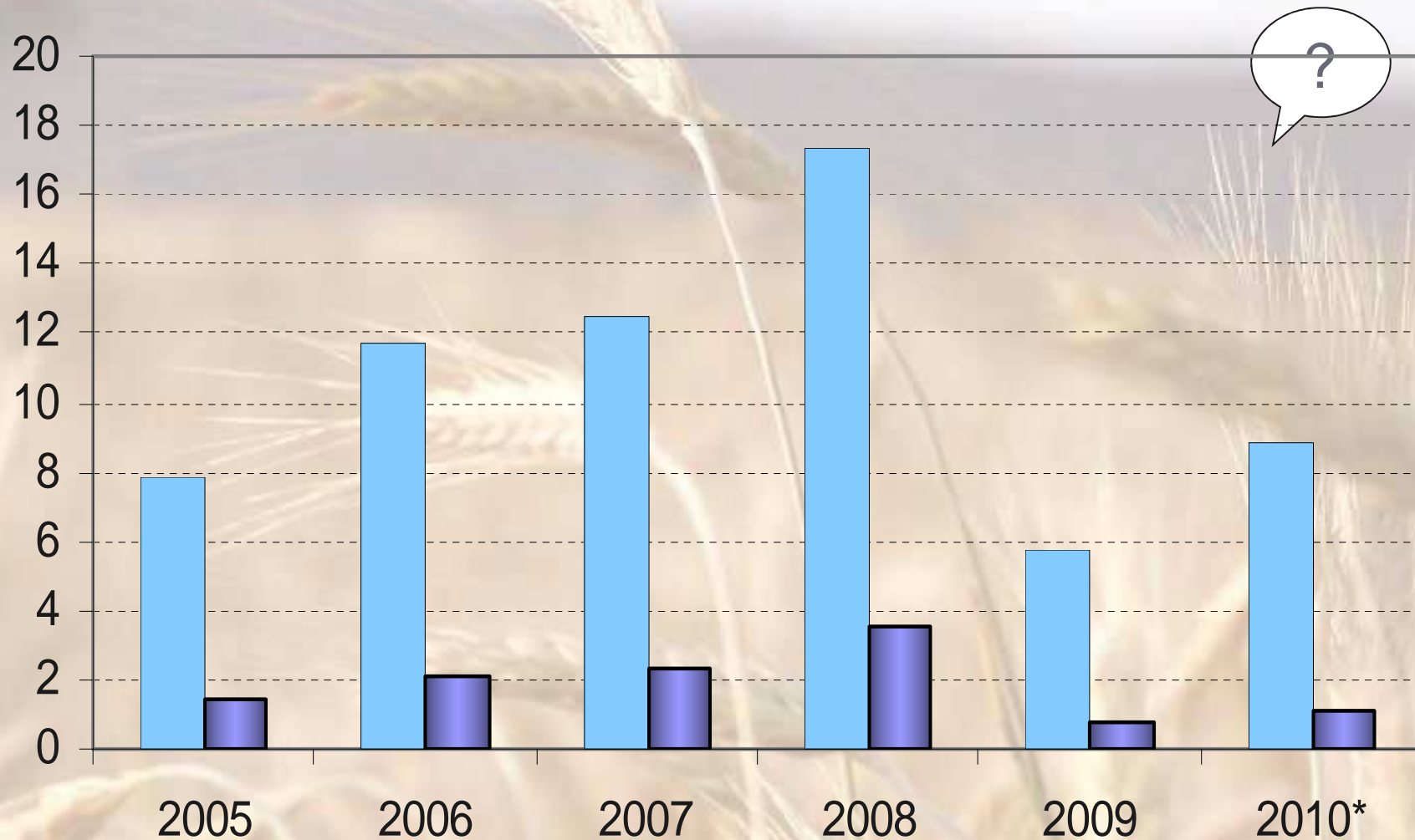
Ukraine: currency stability



Ukraine: agrarian sector - the best investment

- Favorable Climate
- Skilled Agrarian Specialists
- Large market capacity. Close to key markets
- Low costs of the land lease
- Average field is between 150 and 200 ha
- Quickly developing logistics and infrastructure
- Possibility of pumping of underground water
- High food security

Ukraine: Bank lending to the ag sector (Bl. UAH/\$)



Other sources of financing for the ag sector

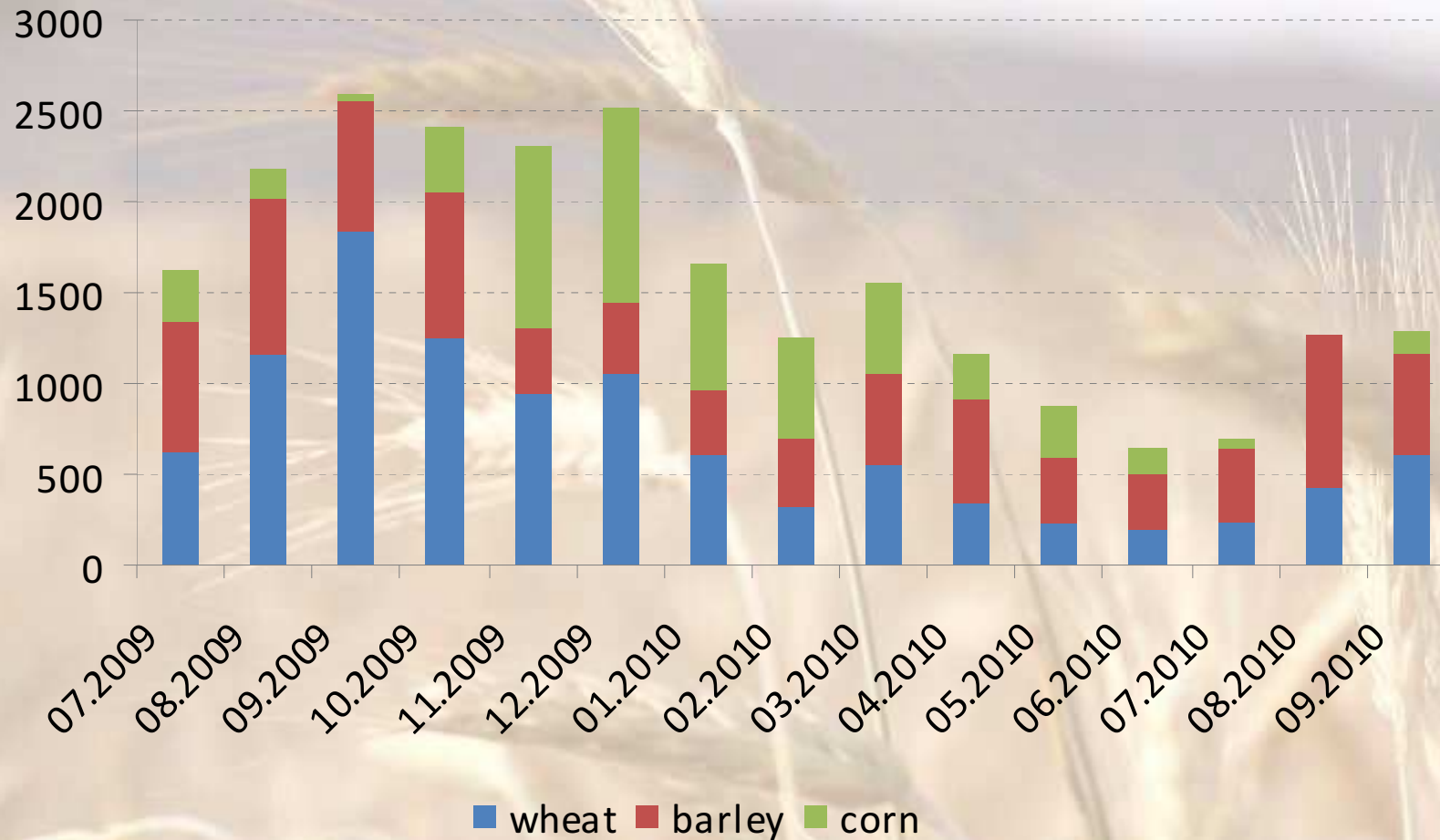
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Ukraine: Bank interest rates decreased

- **Summer 2009** - interest rates are at **24 - 32% (12 months)**
- **2010-2011** - interest rates are at **15 - 25% (12 months)**

Banks loans in Ukrainian Hryvnia

Ukraine: monthly grain export



Ukraine: Grain export, July 2010 - March 2011 Th mt

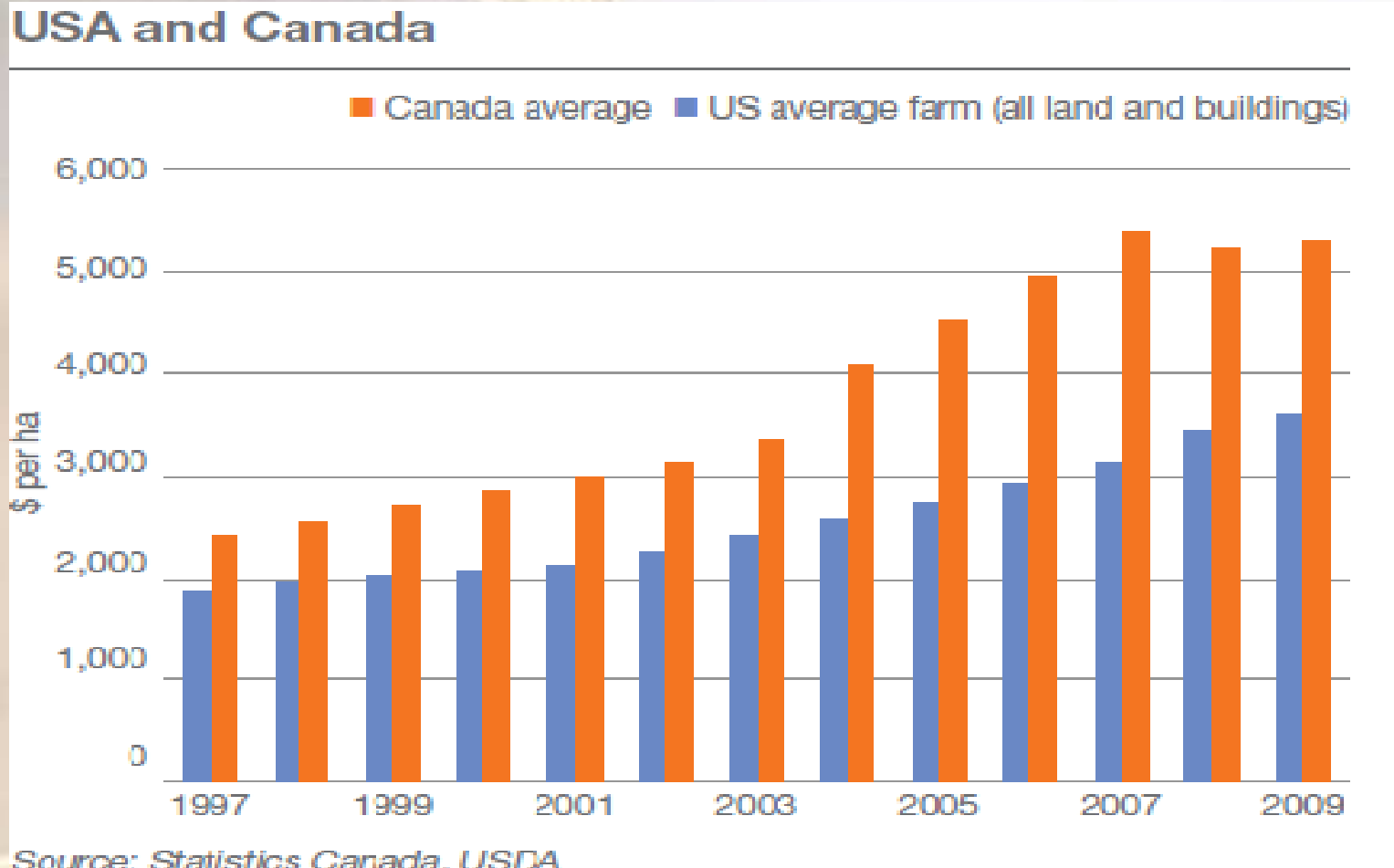
	July-Sep.2010	Oct.	Nov	Dec.	Jan. 2011	Feb.	March	Total
Wheat	1263	761	195	362	37	194	323	3135
Corn Oct	197	240	199	965	315	484	750	3150*
Barley	1802	384	83	109	7	52	21	2458
Sunoiil	474	220	258	318	267	201	310	1659**
Rapeseed	760	216	244	82	52	34	14	1401
Soybean	65	21	104	150	164	168	138	755

* October-March **Sept-March

A close-up, slightly blurred photograph of a wheat field with golden stalks and heads of grain. The text is overlaid on this background.

Ukraine: the best illiquid investment - FARMING

Canada and the US: ag land prices



Ukraine: the best illiquid investment – FARMING

average, per ha

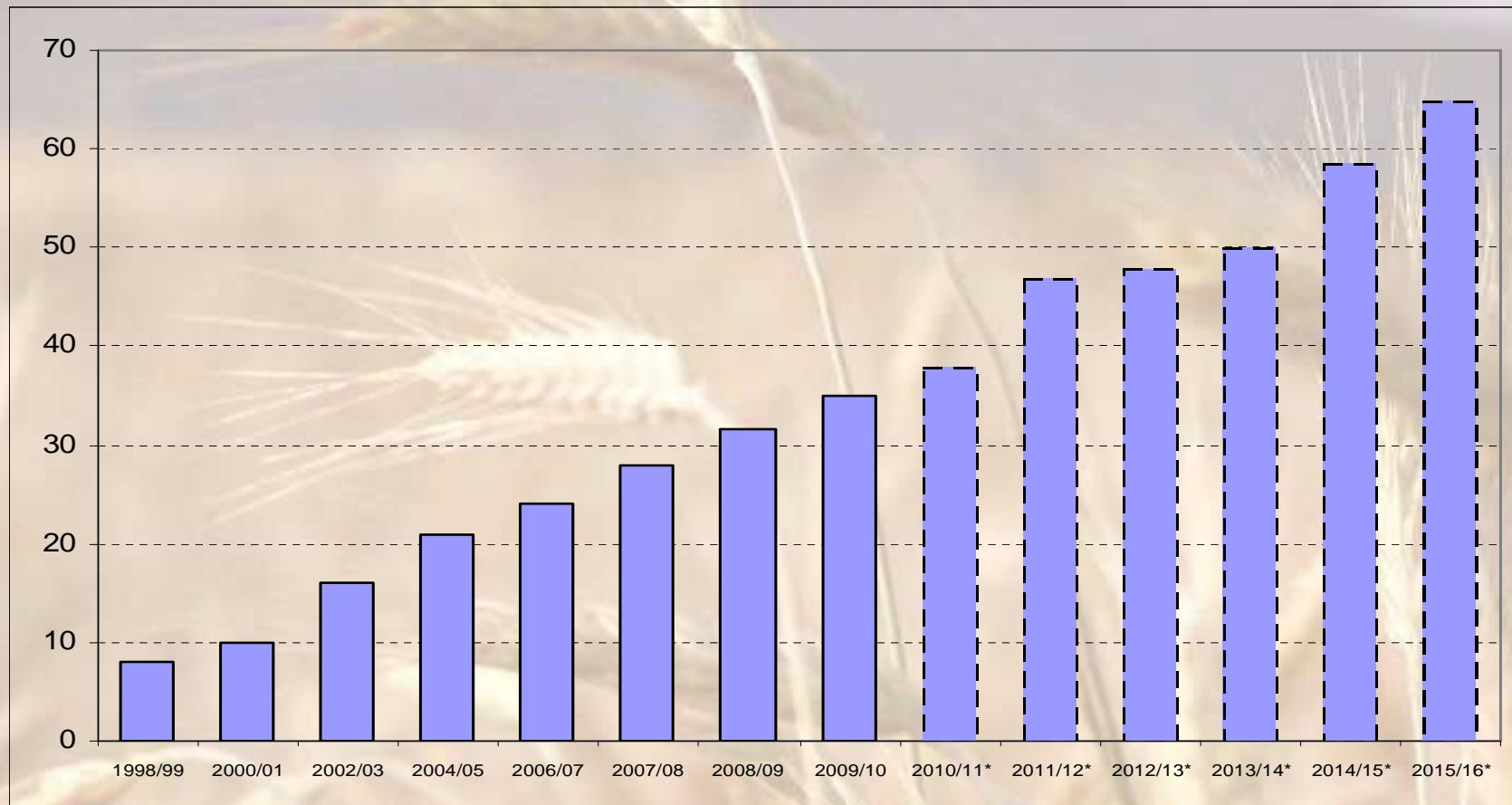
2009	French Farm	Ukrainian Farm
Basic costs	621 Euro	188 Euro
Operational costs	465 Euro	154 Euro
Production subsidy	353 Euro	0 Euro
Sales	727 Euro	451 Euro
Result	-6 Euro	109 Euro

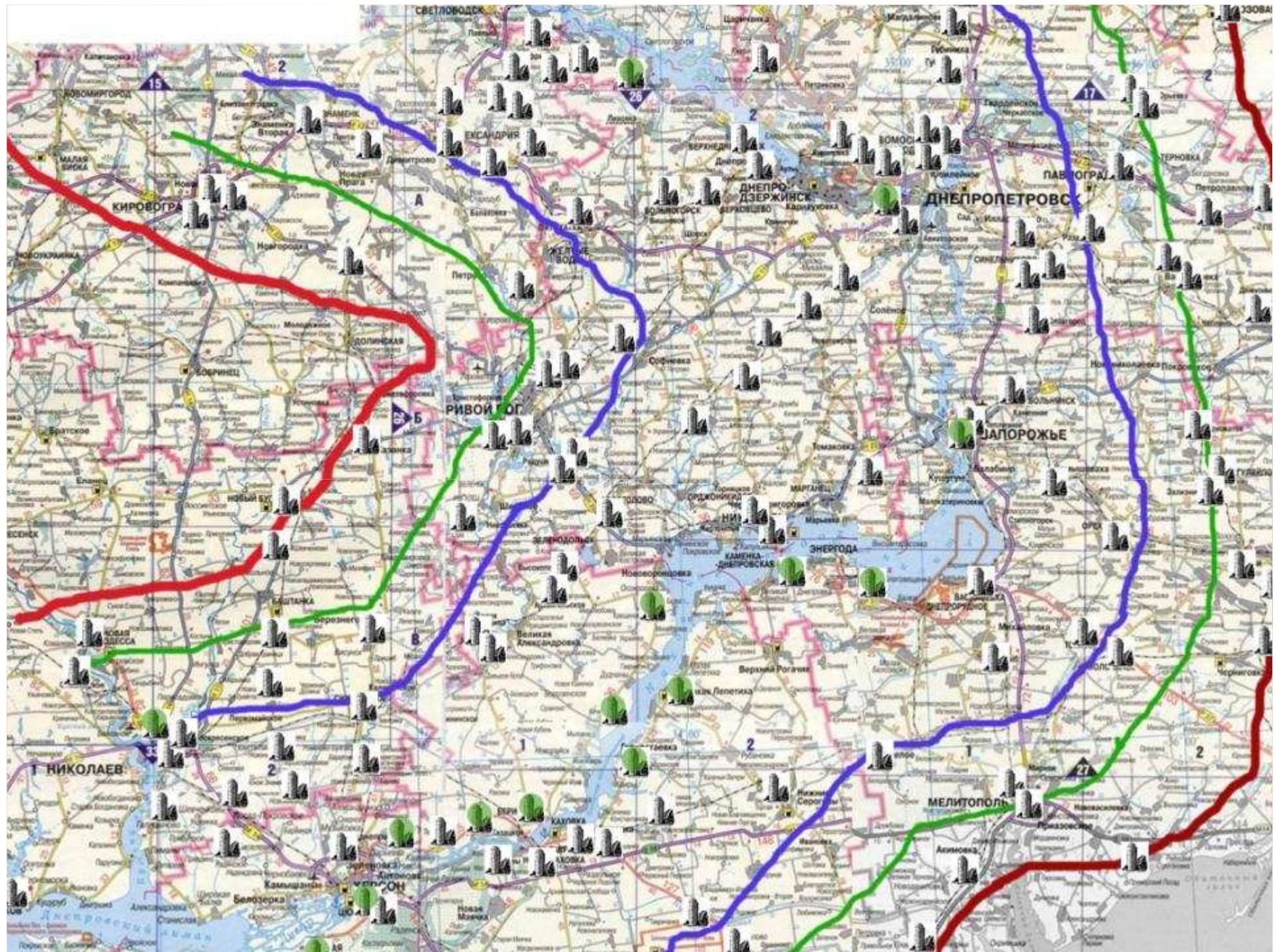
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Ukraine: oppotunities for investment other than farmland – elevators

Black Sea ports grain export capacities





Effective operational model – key to high returns in ag sector

- buy well
- operate well
- sell well

Investor brings:

- Management experience
- Better financing
- Access to markets

Ukraine: grain production, forecast, 2011 (2010)

- **Wheat - 21.0 (16.7)**
- **Barley - 11.0 (8.8)**
- **Maize - 11.7 (11.0)**
- **Total 2011 harvest - 44-46 MI t (39.2)**
- **Ministry of Agrarian Policy put its 2011 estimates at 42 MI t**

Ukraine: agricultural land structure

Total agricultural land - 42,8 MI ha,

- incl. land under cultivation – 32.8 MI ha
- incl. state/municipally owned - **20,8 MI ha (48,5%)**

How to divide the 20.8 MI ha into state owned and municipally owned?

- incl. privately owned and leased to agricultural enterprises - **more than 18 MI ha (51.5%)**

Ukraine: start of the land market ?

The following laws to be voted in by Ukrainian Parliament in the 2011:

- **Law on the Land Market to come into force from January 01, 2012**
- **Law on the Land Cadaster to come into force from January 01, 2012**

PLUS THE FOLLOWING LAWS:

- **Law on the agricultural land inventory**
- **Law on state ownership and municipal ownership of agricultural land**
- **Law on effective usage and preservation of agricultural lands**

According to rumors a company will be allowed to own from 900 to 2500 ha

Ukraine: start of the land market?

- Owners of 7.4 MI ha out of the 18 MI ha were given the state deeds

Only 2.22 MI ha out of 7.4 MI ha (about 30%) are registered in the State Cadaster

Ukraine: start of the land market ?

**Ukrainian farmers are against the land market.
They request the following:**

- **To delay the land sales for another 3 years**
- **To hold a national referendum on the land issue**
- **Government provides long term low cost credit to Ukrainian farmers for land purchases**
- **To only allow sales of abandoned land**
- **To increase State Budget subsidies per ha and per head of animal**

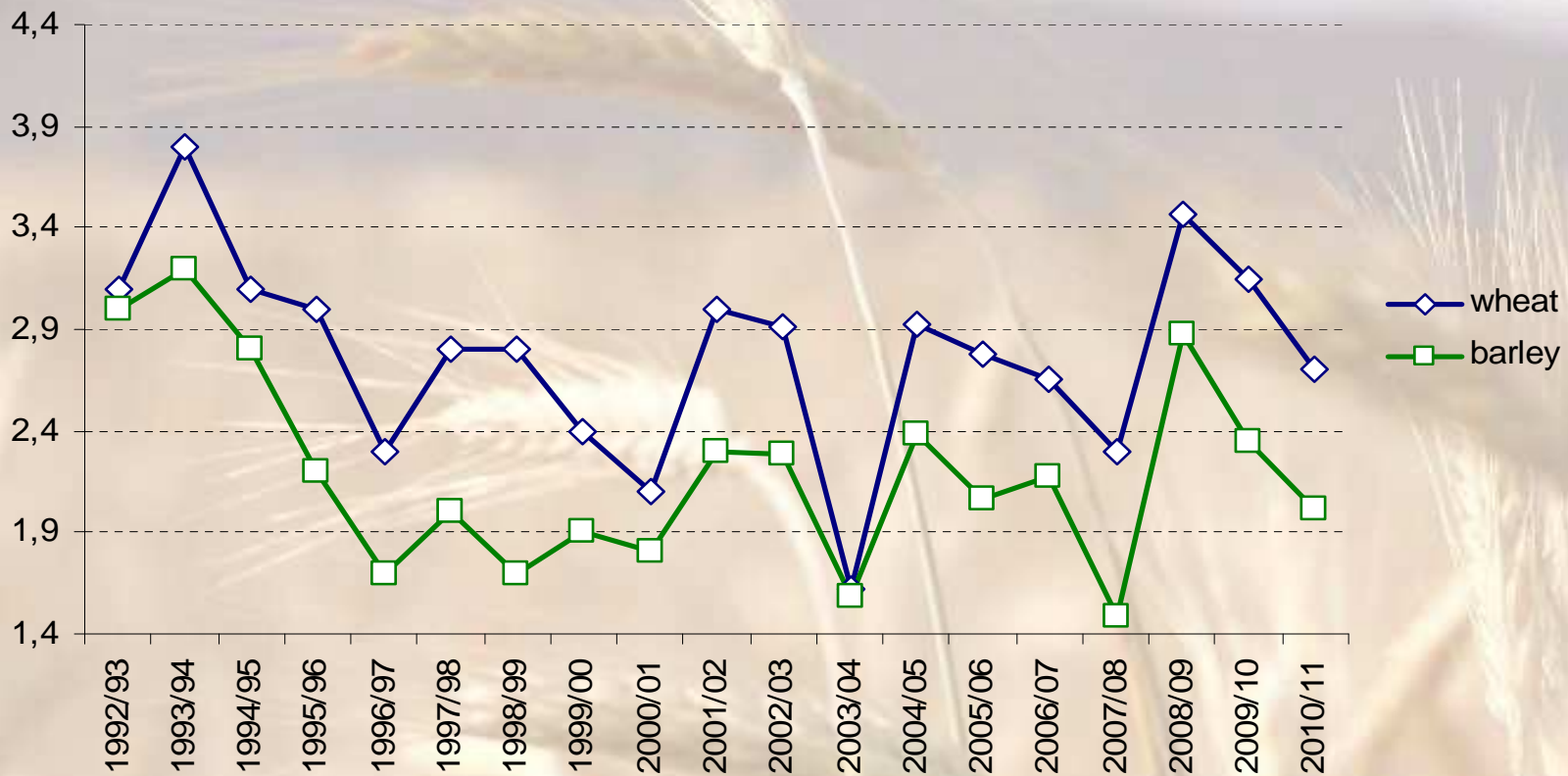
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UKRAINE : THE CURRENT SITUATION

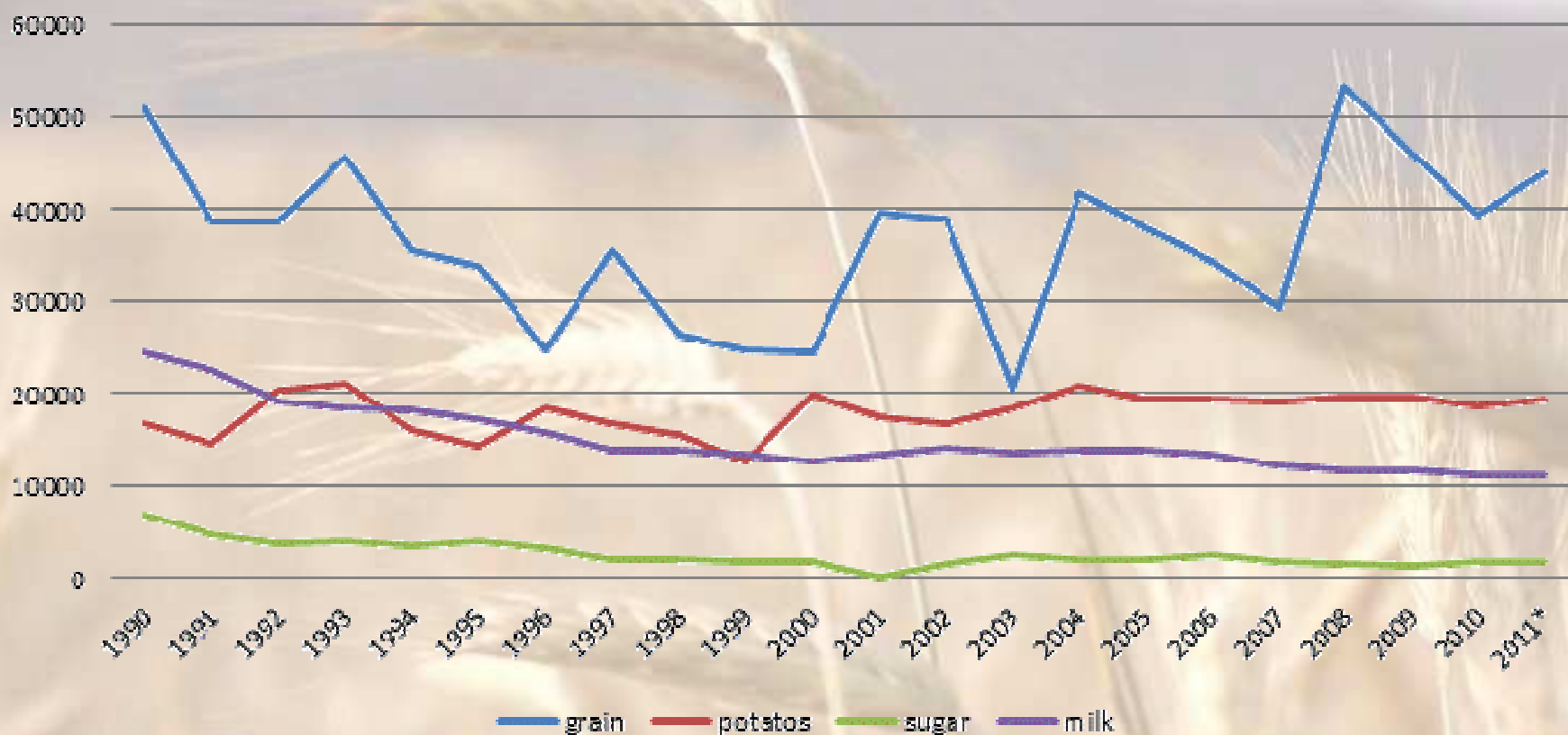
Ukraine : Wheat and Barley

Yield, mt/ha

Wheat and barley yield, MT/ha



Ukraine: Grain, Potatoes, Sugar and Milk production, 1990-2011, MI t



Ukraine: Foreign Investor steps in farming