



25 April 2022

Operations Update for the three months ended 31 March 2022

Ovostar Union Public Company Limited (WSE: OVO) (further referred to as “Company”), a vertically integrated holding company, one of the leading egg and egg products producer in Ukraine, announces its operational results for the three months ended 31 March 2022.

Business environment

The full-scale invasion of Ukraine launched by the Russian armed forces on 24 February 2022 caused multiple humanitarian, economic and political effects reaching out far beyond the borders of the affected regions. Continuing military attacks create threats of massive casualties among civilian population and further damages of vital infrastructure throughout the country. Disruption of normal economic activity will have numerous implications for the Ukraine-based businesses – varying from the humanitarian issues to supply and distribution – that at the moment cannot be precisely measured and will become more tangible as the situation evolves.

As of 31 March 2022 the companies of the Group keep operating in the pre-war mode with a series of modifications applied to the supply, production and distribution cycle.

Staff and management

The Group places top priority on the personnel’s health and safety issues. All possible action has been taken to minimize the existing threats and support the staff during this dramatic period. The HR department on a daily basis keeps record of the location of each employee to make sure that everyone is in a safe place. All administrative staff has been granted the option to work remotely. The Group closely monitors the needs of the team and promptly reacts to them within the limits of its capabilities. Forty men from the company’s staff were called up to the military service.

The Group’s management continue to fulfill their duties without interruptions.

Production facilities

The Group’s major production facilities are located in Kyiv region, in Fastivskiy and Bilotserkivskiy districts, where no severe hostilities took place. The poultry houses in Vasilkiv and Stavyshe, as well as the egg-processing factory in Vasilkiv, remain physically undamaged and keep operating.

The egg-processing factory in Makariv (Buchanskiy district) had been temporarily shut down until the city was de-occupied by the Ukrainian military forces in the end of March. The subsequent inspection of the factory showed signs of non-critical damages of administrative and manufacturing buildings. The production equipment and stocks of egg products are fully intact. The management expect to put the factory back in operation once the repairing works of the premises are completed.

The supporting facilities accommodating hatchery, poultry houses for parent flock and young layers have not been affected and are being used in accordance with the technological process.

Flock and egg production

The layers’ flock has been preserved at the level stipulated by the pre-war production plan. Minor modifications have been introduced in order to optimize egg production volume and offset the effect of oversupply on the local market caused by the export collapse in the first weeks of the military action.

Egg processing and egg products output

Disruption in operations of many Ukrainian food manufacturing companies and HORECA naturally led to the decrease of demand for egg products, which is why smaller volumes of eggs have been allocated for processing since the end of February.

Supply chain

The Group has historically relied on the suppliers located in the central part of Ukraine, which implies efficient logistics and reasonably prompt deliveries to the production sites. Major contractors have not been affected by the hostilities and continue to fulfill their contractual obligations.

Distribution

The military action had no critical impact on the local distribution. The main distribution channel for the egg segment is the large national retail chains. Geographically the sales are concentrated in the central part of the country. The share of sales in the most affected regions does not exceed 10%. The loss of the market in the east and south of the country could supposedly be offset by the increasing demand in the central and western Ukraine, where large numbers of internally relocated people temporarily reside.

Exports

Since the start of the military campaign, the Group faced significant obstacles to export activities due to the serious disruptions in logistics. In particular, seizure of Odessa port operations cut access to the Middle East markets, where the commodities were shipped by sea. Overland deliveries to the EU countries resumed in early April after the specific license had been issued to the company.

Imports

The Group's production companies depend on imports in terms of certain feed mix supplements, vaccines, spare parts of production equipment. These items are included in the list of "critical imported goods" (as defined in the Cabinet of Ministers of Ukraine's Resolution No. 153 dated 24 February 2022) and there are no restrictions for their delivery to Ukraine. The management also take steps to select adequate substitutes in the local market.

Support of the Ukrainian Armed Forces and volunteers

The companies of the Group strive to support the Ukrainian Armed Forces and volunteers. Since the beginning of the hostilities, around two million eggs were given for the humanitarian needs. The Group is engaged in the program of supplies to the Army through cooperation with Ukrzalyznytisia that functions as a single operator for public procurement.

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As of 31 March 2022 the Company's total flock equaled 7.26 mln hens, including 6.80 laying hens (31 March 2021: 8.08 and 6.67 mln hens respectively).

The volume of eggs produced in Q1 2022 was 371 mln demonstrating 10% decrease YoY (Q1 2021: 411 mln). In the reporting period the sales volume in the egg segment totaled 232 mln (Q1 2021: 266 mln).

Export sales of shell eggs totaled 27 mln (Q1 2021: 64 mln), which represents 11% of total number of eggs sold in Q1 2022 (Q2 2021: 24%).

Average price of eggs in Q1 2022 increased by 4% YoY in USD terms to 0.089 USD/egg (Q1 2021: 0.085 USD/egg).

The volume of eggs processed in Q1 2022 fell by 25% YoY and was 92 mln (Q1 2021: 122 mln).

The Company produced 561 tons of dry egg products and 2 131 tons of liquid egg products (Q1 2021: 653 tons and 3 430 tons respectively).

The volume of dry egg products sold amounted to 429 tons (Q1 2021: 736 tons), out of which 238 tons, or 55%, were exported (Q1 2021: 462 tons, 63%).

The volume of liquid egg products sold was 2 182 tons (Q1 2021: 3 428 tons), out of which export sales equaled 728 tons or 33% (Q1 2021: 796 tons, 23%).

Average price of dry egg products increased by 46% YoY to 6.64 USD/kg (Q1 2021: 4.57 USD/kg); average price of liquid egg products grew by 13% YoY to 1.86 USD/kg (Q1 2021: 1.68 USD/kg).

Note: All prices in this press release are indicated net of VAT

The Company's CEO Mr. Borys Bielikov commented:

"These days the whole world stands with Ukraine and its people who are suffering from the Russian invasion. Ovostar Union will keep working hard to help the country overcome the hard times. While our heroic armed forces are fighting against the enemy on the battlefields, the company will contribute to the struggle by supplying Ukrainians with the essential foods. This, combined with the efforts of other businesses, every day brings us closer to the Victory."