



# Ukrproduct Group Ltd ('UPG')

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## Presentation of Preliminary Results FY2004

**London**  
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**Sergey Evlanchik, CEO**  
**Tel 0774 7031255**  
[sergey.evlanchik@ukrproduct.com](mailto:sergey.evlanchik@ukrproduct.com)

**Dmitry Dragun, FD**  
**Tel 0778 6466639**  
[dmitry.dragun@ukrproduct.com](mailto:dmitry.dragun@ukrproduct.com)

# Structure of presentation

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- Locations
- Sales and Marketing

## (3) Operating review

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- Strategy
- Major developments
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# Executive Summary

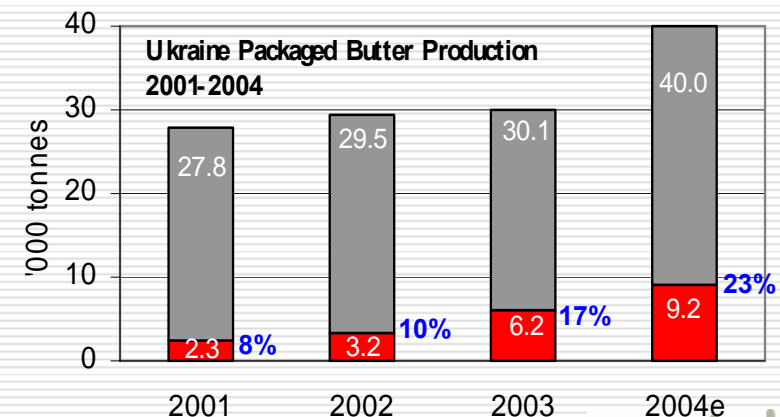
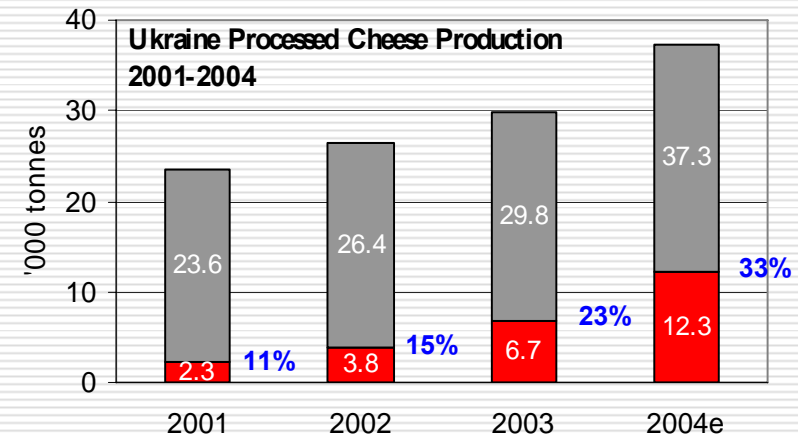
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- ❖ **UPG is Ukraine's leading branded dairy foods business**
  - ❖ Largest market share in processed cheese and packaged butter
  - ❖ Pan-Ukrainian sales & distribution, recognisable brands
  - ❖ ISO-9001 certified production
  
- ❖ **Highlights of the preliminary results FY2004**
  - ❖ Business continues to develop dynamically
  - ❖ Market shares in two core segments increased to 33% and 23% respectively\*
  - ❖ Sales up 54% to £27m, operating profit up 86% to £2.6m
  - ❖ Profit margins improved
  
- ❖ **Positive growth trends in operating environment continuing**



# UPG – Ukraine dairy foods sector

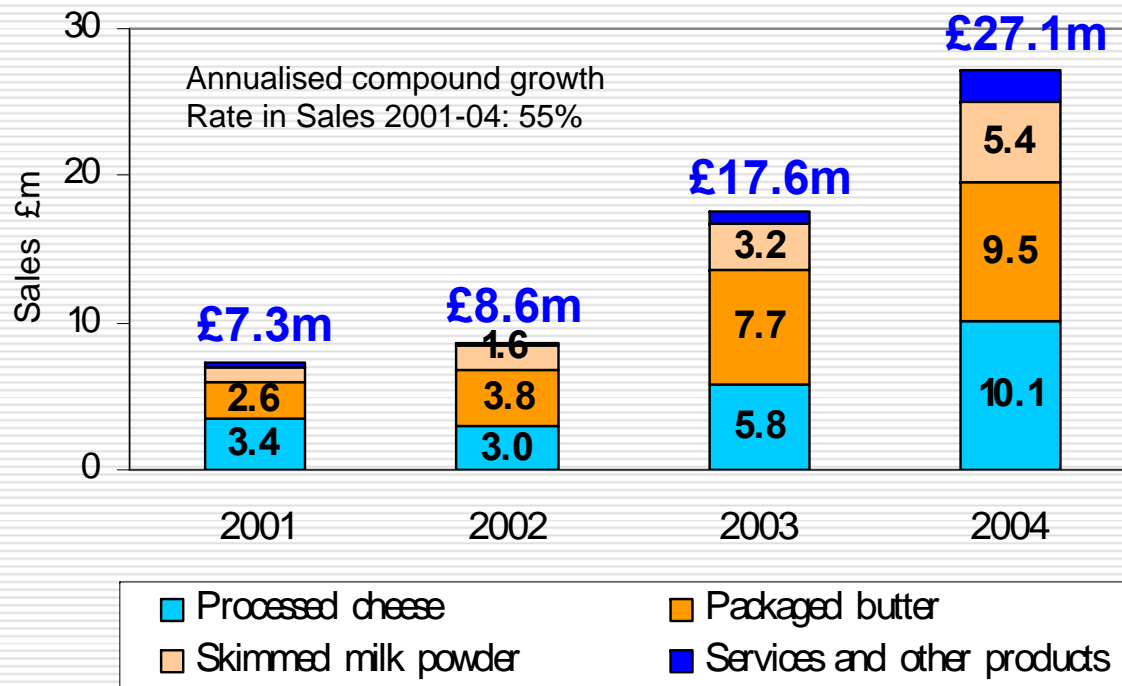
- ❖ Favourable consumption trends
  - ❖ Average monthly household expenditure on food has increased from US\$79 in 1999 to US\$136 in 2003
  - ❖ Dairy food consumption still low compared to other countries  
 France 23.4 kg, US 14.7 kg, UK 9.4 kg, Russia 3.6 kg, Ukraine 2.7 kg
  
- ❖ Dairy food producers are small, local and unsophisticated, with weak branding effort



Overall production  
 Ukrproduct production  
 Ukrproduct market share



# UPG – Products and services



❖ Market leader in packaged butter & processed cheese

❖ Dried milk powder – branded & profitable

❖ Distribution services – incremental sales generator through distribution of non-competing third party products & additional revenue through wholesaling



# UPG – Locations

- ❖ **Zhytomyr – 12,300 tonnes of processed cheese & 6,100 tonnes of packaged butter**
- ❖ **Starokonstantiniv – 3,500 tonnes of skimmed milk powder & 3,100 tonnes of packaged butter**
- ❖ **8 regional depots & central warehouse including new depot at Kharkiv**
- ❖ **Operates 200+ vans & refrigerated vehicles**



Manufacturing plants



Distribution depots



# UPG – Sales & Marketing

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- ❖ **Pan-Ukrainian logistical capability provides opportunity for significant competitive advantage**
- ❖ **Countrywide sales & marketing team made up of ~280 professionals (merchandising, trade promotions, market analysis)**
- ❖ **Comprehensive data obtained from primary points of sale**
- ❖ **Developing close relationships with both consumers & retailers with the aim of driving customer loyalty**
- ❖ **Development of the distribution network to provide distribution & wholesaling services of non-competing third party products**



# Operating Review

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**Sergey Evlanchik, CEO**



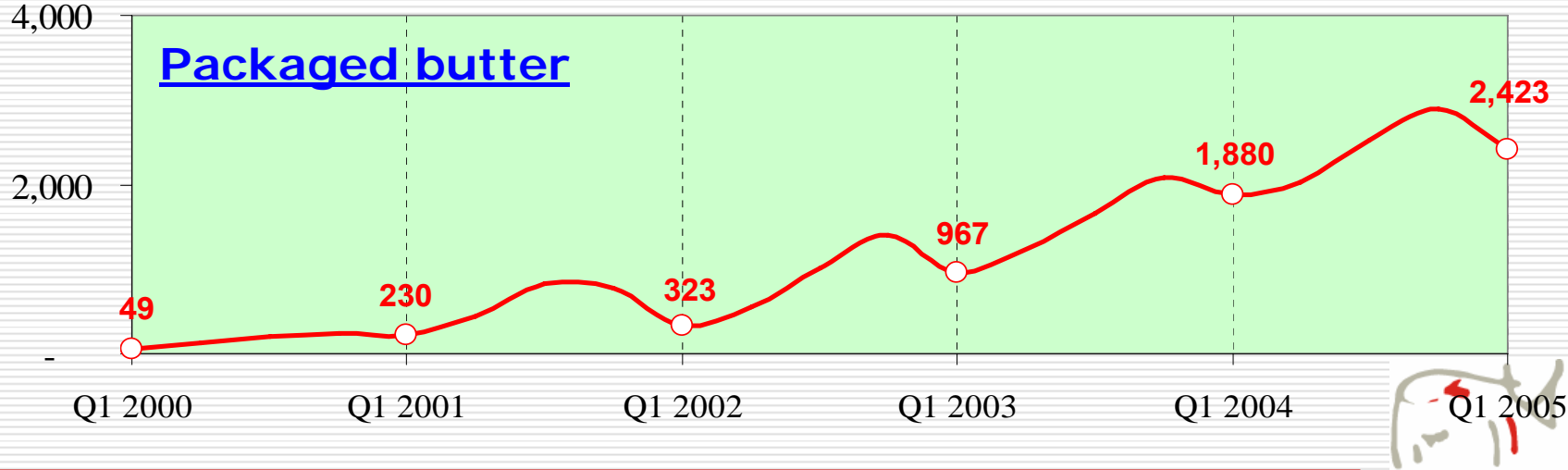
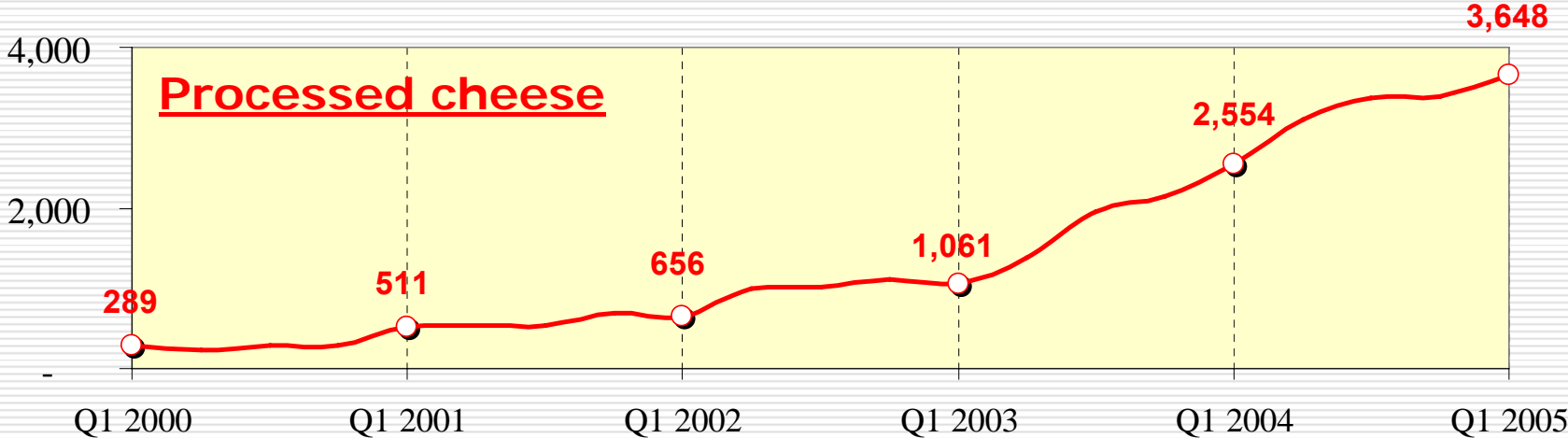
# A Year of Growth – Headline Figures

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- ❖ Sales +54% to £27.1m
- ❖ EBITDA +86% to £2.6m
- ❖ Net profit +27% to £1.4m
- ❖ Margins +2.80 % points to 16.3%
- ❖ One of Ukraine's fastest growing companies, 55% compound annual sales growth, 2001-2004



# Quarterly Sales - Metric Tonnes



# Minimising Cyclicity – Forward Storage

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- ❖ Continued successful practice of forward storage
  - ❖ Mitigates differences in protein content & price between the winter and summer months
  - ❖ Ensures the stability of raw material supplies for the year
  - ❖ Provides cost benefits
  
- ❖ Total amount of raw milk materials stored in 2004 increased to 1,700 tonnes
  
- ❖ Plans to increase storage levels up to 4,000 tonnes during 2005 in order to satisfy growing demand



# Financial Review

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**Dmitry Dragun, CFO**

# Financial Highlights FY2004

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(FY2003 in brackets)

Sales:	£27.1 million	(£17.6m)
Gross profit:	£4.4 million	(£2.4m)
Gross margin:	16.3%	(13.5%)
EBITDA:	£2.6 million	(£1.4m)
PBT:	£1.7 million	(£1.2m)
Net profit:	£1.4 million	(£1.1m)
Earnings per share*:	4.8p	(3.7p)



# Cash Flows

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	As at 31 December, £ 000	
	2003	2004
<b>Cash flow from operating activities</b>	(228)	919
<b>Cash flow from investing activities</b>	(598)	(1,776)
<b>Cash flow from financing activities</b>	996	1,039
Effect of exchange rate changes	(86)	(14)
Net increase in cash	84	168
Cash at the beginning of the year	48	132
<b>Cash at the end of the year</b>	<b>132</b>	<b>300</b>



# Capex

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(FY2003 in brackets)

**Total capex:** £1.638 million (£0.767m)

*of which*

- Processed cheese £1.198 million (£0.520m)
- Packaged butter £0.301 million (£0.184m)
- Skimmed milk powder £0.082 million (£0.060m)

**Planned capex 2005:** Circa £1.800 million



# Balance sheet

	As at 31 December, £ 000	
	2003	2004
<b>Non-current assets</b>	1,106	5,145
<b>Current assets</b>	3,897	4,869
<b>Current Liabilities</b>	(3,068)	(3,001)
<i>Net current assets</i>	829	1,868
<b>Non-Current Liabilities</b>	(324)	(1,862)
<i>Net assets</i>	1,611	5,151
<b>Total shareholders' equity</b>	1,611	5,151
<i>Total debt</i>	1,435	2,236





# Core Business Segments

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## Processed cheese

- ❖ Sales + 73% to £10.1 million
- ❖ EBITDA margins + 5.6% to 21.7%
- ❖ Market share\* + 10 percentage points to 33%

## Packaged butter

- ❖ Sales + 23% to £9.5 million
- ❖ EBITDA margins + 2.3% to 8.8%
- ❖ Market share\* + 6 percentage points to 23%



# Growth Outlook

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**Sergey Evlanchik, CEO**

# Immediate Growth Drivers

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- ❖ **Favourable market trends**
- ❖ **Substantial investment in production facilities**
  - ❖ **Increased capacity**
  - ❖ **New products**
  - ❖ **Reduced unit costs**
- ❖ **Development of the distribution network to provide distribution & wholesaling services of non-competing third-party products**
- ❖ **Significant cost benefits from addressing seasonality of raw material production (forward storage)**



# Longer Term Growth Drivers

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- ❖ Sustained consumption trends of the Ukrainian dairy products
- ❖ Development of new complementary products
- ❖ Increase in exports
- ❖ Entry into the adjacent market segment (hard cheese)
- ❖ Construction of a new smart hub warehouse at Zhitomyr to supplement growth in distribution volumes of UPG & third-party goods
  - ❖ Surface area of 20,000 square meters
  - ❖ 75% temperature controlled
  - ❖ Construction scheduled to be completed in 2007



# Strategy

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- ❖ **Continue to focus on driving the organic growth of UPG's market leading segments**
- ❖ **Differentiate & innovate products & brands**
- ❖ **Focus on entry into segments that complement UPG's current operations – Hard cheese**
- ❖ **Ongoing investment in production to ensure quality of product & reduction of unit costs**
- ❖ **Expand current levels of dried milk powder production to meet growing domestic & international demand**
- ❖ **Develop scale & profitability of distribution network**



# Major Developments

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- ❖ **Group's largest ever increase in capacity started at Molochnik in May 2004**
  - ❖ Modern production facility producing 2,000 tonnes of processed cheese per month
  - ❖ Strengthening UPG's position as Ukraine's leading manufacturer of processed cheese
  - ❖ Opening up the opportunities for commercialisation of new products
  
- ❖ **Structuring of Group's activities prior to UPG's Admission to AIM**
  - ❖ Improved UPG's business processes
  - ❖ Attained significant gains in operational efficiency



# Current trading

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- ❖ Operating environment remains buoyant
- ❖ Q1 2005 sales are up significantly with margins being sustained
- ❖ Flotation proceeds improved the Group's flexibility and borrowing terms
- ❖ Capex on schedule
- ❖ 'Orange Revolution' positive for business on the whole



# Appendix

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# Track Record of Profitable Growth

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	<u>Year ended December</u>			
	<u>31, £ 000</u>			
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Revenues</b>	7,293	8,647	17,597	27,115
<b>EBITDA</b>	165	304	1,418	2,589
Depreciation	(20)	(35)	(62)	(520)
<b>Profit before interest and taxation</b>	145	269	1,356	2,069
Interest payable and similar charges	(82)	(112)	(94)	(312)
<b>Profit before taxation</b>	63	157	1,262	1,757
<b>Net profit</b>	44	154	1,116	1,456



# Successful Admission to AIM – Feb 2005

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- ❖ **First Ukrainian trading group to be admitted to AIM**
- ❖ **Strong investor support**
- ❖ **Offer oversubscribed raising £6 million gross**
- ❖ **Market cap on admission £22 million**
- ❖ **Shares placed at 53.5p & have traded consistently above this price**
  - ❖ Shares up 15% (9<sup>th</sup> May 2005)
- ❖ **Funds raised used to**
  - ❖ Invest in new plant & equipment in core sectors
  - ❖ Expand distribution network
  - ❖ Provide additional working capital



# Ukraine – Sourcing

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- ❖ **UPG is the largest purchaser of milk in one of the best milk-producing areas in Ukraine** (13% from the area surrounding the Starkon site)
- ❖ **No CAP or State support**
- ❖ **Disparate, low volume producers**
- ❖ **Market driven – no price controls**
- ❖ **UPG does not foresee any difficulty in maintaining the supply of milk from the area surrounding Starkon and believes given its market share & collection method that it could purchase more milk if required**

