



Ukrproduct Group Ltd ('UPG')

Presentation of Final Results 2006

London
April 2007

Iryna Yevets, CEO
Dr Dmitry Dragun, CFO

Structure of Presentation

- (1) Executive Summary
- (2) The Company – Overview & Operations
- (3) Financial Review
- (4) Strategy & Outlook



Executive Summary

- ❖ In a crisis year 2006, the results are broadly in line with the pre-crisis 2005
- ❖ Quality of earnings and operational efficiency improved
- ❖ Investments for future growth mostly completed
- ❖ Prospects 2007 encouraging



Headline Figures

	2006	2005
❖ Sales	£35.1m	£39.9m
❖ EBITDA	£2.8m	£2.9m*
❖ PBT	£1.2m	£1.8m*
❖ Net profit	£1.1m	£1.4m*
❖ Gross Margins	+3.8% points to 20.7%	

** The results of the prior year 2005 benefited from the foreign exchange gain on translation differences of £0.6 million. As a result of change in accounting estimate in 2006, there is no comparable income in the current year 2006. The comparable figures for EBITDA, PBT and net profit adjusted for this item show the alternate prior year figures to reflect the underlying trading performance of the business.*



The Company – Overview

- ❖ Ukrproduct is Ukraine's premier branded dairy foods business; leading market share in processed cheese and packaged butter
- ❖ 4 manufacturing plants, 8 distribution subsidiaries
- ❖ Pan-Ukrainian sales & distribution, recognisable brands
- ❖ ISO certified production
- ❖ 2,200 people employed



The Company – Products

- Processed cheese:
 - 12,800 tonnes
 - sales £12.7 million or 36% of total
- Packaged butter:
 - 9,200 tonnes
 - sales £11.6 million or 33% of total
- Skimmed milk powder (SMP):
 - 4,000 tonnes
 - sales £7.0 million or 20% of total
- Other:
 - third-party reselling services
 - transport services



Trading in 2006 – A year of two halves

1st Half 2006

- Volumes of processed cheese impacted by Russian embargo in January; prices reduced by the competitors twice in April, UPG had to react in May
- Raw milk prices low due to the Russian embargo
- Butter is excellent
- World SMP prices depressed

2nd Half 2006

- Volume-suppression effects continue in processed cheese
- Raw milk prices spiral upwards uncontrollably, supply constrained
- Butter is excellent
- World SMP prices recovered; trends very encouraging



Achievements 2006

- **New SMP facility installed and fully operational in December 2006; the Group's SMP capacity more than doubled; substantial cost savings are being realised (reduction in consumption of gas by 35%, of electricity by 45%)**
- **Certification for supply of SMP domestically to Krafts and Nestle started in the end of 2006, audit proceeds is on schedule**
- **Full capacity utilisation for the new smoking chamber achieved**
- **Two modern mobile laboratories for controlling the quality of milk put into operation**
- **Good progress made with the new hard cheese plant; all heavy-duty construction work completed**



Financial Review

Dmitry Dragun, CFO

Financials 2003-2006

	Year ended December 31, £ '000				
	2003	2004	2005	2005 adjusted*	2006
Revenues	17,597	27,115	39,962	39,962	35,053
EBITDA	1,418	2,589	3,481	2,875	2,794
Depreciation	-62	-520	-892	-897	-1,359
Profit before interest and taxation	1,356	2,069	2,589	1,978	1,435
Interest payable and similar charges	-94	-312	-244	-244	-237
Profit before taxation	1,262	1,757	2,345	1,734	1,198
Net profit	1,116	1,456	2,008	1,433	1,079

Cash Flows

	12 Months to 31 December £ 000	
	2006	2005
Cash flow from operating activities	3,849	-1,188
Cash flow from investing activities	-4,685	-4,565
Cash flow from financing activities	612	5,591
Effect of exchange rate changes	-70	315
Net increase in cash	-294	153
Cash at the beginning of the year	453	300
Cash at the end of the period	159	453



Segment Sales

	2006	2005
☐ Cheese	£12.7m	£16.2m
☐ Butter	£11.6m	£11.4m
☐ SMP*	£7.0m	£8.5m
☐ Third-party	£2.9m	£3.2m
☐ Services	£0.9m	£0.6m
Total	£35.0m	£39.9m



Segment Gross Profitability

Product / Year	Cheese		Butter		Milk powders	
	2006	2005	2006	2005	2006	2005
Gross margin, %	24.1	23.3	24.7	14.8	12.3	11.4
PBT margin, %	5.0	9.6	10.1	3.7	9.2	9.5

Cheese: focus on profitability not volumes

Butter: restricted supply of the quality butter

Milk powders: essentially no material change



Capital Expenditure

Capital Expenditure £4.5m (2005: £3.5m)

Main areas of investment were:

- ❖ Completion of the hard cheese plant
- ❖ Installation of a new SMP drying facility
- ❖ Upgrade of distribution facilities and fleet of vehicles



Strategy and Outlook

Iryna Yevets, CEO

Focus on growth in quality earnings

Improvement in margins

- ❖ Promotion of new higher margin products (SSC*, hard cheese, slices - possibly)
- ❖ Gradual implementation of increased pricing across product range

Development of business for quality earnings

- ❖ Brand / product portfolio optimised to match the customers and distribution channels
- ❖ Asset base fundamentally modernised
- ❖ Distribution network optimised

Retention of market leadership

- ❖ Tailoring product offering to the customer needs
- ❖ Using the economies of scale to keep competitors at bay and reduce unit costs



Strategy

□ Product segments:

- ***Hard cheese*** – gain a meaningful market share of 5-7% by mid-2008
- ***Processed cheese*** – support the profitability by offering various brands to different distribution channels
- ***SSC**** – strengthen the distribution & marketing effort and increase sales
- ***Butter*** – continue to support the profitable franchise in quality produce
- ***SMP*** – a new quality product, capitalise on the favourable trends on the world markets

□ Brand development:

- Invest in merchandising and supermarket retention of existing brands
- Promote the new hard cheese brands
- Continue brand differentiation by distribution channel



Hard Cheese Market – Entry Strategy

- ❖ Entering the market
 - ❖ Initial entry June 2007
 - ❖ Full entry Q3 2007

- ❖ Products to be focused at medium to high income consumers

- ❖ Branding
 - ❖ Well known “Rossijskiy, Gollandskij, Gauda & Our Dairyman”



Outlook

- ❖ Year 2007 and beyond – trends are supportive; much depends on the launch of the own hard cheese later in the year
- ❖ New product trends are encouraging – SSC*
- ❖ Looking forward to resumption in growth trend
- ❖ Trading in line with expectations as we seek substantial progress in 2007



Appendices

Appendix 1 – Ukrproduct Group, Stockmarket Indicators

- ❖ AIM ticker UKR.L
- ❖ Current MCap ~£18m
- ❖ Free float 26% or ~£5m
- ❖ Free float holders – mostly the UK and EMEA blue-chip institutions



Appendix 2 – Milk Quality in Ukraine

Standards :

Indicator	Ukraine Highest Grade	Ukraine First Grade	Ukraine Second Grade	EC Standards EC 853/2004
Quantity of micro organisms, per 1 ml	≤ 300.000	≤ 500.000	≤ 3.000.000	≤100.000
Somatic sells, per 1 ml	≤ 400.000	≤ 600.000	≤ 800.000	≤ 400.000

- ❖ Milk-producing stock/herds are disparate, small and lack consistency and benefits of the industrial-scale treatment
- ❖ Bacteriological / acidity / density controls is responsibility of milk processors, NOT milk producers
- ❖ Milk of extremely varied and generally low quality
- ❖ Cow milk yields are 3.0-3.5tn a year (US – 7.0-8.5tn; EU – 5.0-6.0tn)



Appendix 3 – Dairy Corporate Landscape in Ukraine

- ❖ **Market is very fragmented – over 880 producers of all kinds; some 30 “nationwide” players – the rest are regional/local. Some reduction in numbers is observed due to the continuing effects of 2006 crisis.**
- ❖ **In each sub-product group, largest ten players account for less than 50% of the output/market share**
- ❖ **No consistent transparency / reporting / comparison among the companies**
- ❖ **Competition is chaotic and individual company’s behaviour unpredictable**
- ❖ **Quality of owners and management is diverse**

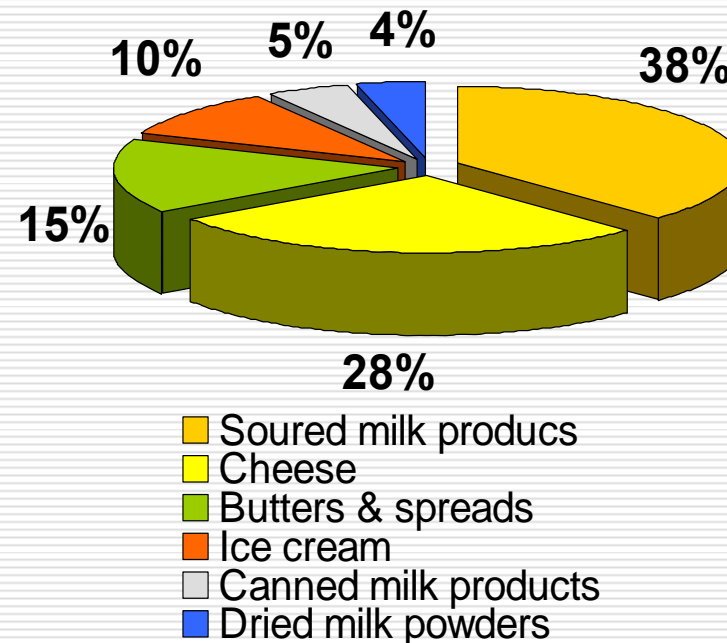


Appendix 4 – Ukrainian Dairy Output

- ❖ **Ukrainian dairy market was worth \$US 2.137bn* in 2005 split as follows:**
 - \$800m liquid & soured milk products**
 - \$600m cheese
 - \$331m butters & spreads
 - \$223m ice cream
 - \$98m canned milk products
 - \$85m million SMP

- ❖ **Growth in volumes 2004-2005 8-12% pa varied by product, value growth 12-15%**

- ❖ **Profitability on average 8%-12% at EBITDA, 3-10% at net level**



Appendix 5 – Challenges in the Ukrainian Dairy Sector

- Milk supply – quantity, quality and price
- Sector fragmentation – low-quality, low-price local products damper consumer acceptance of the quality products in greater volumes
- Uncertainty with product innovation
- Management quality and retention
- Inarticulate state policy towards agriculture

