

# Ukrproduct Group Ltd

Ukraine's Leading Branded Dairy Company

## **FY 2009 Financial Results Presentation**

**April 2010**



U K R P R O D U C T

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2010, Ukrproduct Group LTD



## **Ukrproduct – Company Background**

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# UKRPRODUCT BUSINESS MODEL

Ukrproduct Group is a leading dairy company in the Ukrainian market



- Market leader in processed cheese (23.1% market share in Ukraine)\* and in packaged butter (13.5% market share in Ukraine)\*\*
- Brand portfolio with attractive offering for different consumer segments
- Four operational dairy plants in central and western regions of Ukraine
- Total annual integrated capacity of approximately 60,000 tonnes of dairy products
- Over 14,243 covered points of sale
- One of the largest logistics and distribution networks in Ukraine with its own fleet of vehicles
- Close proximity to sources of raw milk and customers
- Range of recognisable product brands (“Our Dairyman” is the Company’s flagship brand)

\*Company estimates

\*\* Ukrstat, 2009



# STRATEGIC POSITION

Ukrproduct Group benefits from proximity to its raw milk suppliers and customers

 **Starkon Dairy (Starokonstantinov) incl. production facility in Krasilov**

Production of bulk and packaged butter, and skimmed milk powder.

 **Molochnik Dairy (Zhytomyr)**


Production of processed cheese and packaged butter

 **Zhmerinka Dairy (Zhmerinka)\***

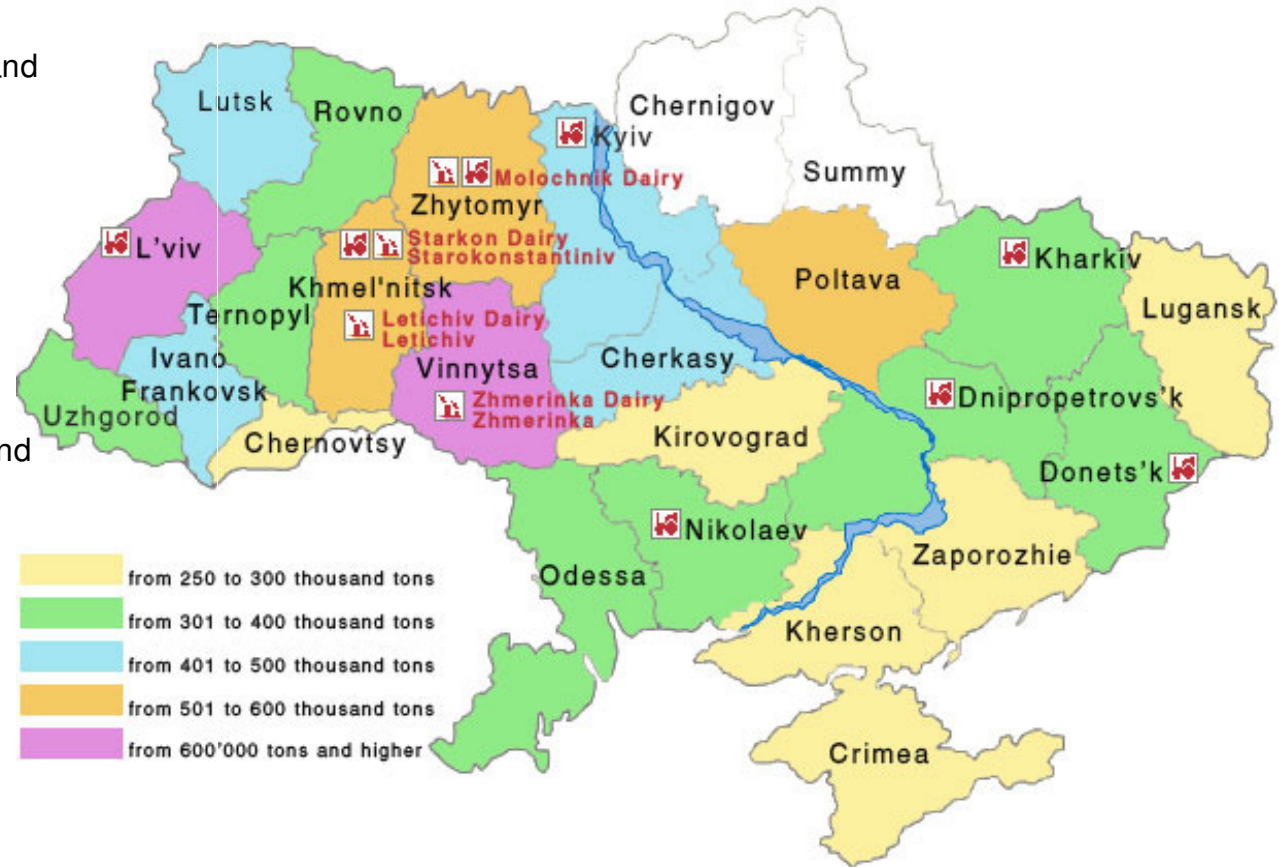
Production of processed cheese, butter and spreads

 **Letichiv Dairy (Letichiv)**

Milk collection, production of casein and semi-processed dairy ingredients

 **UkrProdExpo (Starokonstantinov)**

Export operations of the Group.  
Distribution network depots throughout Ukraine



\* Zhmerinka plant is mothballed and operations are closed



# BRAND PORTFOLIO

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*Premium  
market*

  
**Molendam**  
Molendam  
Cheeses & butter

**КРЕМЛЕВСКОЕ**  
The Kremlin  
Butter


*Middle  
market*

  
Our Dairyman  
Cheeses & butter

*Mass  
market*

**Вершкова  
Долина**  
Creamy Valley  
Butter  
Mass market +

  
People's Product  
Processed cheese & butter  
Mass market +

  
French  
Spreads  
Mass market +

**Фермерське**  
Farmer's  
Spreads  
Mass market

  
Our Cheese  
Processed cheese  
Mass market

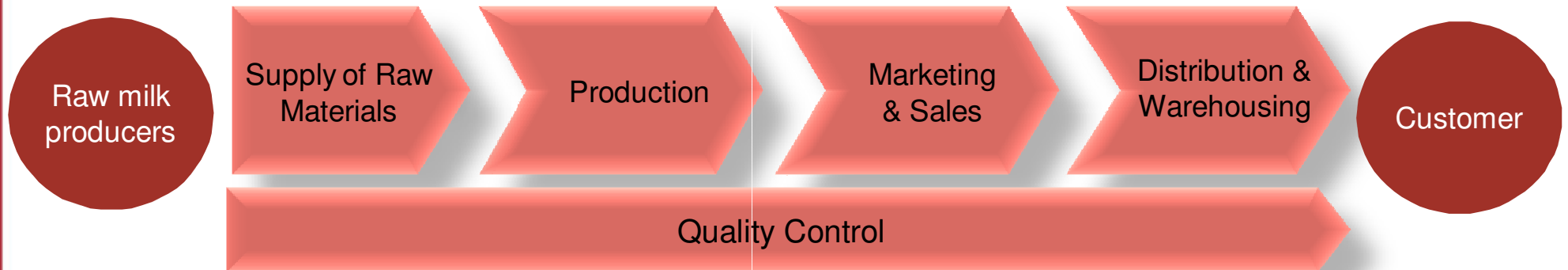


UKR PRODUCT

# INTEGRATED BUSINESS MODEL

Ukrproduct targets profitable growth whilst maintaining its position as a leading regional dairy player

- Long-standing relationships with suppliers
- Most modern production facilities in Ukraine
- Strong brand recognition
- Unique distribution network
- Around 92 milk collection points
- ISO certified
- New products launched under brand “Molendam”, including cheese in bricks, sausage –shaped cheese and cheese spreads
- 140 vehicles, 7 depots, one central warehouse
- Only DQS\* certified dairy company in Ukraine
- 4 operational production plants
- Increased sales volumes of packaged butter and processed cheese spreads under “Creamy Valley” brand for more affordable market segments
- Third party services
- Sales through top retail chains and direct distributors
- GBP 13.1 million Capex invested (2005-09)



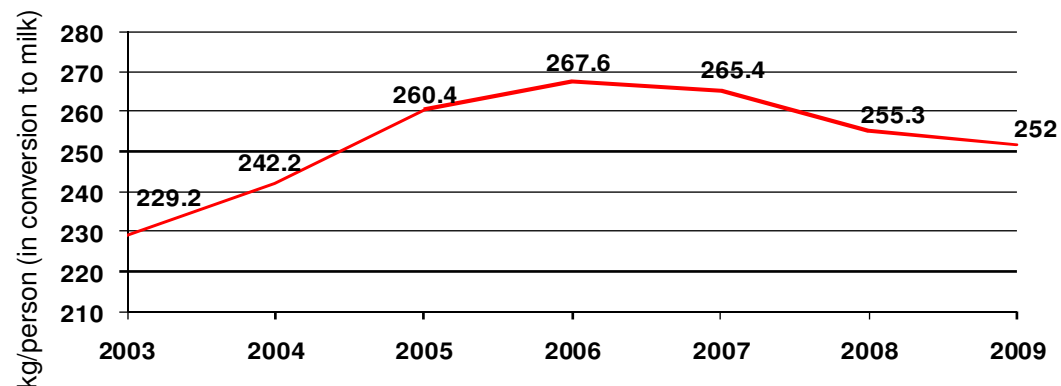
\*Deutsche Quality



# DAIRY MARKET DRIVERS IN UKRAINE

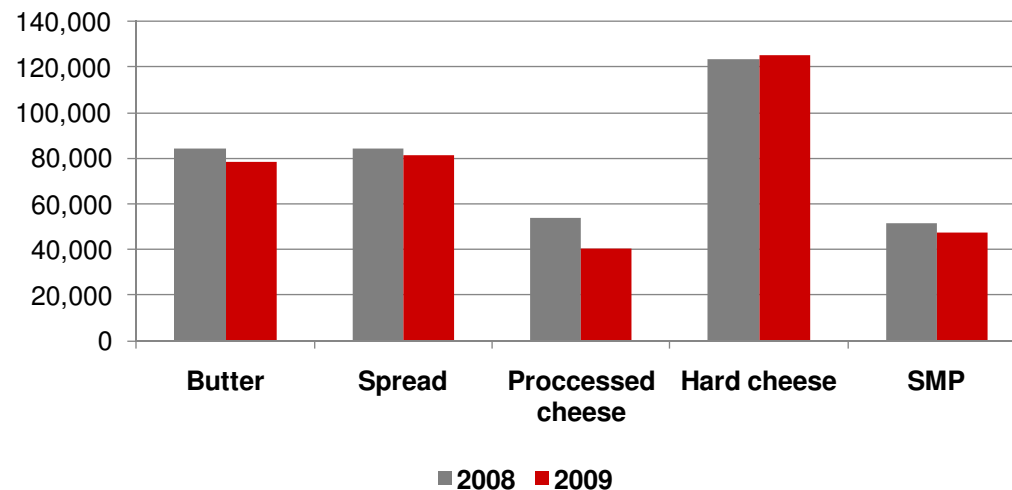
- A significant slowdown of the Ukrainian economy with inflation rising 12.3%\*, real GDP declining 14.8%\*; 9.2% decrease in personal income and a 20.6% drop in retail turnover
- Unexpected hike in raw milk prices in the fourth quarter and a significant rise in energy costs
- Decline in consumer's purchasing power and a subsequent switch of consumer demand into cheaper dairy products
- Dairy market capacity has contracted across our key product categories in 2009
- At the same time Ukrproduct achieved market share increases in butter and processed cheese segments
- Total raw milk production declined 1.3% YoY to 11.6 million tonnes

Milk Production in Ukraine (per person)



Source: State Statistics Committee of Ukraine  
2009E - management estimates

Market Capacity in Ukraine, tonnes



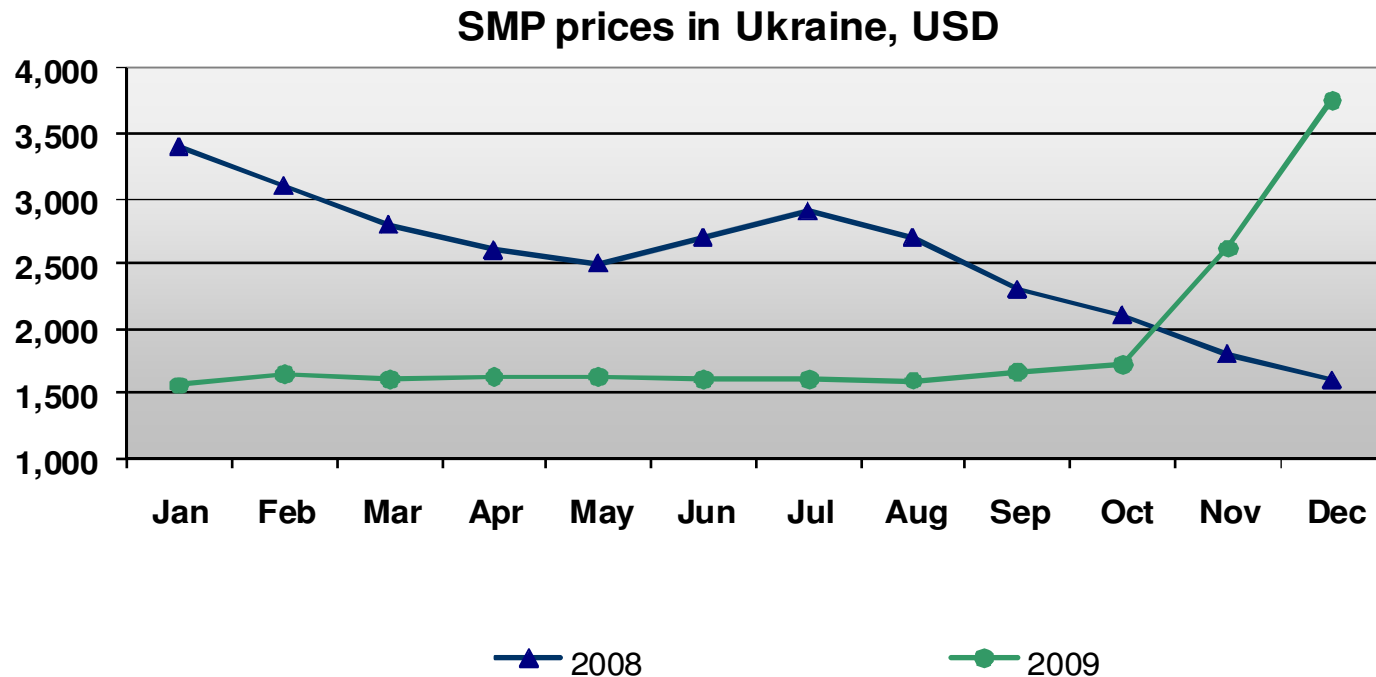
Source: Company Data

\*Ukrstat



## SKIMMED MILK POWDER (SMP) DRIVERS

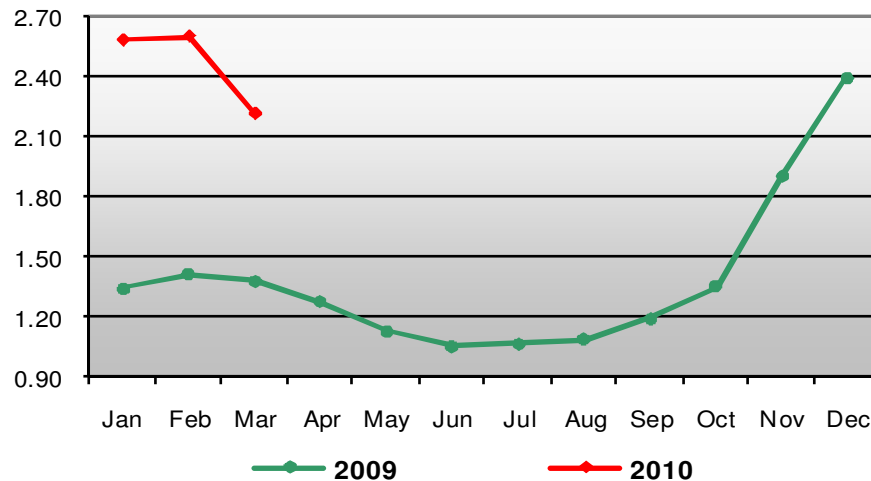
- The recovery in the global soft commodities markets started in the second half of 2009
- Ukrproduct has leveraged its export operations to increase sales volumes (in tonnes) of SMP by nearly 64% year on year, but margins were low
- In Ukraine the Group signed new sales contracts and started shipments of SMP to companies including Danone, Wimm-Bill-Dann and others at improved margins.



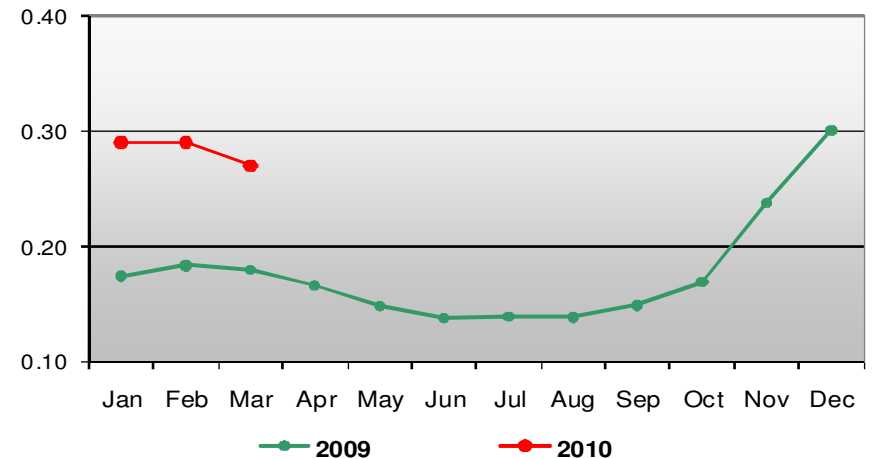
# AVERAGE PRICE OF RAW MILK IN UKRAINE

- Hike at the end of the year in milk prices has since reversed
- Decrease in raw milk prices in March compared to January by 14%
- Further seasonal decrease of milk prices
- At the end of March supply and demand for raw milk levelled out

UAH



USD



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## FY 2009 KEY OPERATING HIGHLIGHTS

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- Increased market share in butter to 13.5% (12%) and processed cheese to 23.1% (22%) whilst market capacity contracted in both product categories
- Optimised product portfolio to focus on growth in more affordable market segments
- Consolidated operations at four production facilities and mothballed Zhmerinka plant, generating annualised cost savings of GBP 300,000
- Undertook a number of marketing initiatives to strengthen and increase the Group's sales, including stimulating distributors with additional bonuses and incentives to meet their sales targets for packaged butter and spreads
- Introduced new packaging sizes for the "Nash Molochnik" ("Our Dairyman") brand of processed cheese and updated packaging for the "Nadorny Product" ("People's Product") brand
- Rationalised the total number of retail sales points which decreased by 374 to 2,072. Bad debt kept at below 1% of sales in 2009
- Temporarily closed hard cheese production unit as sales volumes and margins were impacted by market over saturation and weakening of domestic demand



# KEY FINANCIALS

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	(GBP thousands)			(UAH thousands)		
	FY 2009	FY 2008 RESTATED	Year on Year Change	FY 2009	FY 2008 RESTATED	Year on Year Change
Revenue	43,167*	51,925*	(16.9%)	527,870*	501,591*	5.2%
Gross Profit	6,929	10,430	(33.6%)	84,736	100,759	15.9%
EBITDA	3,175	4,382	(27.5%)	38,830	42,330	(8.3%)
Profit after tax	1,041	2,277	(54.3%)	12,731	21,996	(42.1%)
Basic earnings per share (pence)	2.5	5.4	(53.7%)	-	-	-

- Revenues impacted by 23.9% y-o-y depreciation of local currency against GBP
- Revenues in UAH up 5.2% y-o-y
- Revenues in branded products segment in local currency were stable at UAH 365.2 million
- SMP revenues in UAH up 4.0% y-o-y with gross profit remaining under pressure
- 21.1% y-o-y decrease in S,G & A expenses from GBP 6.6 million in 2008 to GBP 5.2 million in 2009 due to cost optimisation measures
- Proposed final dividend payment of 0.20p per ordinary share for 2009 FY (interim dividend 0.20p), making a total dividend for the year of 0.40p per share.

\* Following the change in accounting for bonuses paid to retailers bonus payments were excluded from consolidated revenues for 2009 and 2008



UKR PRODUCT

# SEGMENT SALES AND PROFITABILITY

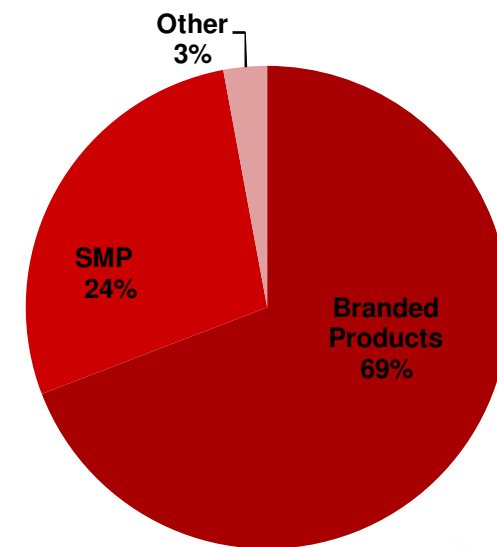
## Sales

	(GBP thousands)			(UAH thousands)			(Tonnes thousands)		
	FY 2009	FY 2008	Year on Year Change	FY 2009	FY 2008	Year on Year Change	FY 2009	FY2008	Year on Year Change
<b>Branded</b>	29,864	37,811	(21.0%)	365,186	365,250	0.0%	19,292	23,395	(17.5%)
<b>SMP</b>	12,026	11,561	4.0%	147,059	111,679	31.7%	8,958	5,471	63.7%
<b>Other</b>	1,277	2,553	(49.9%)	15,625	24,662	(36.6%)	-	-	-

## Gross Profit

	(GBP thousands)			(UAH thousands)		
	FY 2009	FY 2008	Year on Year Change	FY 2009	FY 2008	Year on Year Change
<b>Branded</b>	6,479	8,750	(25.9%)	79,232	84,529	(6.3%)
<b>SMP</b>	267	1,274	(79.0%)	3,271	12,307	(73.4%)
<b>Other</b>	183	407	(55.1%)	2,233	3,923	(43.1%)

## Sales FY 2009



## CASH FLOW, DEBT AND CAPEX

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(GBP, millions)	FY 2009	FY 2008
<b>Net cash flows from operations</b>	2.2	2.6
<b>Net cash flow from investing activities</b>	(0.08)	(1.9)
<b>Net cash flow from financing activities</b>	(2.4)	(0.7)
<b>CapEx</b>	0.6	1.4
<b>Cash</b>	0.2	0.7
<b>Total Debt</b>	1.6	3.4
<b>Total Debt/Equity Ratio</b>	0.11	0.23
<b>Total Debt/EBITDA Ratio</b>	0.50	0.84



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### ❑ Production

- Shifted production of processed cheese from Zhmerinka to Molochnik plant which significantly improved economies of scale (annualised savings of GBP 300,000)

### ❑ Operations

- Strengthened debt collection. As a result, bad debt remained at below 1% of total sales in 2009
- Adjusted product mix to take advantage of the growth in consumer demand in more affordable market segments
- Introduced cost cutting measures, particularly targeting energy costs and overheads

### ❑ Marketing and Sales

- Optimised product portfolio by focusing on higher margin products in premium market segment, such as butter and sliced soft cheese, and launched new products under “Molendam” brand
- Carried a number of marketing campaigns for leading brands, such as “Our Dairyman”, “Creamy Valley” and “Molendam”
- Expanded products presence in several regions, including Southern and Central Ukraine



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## OUTLOOK FOR 2010

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- Aim to grow sales in all product categories and segments of the Group, as well as to increase the capacity utilisation of both our production and distribution facilities
- Continue vigorously marketing our products and promoting our brands, through a series of targeted marketing campaigns
- Evaluate the opportunities to broaden the range of exported products under our flagship brand “Our Dairyman” and premium brand “Molendam”, as well as expand into new export markets in the CIS
- The trading environment is likely to remain challenging
- We will continue with our strategy of realigning product to different market segments as the economic situation evolves, seeking to further reduce our costs and improve profitability
- Cash position of the Group is stable



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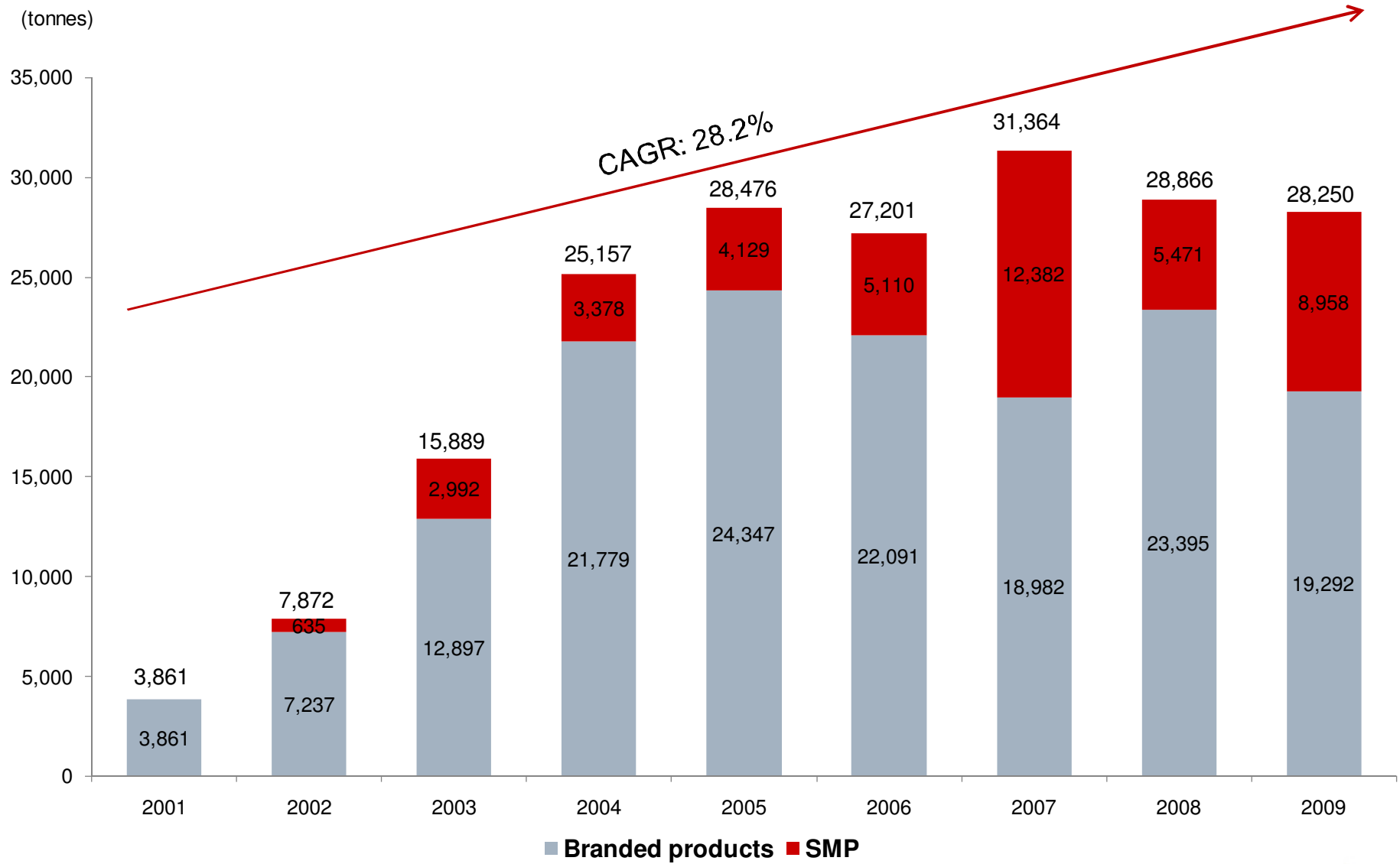
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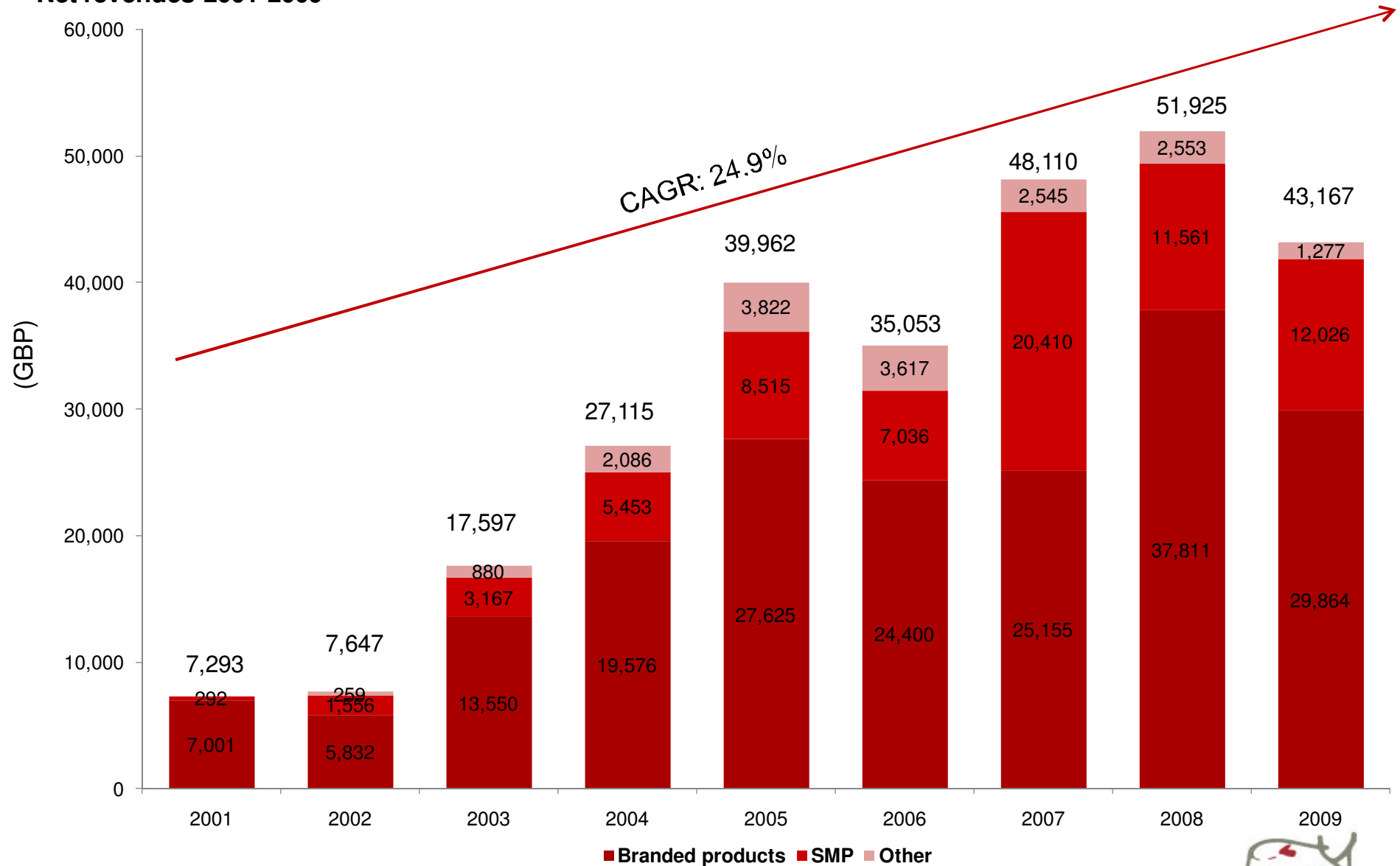


# PRODUCTION VOLUME IN 2001-2009



# OPERATING PERFORMANCE 2001-2009

Net revenues 2001-2009

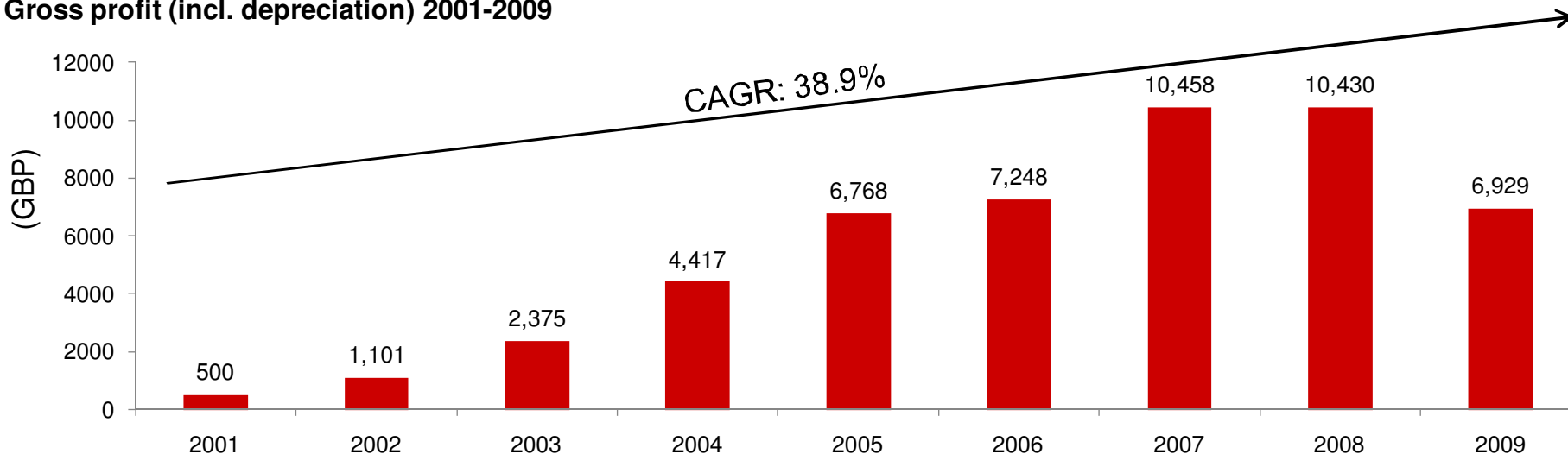


Source: Company Information

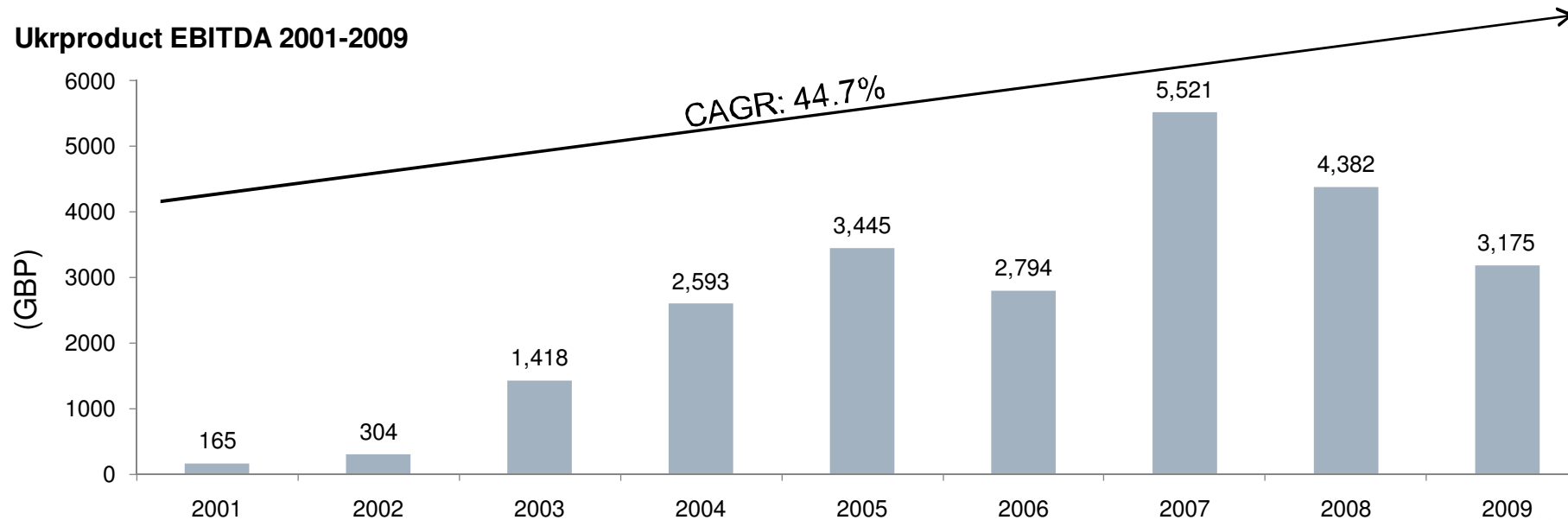


# OPERATING PERFORMANCE 2001-2009 cont'd

Gross profit (incl. depreciation) 2001-2009



Ukrproduct EBITDA 2001-2009



Source: Company Information



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