



Ukrproduct Group Ltd ('UPG')

Presentation of Preliminary Results FY2004

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Sergey Evlanchik, CEO
Tel 0774 7031255
sergey.evlanchik@ukrproduct.com

Dmitry Dragun, FD
Tel 0778 6466639
dmitry.dragun@ukrproduct.com

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Executive Summary

- ❖ **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

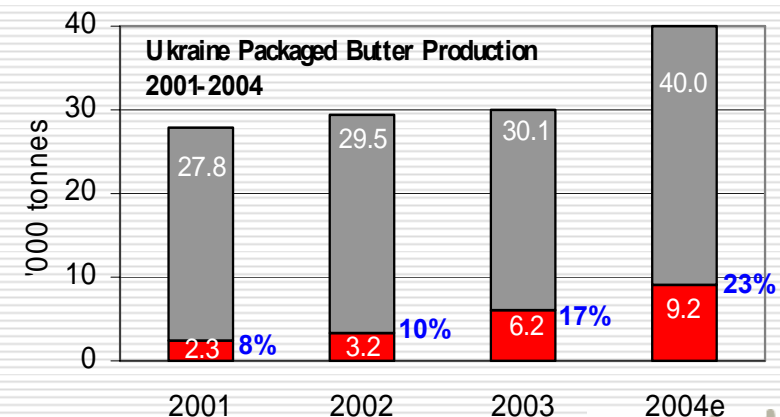
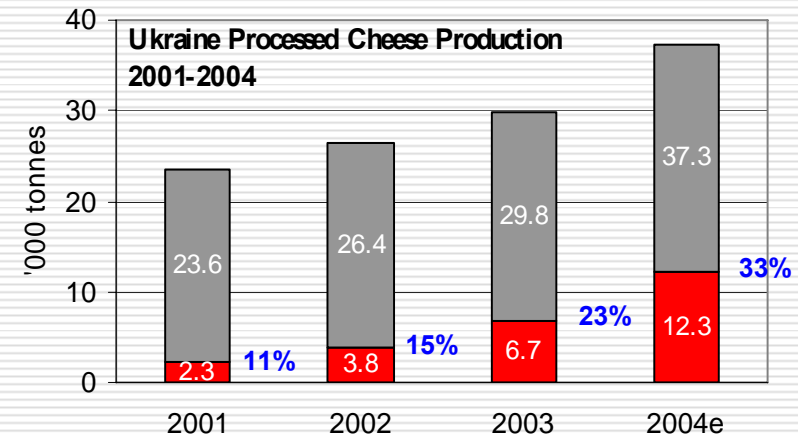
- ❖ **Positive growth trends in operating environment continuing**



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

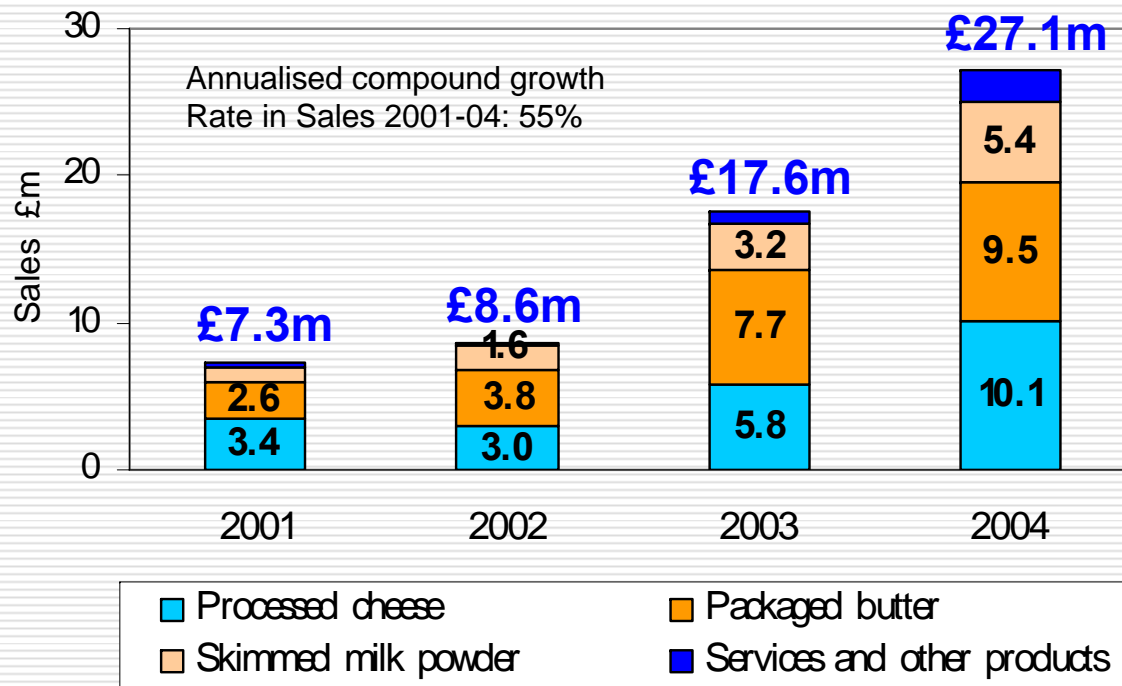
- ❖ Dairy food producers are small, local and unsophisticated, with weak branding effort



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

- ❖ **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

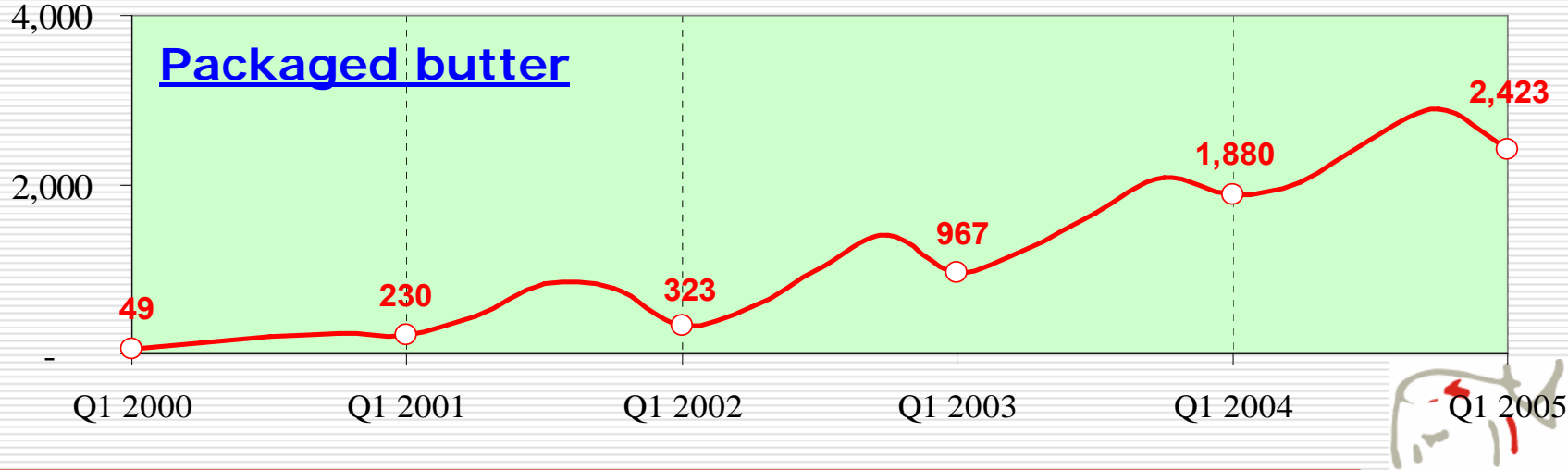
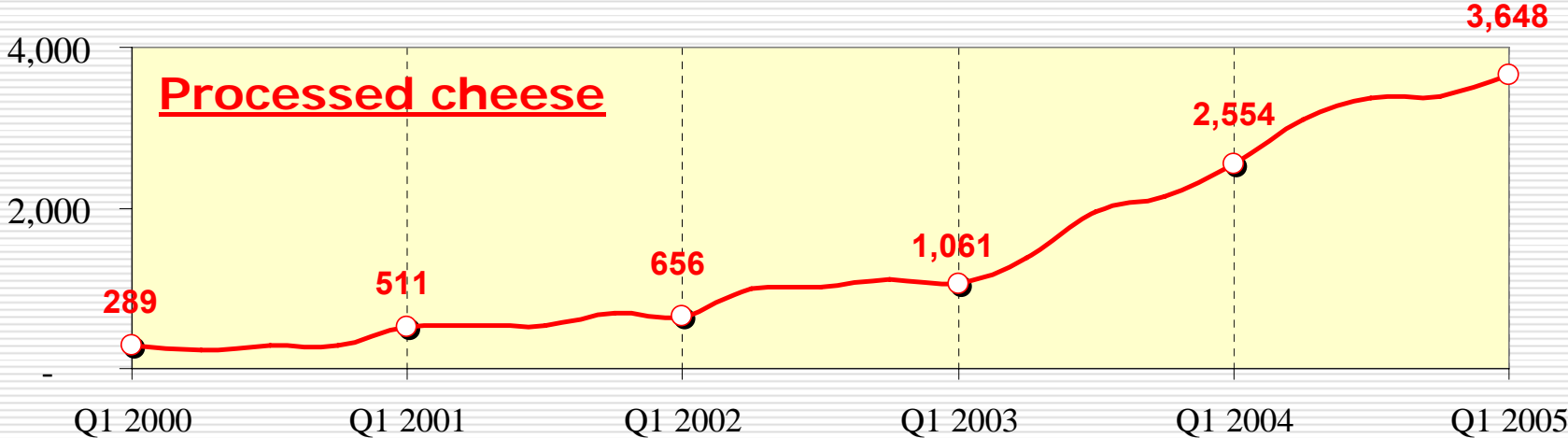
Sergey Evlanchik, CEO

A Year of Growth – Headline Figures

- ❖ 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

- ❖ 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

Dmitry Dragun, CFO

Financial Highlights FY2004

(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

	As at 31 December, £ 000	
	2003	2004
Cash flow from operating activities	(228)	919
Cash flow from investing activities	(598)	(1,776)
Cash flow from financing activities	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
Cash at the end of the year	132	300



Capex

(FY2003 in brackets)

Total capex: £1.638 million (£0.767m)

of which

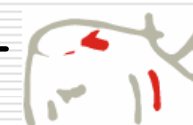
- Processed cheese £1.198 million (£0.520m)
- Packaged butter £0.301 million (£0.184m)
- Skimmed milk powder £0.082 million (£0.060m)

Planned capex 2005: Circa £1.800 million



Balance sheet

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



Core Business Segments

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

Sergey Evlanchik, CEO

Immediate Growth Drivers

- ❖ **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

- ❖ 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

- ❖ **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

- ❖ **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

- ❖ 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



Track Record of Profitable Growth

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



Successful Admission to AIM – Feb 2005

- ❖ **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% (9th May 2005)
- ❖ **Funds raised used to**
 - ❖ Invest in new plant & equipment in core sectors
 - ❖ Expand distribution network
 - ❖ Provide additional working capital



Ukraine – Sourcing

- ❖ **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**

