



## **Preliminary overview of 2012 results and 2013 outlook**

### **Press Release**

**Kyiv, 06<sup>th</sup> March 2013**

*Comment by Anatoliy Yurkevych, CEO, Milkiland N.V.*

*"2012 was a year of several strategic developments initiated by Milkiland.*

*Acquisition of Ostrowia plant in Poland brought a new international exposure for Milkiland's business, and established the footprint of the Group in the EU market. Construction of the new dairy farm in Ukraine has marked the Group's large-scale downward integration, allowing for higher margins and less raw milk base risks. Also, in 2012 Milkiland identified and structured acquisition of its first cheese asset in Russia, Syrodel, which was accomplished in early 2013.*

*We strongly believe that such moves will establish foundation for Milkiland's long term profitable growth, first results to be seen in 2013.*

*In terms of environment, Milkiland had enough demand for its products in 2012, however restrictions for cheese exports in spring 2012 significantly impeded our revenue growth and caused adverse effect for performance of the Group's cheese & butter segment. Despite this fact, the Group has managed to increase its profitability due to diversified revenue sources and strict cost management."*

### **Operating environment in 2012**

#### ***Declining costs***

The year 2012 from the market perspective was more favourable for CIS dairy producers than 2011. On the back of growing domestic supply of raw milk by c. 3% and by c. 2% in Ukraine and Russia respectively, the average milk prices were lower by, respectively, 14% and by 4%, on y-o-y basis.

This factor, coupled with restoration of government subsidies to dairy farmers in Ukraine, stipulated the declining costs for milk processors. As the result, the margins of the Group improved in 2012.

#### ***Revenues growth***

In 2012 the Group managed to achieve a healthy growth in whole-milk products segment. The revenues in this segment advanced by 14% y-o-y. The key driver of this growth was an increase of whole-milk products sales in Russian market.



At the same time partial limitations of the Ukrainian cheese export to Russia imposed by Rospotrebnadzor in February-April 2012 led to slowdown of sales in cheese&butter segment because of the lower volumes of cheese export to Russian market. As the result, the revenues in cheese&butter segment declined by 4% y-o-y.

Overall, the Group's revenues advanced moderately by 3% in 2012.

### **Management Efforts aimed at the support of the Group's margins**

#### ***Supply-Side***

In 2012 Milkiland continued implementation of milk sourcing plan aimed at development of the integrated, sustainable milk supply system for the Group.

This plan covered two areas, (a) further vertical integration of the Group's milk processing and in-house milk production and (b) support of milk cooperatives in the regions of operations. In 2012 own farms' milking cow headcount increased by c. 70% to 3,300, while in-house raw milk production rose by 1.7 times to c. 14,600 tons.

During last year Milkiland invested c. EUR 20 million into 6,800 stalls modern dairy farm. This farm is scheduled for launch in Q2 2013. After reaching its full capacity in 2014, this facility will produce 40-45 thousand tons of milk annually, securing up to 15% of the Group's milk needs in Ukraine.

Milkiland also continued supporting partner milk cooperatives established in milk zones of DE "Milkiland-Ukraine". These cooperatives provided veterinary services, feed, financial aid and training to their members in the last year aiming at higher milk output and quality. By the end of 2012 they attracted over 21,000 members and accounted for more than 25,000 milking cows in lease. As the result, the share of cooperative milk in the total milk intake of Milkiland in Ukraine grew considerably from c. 6% in 2011 to c. 23% in 2012.

#### ***Demand-Side***

In order to build a winning portfolio of products with the highest marginal contribution, in 2012 the Group focused its marketing efforts on further optimization of its product portfolio and revitalization of packaging design in cheese&butter segment, introduction of new products, as well as promotion of Milkiland's core brand, Dobryana.

In particular, widening product line together with re-designing of packaging of thermostatic dairy led to c. 25% growth of sales in this sub-segment, while the growth rate in WMP segment amounted only 15% y-o-y.



In connection with the acquisition of Polish cheese production plant “Ostrowia” (*please see the details of this deal below*) the new brand “Ostrowia” was added to the Group’s portfolio. Being, as of today, a brand for the regional Polish market it is also considered to use it for branding the products for Russian and Ukrainian markets.

In 2012 the Group’s management focused on increase in capacity utilization and cost optimization in Ostankino Dairy Combine, where the sales volumes were increased in line with the growing demand for dairy products in Russian market. These efforts led to an increased revenues and margins at Ostankino.

***Overcoming Rospotrebnadzor restrictions on Ukrainian cheese export***

In January 2012, Mr. Gennadiy Onischenko, Chief of Russian Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Rospotrebnadzor), made a number of allegations in respect to poor quality of government quality control systems and, specifically, sub-par quality of Ukrainian cheese exported to Russia. Public escalation of the conflict resulted in restrictions imposed on 7 largest Ukrainian exporting plants, including Milkiland’s Mena plant in February 2012.

After a number of independent tests were made by Ukrainian exporters and provided to Rospotrebnadzor in order to dismiss allegations, several rounds of negotiations among the Russian and Ukrainian sanitary authorities and site inspections of the Rospotrebnadzor’s experts to the Ukrainian cheese production plants restricted for export to Russia, the limitations were lifted in April 2012.

At the same time, in order to strengthen the quality control for imported Ukrainian cheese Rospotrebnadzor implemented a strict procedure which envisages the control of cheese samples from each batch of the Ukrainian cheese supplied to the Russian market in the special laboratory of this Russian authority in Moscow. Despite the public announcement of possibility of dismissal of this procedure in the nearest future made by Rospotrebnadzor on 8 February 2013, it is still in place up to date.

The partial limitations of cheese export of the Group to Russia and their consequences in the form of temporary suspension of the orders for Milkiland’s cheese from some traditional clients of the Group in this country, led to decline in revenues from cheese sales in 2012.



### ***Acquisition of Ostrowia***

On 1 August, 2012 Milkiland Group acquired Mazowiecka Spółdzielnia Mleczarska “Ostrowia” (Ostrowia), the cheese production plant located in in Ostrów Mazowiecka town of Masovian Voivodeship of the Republic of Poland.

Ostrowia is a modern production facility capable of producing a wide range of dairy products essential to Milkiland, including hard cheese (up to 15 kt/ year), curd cheese and yoghurts (up to 11 kt/ year), processed cheese (up to 7 kt/ year). In 2003-07 Ostrowia underwent a major modernization. The Ostrowia brand is well known in the Polish market.

Ostrowia was idle as of the moment of the deal. Now the plant is partly re-launched and produces different types of whole-milk products. In order to to get an access meet to the Milkiland’s core cheese markets in Russia and Ukraine, the Group proceeds with the reconstruction of the facility. It is planned to finish those works and resume production of hard cheese in Ostrowia in Q2 2013.

### **Financial performance**

#### ***Revenue***

The Group’s revenue grew c. 3% y-o-y to EUR 287 million\* on the back of higher volumes of whole-milk products sales both in volume and value terms combined with a declined cheese&butter segment sales because of the decrease of cheese export to Russia.

#### ***Gross profit***

The Group’s gross profit grew by c. 16% to EUR 78 million\*, and the gross margin improved from 24% to 26% on the back of improved efficiency and lower raw milk prices.

#### ***EBITDA***

The Group’s EBITDA increased by c. 10% to EUR 38 million\*. EBITDA margin constituted 13.3% in 2012 vs. 12.4% in 2011.



## Outlook for 2013

The Group's management is optimistic about 2013 prospects in a view of the following factors:

- Forecasted stable milk prices, as trend of increase in local milk production continues;
- Retention of the state subsidies for the raw milk producers in Ukraine;
- Further implementation of the milk sourcing plan for the Ukrainian facilities, first by launching of the state-of-the art dairy farm in Q2 2013;
- No expected interruptions in cheese exports to Russia;
- Launch of recently acquired Ostrowia.

*Comment by Anatoliy Yurkevych, CEO, Milkiland N.V.*

*"In 2013, Milkiland's management will focus on organic growth and integration of assets acquired and invested in 2012. In our plans, 2013 is the year of Milkiland stepping up for the next level of revenues and profitability."*

**\*The financial figures for the year 2012 stated above are preliminary and unaudited**

## About Milkiland Group

Milkiland Group is a TOP-5 CIS diversified dairy producer operating in Russia, Ukraine and Poland, offering a wide range of dairy products such as fresh dairy, cheese and butter, to satisfy consumers in their everyday needs for healthy and tasty foods.

In Russia, the Group produces fresh dairy products at Moscow-based OJSC "Ostankino Dairy Combine" and sells under Ostankinskaya brand. Also, Dobryana Ukrainian cheese is sold in the most Russian regions.

In Ukraine, the Group operates 10 plants and offers a wide range of fresh dairy, cheese and butter under Dobryana and Kolyada brands.

In Poland, Milkiland Group acquired Mazowiecka Spoldzielnia Mleczarska "Ostrowia", the cheese production plant located in Ostrów Mazowiecka town of Masovian Voivodeship of the Republic of Poland.

Milkiland N.V. is a Dutch holding company of the Milkiland Group. DE "Milkiland Ukraine" and Milkiland sp. z. o. o. are the 100% subsidiary company of Milkiland N.V., which control the Group's business in Ukraine and Poland subsequently.



Milkiland exports dairy products to over 30 countries.

Shares of Milkiland N.V. are listed on the Warsaw Stock Exchange since December, 6, 2010.

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