

INITIATING
COVERAGE

Olha Pankiv
op@concorde.com.ua

Anna Dudchenko
ad@concorde.com.ua

+380 44 391 5577

Dairy

Wheying Up



November 02, 2007

CONTENTS

Investment Thesis	3
Investment summary	4
Stock market monitor	5
Valuation summary	6
Comparative standing	8
 Market Overview	 9
Ukrainian dairy market snapshot	10
Products for individual consumption	13
B2B: Confectionaries as a growth driver	15
Intense consolidation	17
Export potential	19
Production to ensure net export positions	23
Raw milk rush	24
 Company Profiles	 27
Galakton	28
Shostka Milk	31
Zhytomyr Dairy	34
Kovelmoloko	37
Ukrproduct Group	40
 Quarterly analysis	 43

INVESTMENT THESIS

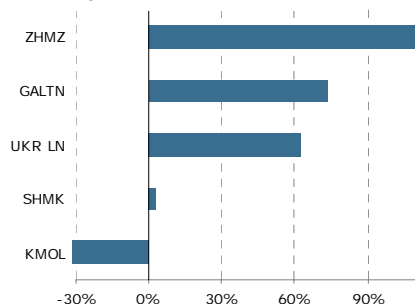
Investment summary

Company	Bloomberg
Galakton	GALTN UZ
Kovelmoloko	KMOL UZ
Shostka Milk	SHMK UZ
Ukrproduct Group	UKR LN
Zhytomyr Dairy	ZHMZ UZ

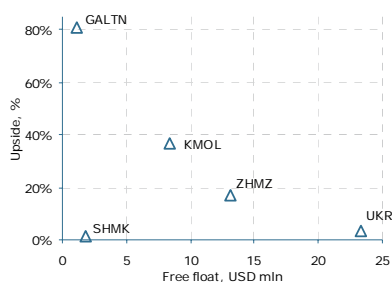
	Price \$	12M TP \$	Upside	Rec
GALTN	2.0	3.6	81%	BUY
KMOL	0.5	0.7	37%	BUY
SHMK	47.0	47.6	1%	HOLD
UKR	1.9	1.9	4%	HOLD
ZHMZ	2.6	3.0	17%	BUY

	Shares, mln	MCap \$mln	Free float %	\$mln
GALTN	23.1	46.3	3%	1.2
KMOL	74.6	37.3	22%	8.3
SHMK	1.6	72.9	3%	1.8
UKR	41.2	76.7	30%	23.3
ZHMZ	27.9	71.6	18%	13.1

Sector performance, YTD



Free floats, USD & upsides, %



Rising disposable income and consumption patterns converging with those in Western Europe will drive growth of Ukraine's dairy industry in the mid-term. We initiate coverage of the five traded stocks. Zhytomyr Dairy, Galakton and Kovelmoloko are our top picks in the sector. We also set HOLD recommendations on Ukrproduct and Shostka Milk.

Domestic market: Growth driven by value-added products

Ukraine's dairy market is poised for healthy growth, which we project at 10% CAGR in 2007-2012 to over USD 5.4 bln. The growth will be driven by high value-added products like cheese, yogurt and ice cream, demand for which is the most responsive to increases in disposable income (expected at 15% CAGR in 2007-2012).

Exports: Ukraine snatches the moment

After banning imports of Ukrainian dairy early in 2006, Russia has reopened its borders to ten producers, and we believe more will follow. In the interim, exporters have diversified deliveries and lessened their dependence on the Russian market. Low exports of dairy by Australia and the EU have allowed Ukraine to recapture its export positions. We expect Ukraine's share of global exports of the three major dairy products – butter, cheese and skimmed milk powder to increase from 5% in 2006 to 7% in 2012.

Large players best positioned to deal with raw milk problem

The poor quality of raw milk and seasonal fluctuations in deliveries are major issues in Ukraine's dairy industry. The reason for this is small-scale production: 80% of raw milk is produced by rural households with up to five cows each. Western Milk Group, the majority shareholder of Kovelmoloko, and Shostka Milk this year announced intentions to step into farming. Large players, which are able to make this investment, will get a secure supply of inputs and a competitive advantage over smaller players.

In the middle of consolidation

We see room for further consolidation in Ukraine's dairy industry, as the ten largest dairy groups jointly account for only 40% of raw milk processed in Ukraine. Concentration is higher inside individual product segments, though nowhere do the top three players produce over 50% of the total. We expect consolidation particularly in whole milk products, milk powder and butter. Out of the five traded dairy stocks, we view independent Ukrproduct and Zhytomyr Dairy as potential acquisition targets.

Stock market: Ukrproduct leads in liquidity

The universe of dairy industry stocks consists of five companies with total free float of USD 47.7 mln and average monthly trading volume of USD 0.58 mln (excluding OTC) in 10M07. Ukrproduct Group, listed on AIM, is the most liquid of the five. Ukrproduct accounted for 72% of the total volume traded in Ukrainian dairy stocks in 10M07.

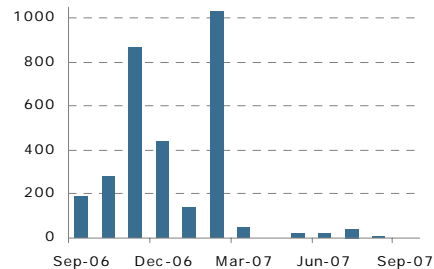
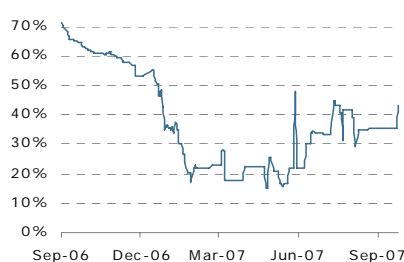
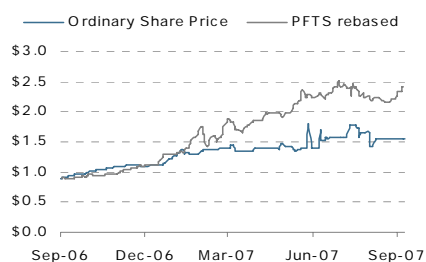
Stock market monitor

Stock performance

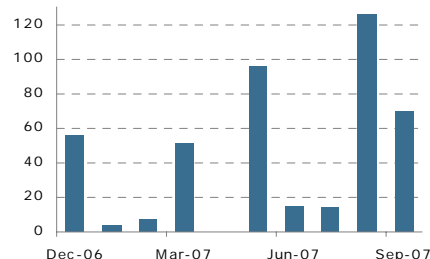
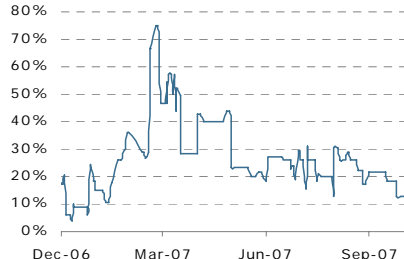
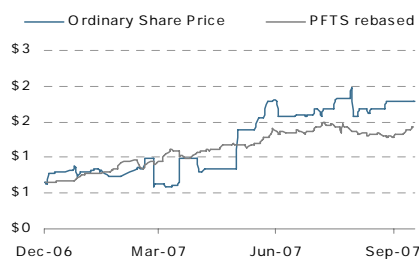
Spread, %

PFTS Monthly trading volumes, USD ths

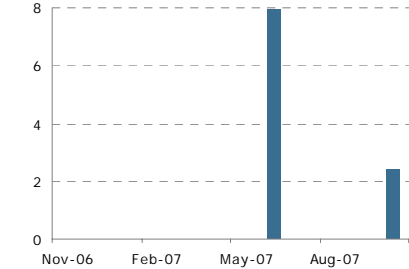
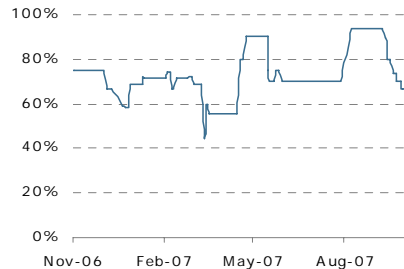
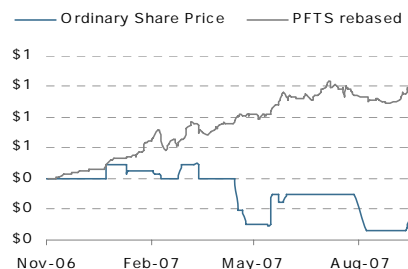
Galakton



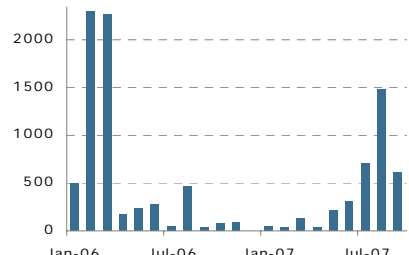
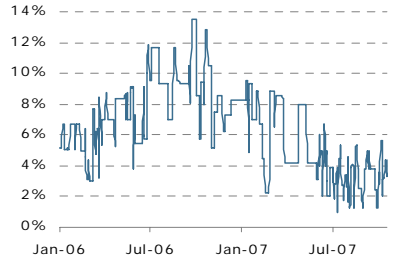
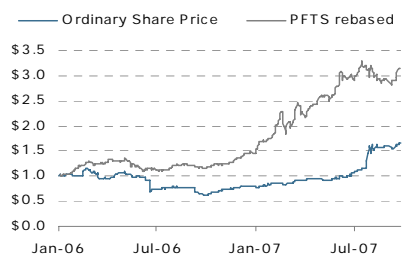
Zhytomyr Dairy



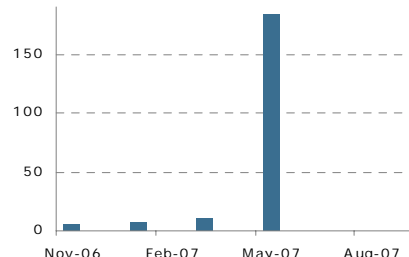
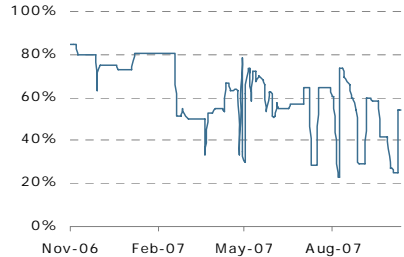
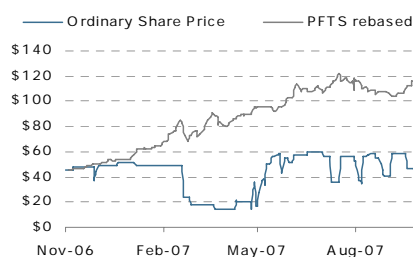
Kovelmoloko



Ukrproduct Group

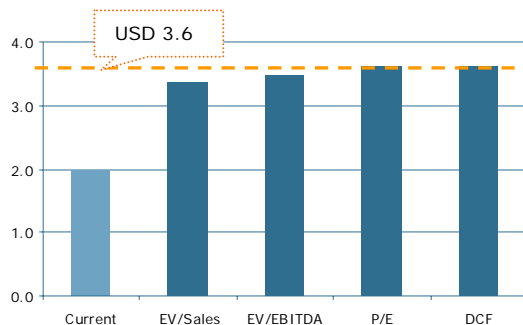


Shostka Milk



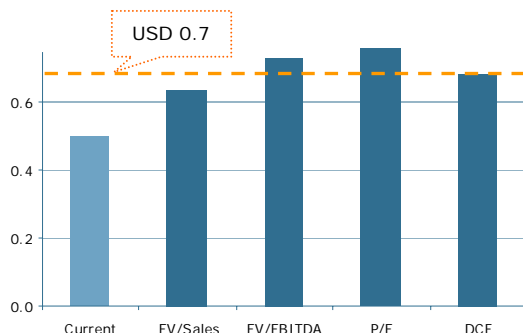
Source: PFTS, Concorde Capital
* PFTS mid-market prices

Valuation summary



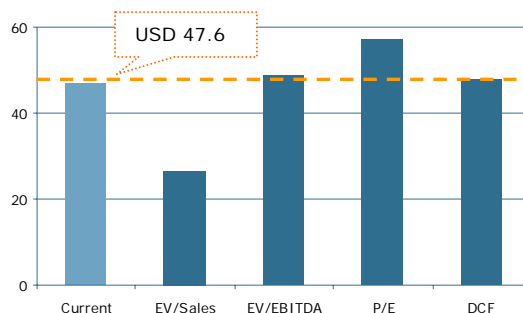
GALTN - BUY

- Access to financing, technologies and best-practice management of its holding company Unimilk (Russia)
- Owns 92% of Kremenchuk Milk, which accounts for 35% of the two companies' combined sales
- Exposure to high-margin baby food segment
- Unimilk's planned IPO in 2H08 is a value catalyst
- Upside of 68-81% on forward-looking multiples and DCF



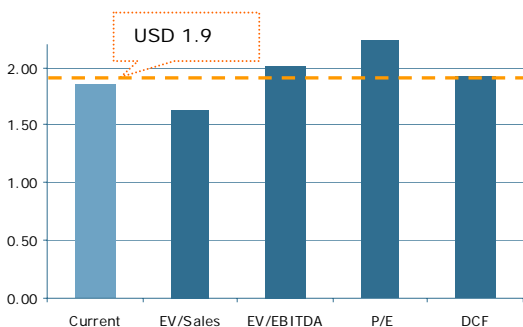
KMOL - BUY

- Sales growth at 22% CAGR projected over 2007-2012 to USD 129 mln on aggressive expansion of functional products and cottage cheese
- Higher value-added products to boost profitability margins, which are currently the lowest of the traded dairy companies
- Improving access to raw milk supplies; its major shareholder WMG plans to invest USD 50 mln in farming in 2008
- Trades at 27% discount based on DCF valuation, and at a 22-37% discount based on peer comparison



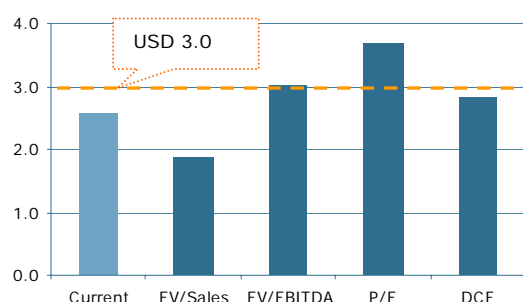
SHMK - HOLD

- Management intends to double cheese production by 2010 to 21 ths mt. We project sales growth at 35% CAGR over 2006-2009 to USD 107 mln
- Strong brand allowed the company to preserve margins and sales in 2006, despite unfavourable market conditions
- Foreign expertise and management from majority shareholder, Bel Fromageries. In September 2007 the EBRD announced intentions to buy a minority stake in Shostka
- Trades close to foreign peers on forward-looking multiples



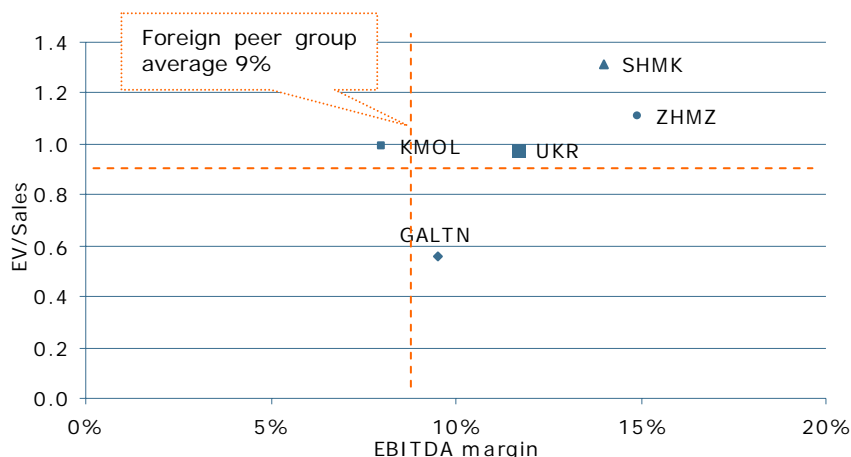
UKR LN - HOLD

- Potential acquisition target
- Listed on AIM, provides semi-annual IFRS financials and regular updates on the company's trends in sales and profits; Above average corporate governance rating by Concorde Capital
- Launch of hard cheese production expected to help increase profitability margins from 8% in 2006 to 12% in 2007-2008
- Good customer base including Nestle, UN (World Food Program)
- Trades close to the price suggested by peer and DCF valuations



ZHMZ - BUY

- Sales expected to grow at 9% 5Y CAGR to USD 108 mln in 2012
- Highest profitability margins of the traded dairy companies, which we expect the company to retain due to focus on high margin ice cream
- Launch of frozen vegetables line serves as back-up during especially severe raw milk deficits, allows to utilize refrigerators efficiently
- EV/EBITDA and P/E multiples offer 18% and 44% upsides, respectively

EV/Sales vs. EBITDA margin 2007E


Source: Companies' data, Concorde Capital estimates, Thomson Financial

We expect four out of the five companies to post EBITDA margin higher than the average of their international peer group in 2007. Based on this, we believe, they should fairly trade at EV/Sales multiples higher than the 0.9x 2007E average for their foreign peer group.

	Country	MCap, USD mln	EV/S		EV/EBITDA		P/E	
			2007E	2008E	2007E	2008E	2007E	2008E
GALTN	Ukraine	46.3	1.1	1.0	7.5	6.4	12.3	10.7
KMOL	Ukraine	37.3	1.0	0.8	8.4	7.0	16.2	12.2
SHMK	Ukraine	72.9	0.6	0.5	5.9	4.9	11.2	8.5
UKR	Ukraine	76.7	1.0	0.6	12.4	5.5	67.0	9.7
ZHMZ	Ukraine	71.6	1.3	1.1	9.4	7.3	18.2	12.8

International Peers

Groupe Danone	France	37,045	2.4	2.1	13.6	11.3	20.9	19.0
Wimm-Bill-Dann	Russia	3,608	1.7	1.4	11.9	10.4	22.3	17.0
Dean Foods	USA	3,333	0.7	0.7	9.5	8.7	16.5	14.5
Inner Mongolia	China	2,363	0.8	0.7	17.5	14.5	42.9	32.5
Meiji Dairies	Japan	1,893	0.4	0.4	7.3	6.8	16.1	15.8
Bright Dairy	China	1,842	1.6	1.4	23.7*	20.6*	70.5*	59.1*
Dairy Crest	UK	1,827	0.9	0.9	9.4	8.5	13.1	11.6
Bongrain	France	1,785	0.5	0.5	6.6	6.1	13.7	12.7
Morinaga Milk	Japan	978	0.4	0.4	n/a	6.7	21.5	19.3
Snow Brand Milk	Japan	767	0.6	0.6	n/a	n/a	11.2	12.1
Emmi AG	Switzerland	696	0.4	0.4	6.9	6.3	14.5	13.0
R. Wiseman Dairies	UK	650	0.6	0.5	6.2	5.6	13.5	12.5
Centrale Del Latte	Italy	63	0.5	0.4	4.7	3.6	18.3	14.3
Synnoeve Finden	Norway	51	0.5	0.4	7.5	4.3	6.7	6.4
Average			0.9	0.8	9.2	7.7	17.8	15.4

Implied share price, USD

GALTN								
Upside/Downside								
	3.5	3.4	3.4	3.5	3.2	3.6		
	73%	68%	71%	73%	59%	81%		
KMOL								
Upside/Downside								
	0.4	0.6	0.3	0.6	0.1	0.7		
	-17%	27%	-35%	47%	-73%	59%		
SHMK								
Upside/Downside								
	26.8	26.7	44.4	48.8	46.3	57.3		
	-44%	-44%	-6%	3%	-2%	21%		
UKR								
Upside/Downside								
	1.6	1.6	2.0	2.0	2.0	2.3		
	-14%	-13%	7%	8%	10%	26%		
ZHMZ								
Upside/Downside								
	1.9	1.9	3.1	3.0	3.7	3.7		
	-25%	-27%	21%	18%	44%	44%		

Comparative standing

Business

Company	Affiliation with group	Core segment	Rank in segment	Share in core segment	Export exposure	IPO/M&A prospects
GALTN**	Unimilk (Russia)	WMP*	#1	9.4%	Low	IPO of Unimilk in 2008
ZHMZ	Independent	Ice cream	#1	14.0%	Low	Acquisition target
KMOL	Western Milk Group (Ukraine)	WMP	> #5	1.3%	Low	Not announced
UKR LN	Independent	Processed cheese	#1	25.8%	Medium	Acquisition target
SHMK	Bel Fromageries (France)	Hard cheese	#5	5.5%	High	No

* Whole milk products including liquid milk, kefir, ryazhenka, yogurt, sour cream, cottage cheese and cream

Financials

	Sales, USD mln			EBITDA margin			Net margin		
	2006	2007E	2008E	2006	2007E	2008E	2006	2007E	2008E
GALTN**	79.5	115.3	129.4	11%	10%	10%	3%	4%	4%
ZHMZ	49.4	70.5	81.7	15%	15%	15%	7%	8%	8%
KMOL	27.6	46.8	79	10%	8%	11%	1%	1%	5%
UKR	64.6	84.3	100.5	8%	12%	12%	3%	6%	6%
SHMK	43.5	69.2	87.4	15%	14%	15%	6%	6%	7%

**92% ownership in Kremenchuk Milk consolidated

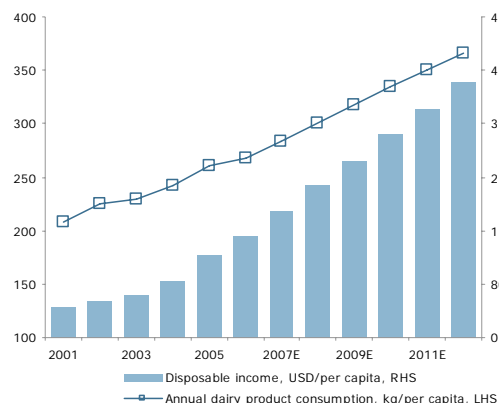
MARKET OVERVIEW

Ukrainian dairy market snapshot

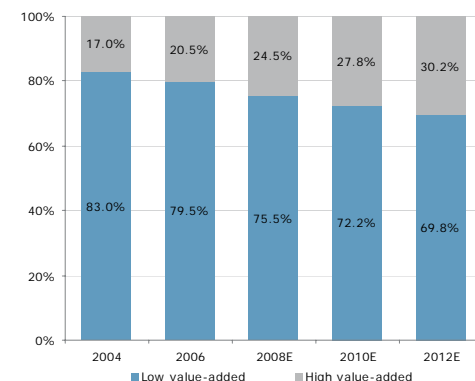
Rising disposable income (30% CAGR over 2002-2006) has been the major driver of the domestic dairy market's growth. Last year, the market increased by 14% yoy to USD 2.4 bln, according to our estimates.

We see a further surge in income of 15% CAGR over 2007-2012 prolonging the uptrend in consumption and accelerating the switch to higher value-added products. We expect the industry to reach USD 5.2 bln in five years, implying 10% CAGR in 2007-12.

Disposable income vs. dairy consumption*



Dairy consumption: product breakdown by value-added, ths mt



* In raw milk equivalent

** Includes cheese, yogurt, cottage cheese

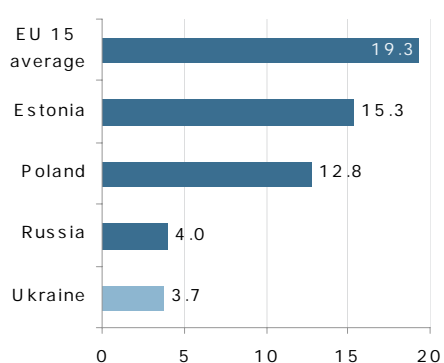
Source: State Statistics Committee, Concorde Capital estimates

Ukraine's market of dairy products consists of whole milk products (WMP), cheese, butter & fat spreads, canned milk, milk powder and ice cream.

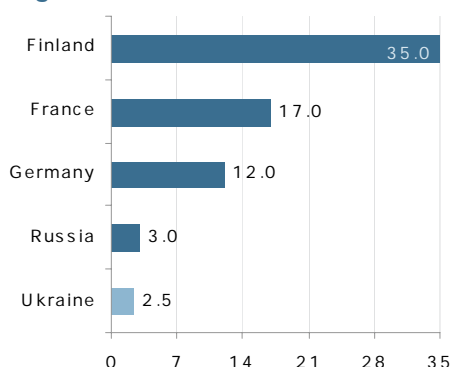
After several years of growth, domestic per-capita consumption of high value-added dairy products is still far below the majority of CEE and Western European countries.

High value-added product consumption by country in 2006, kg/per capita

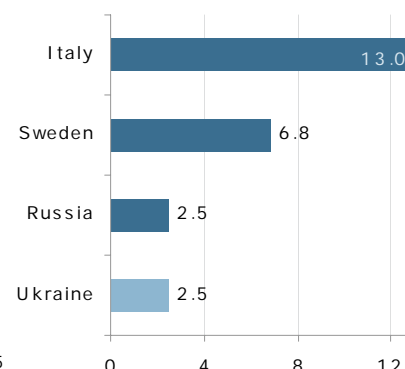
Cheese



Yogurt*



Ice cream

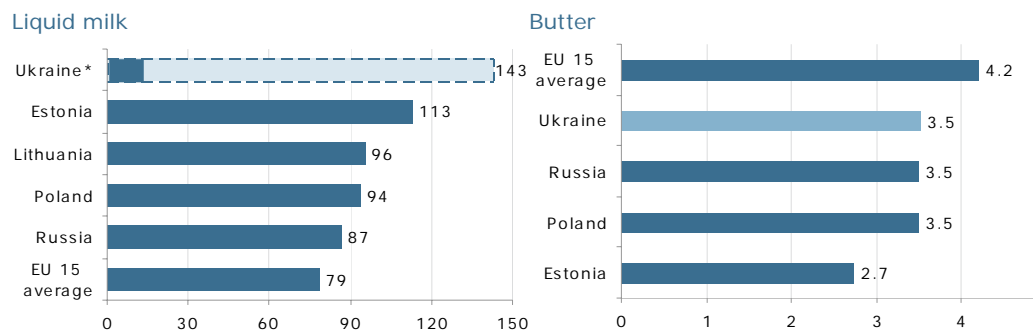


Source: Agricultural Policy Research Institute (FAPRI), Astarta – Tanit

* 2002 figures for Germany, France and Finland

At the same time, consumption of low value-added products is at the level of EU and neighboring countries. This makes us believe that demand for them is saturated, and opportunities for per-capita consumption growth are scarce.

Low value-added product consumption by country in 2006, kg/per capita

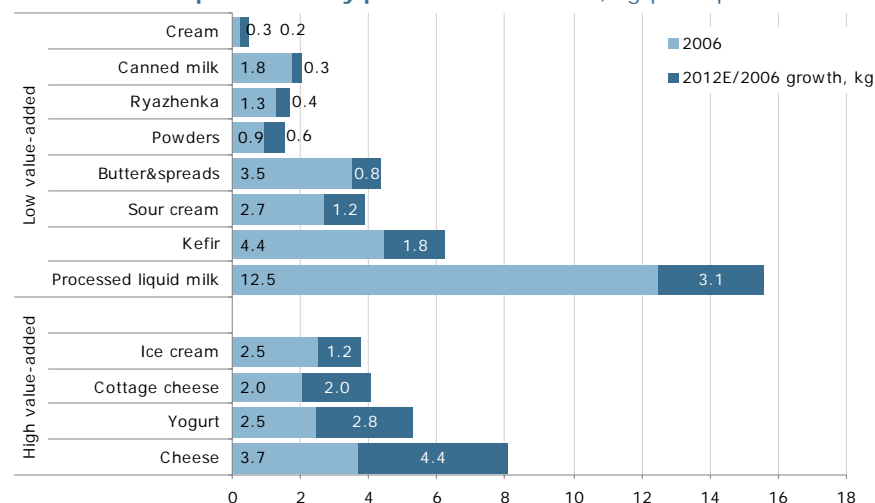


* processed milk, unprocessed milk (including that sold at open markets and consumed by farmers themselves)

Source: Astarta-Tanit, Eurostat, FAPRI, Concorde Capital estimates

We believe income growth will drive Ukraine's per capita consumption of value-added dairy products at 7%-13% CAGR over 2007-2012, while the low value-added category will increase at a more modest rate of 2%-6% depending on the product.

Annual consumption of dairy products in Ukraine, kg/per capita



Source: State Statistics Committee, Concorde Capital estimates

Based on demand specifics, we divide dairy products into two groups:

- **products for individual consumption** - whole milk goods, cheese and ice cream
- **B2B products** - butter & fat spreads, canned milk and dry milk.

We place butter & fat spreads among B2B products as we expect the increase in demand for these goods to come chiefly from the industrial side. We believe that individual demand is close to saturation.

Aside from the overall effect of higher disposable income, we expect each product group to be triggered by different growth factors.

Domestic consumption growth, ths mt

Growth triggers	Product	2002-06 CAGR	2007-12E CAGR
Products for individual consumption			
<ul style="list-style-type: none"> Emergence of supermarkets as more convenient shopping format Growing products variety Increasing awareness of healthy nutrition More aggressive marketing campaigns Busier lifestyles promoting snack consumption culture 	WMP	9%	5%
	Cheese	15%	9%
	Ice cream	2%	5%
B2B products			
<ul style="list-style-type: none"> Growing demand from confectionary and ice cream industries 	Canned milk	10%	2%
	Milk powder	9%	8%
	Butter	4%*	3%

Source: State Statistics Committee, Concorde Capital estimates

* 2004-2006 CAGR

Products for individual consumption

WMP: The switch to higher value-added products

Within the whole milk product segment, we see pockets of untapped growth opportunities for more value-added goods such as yogurt and cottage cheese:

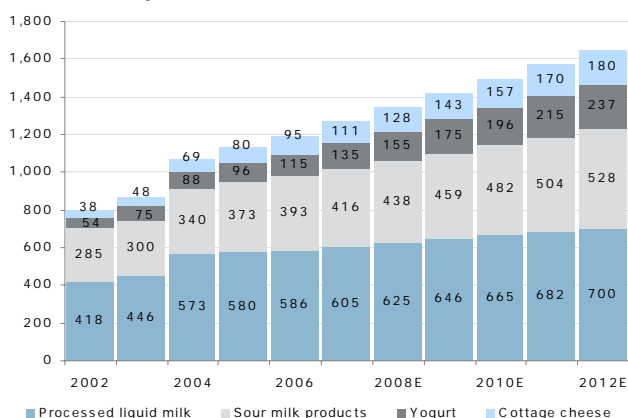
- As yogurt is a relatively new product to Ukraine (production started in 1996, with negligible imports at the time), we look for consumption to increase at a rapid pace of 12% CAGR in 2007-2012 and reach 237 ths mt by 2012. This implies consumption of 5 kg per capita by 2012 – still more than twice less than in Western Europe.
- In our view, unsaturated demand for cottage cheese will propel consumption at 10% CAGR in 2007-2012, up to 180 ths mt by 2012.

Processed liquid milk and sour milk, which are lower value-added products, account for 49% and 33% of total WMP consumption, respectively. We expect them to grow at relatively slower pace.

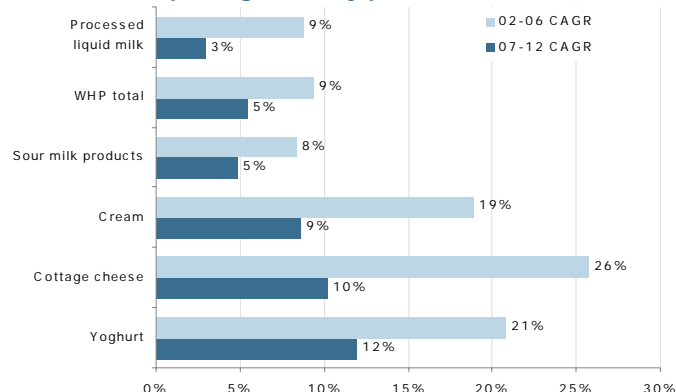
- Over 85% of liquid milk drunk in the country is unprocessed, and we see consumer preferences shifting toward processed milk, consumption of which we expect to rise at 3% CAGR in the next five years.
- We believe consumption of sour milk products will increase at modest 5% CAGR in 2007-2012.

Overall, we forecast the WMP segment to reach USD 2 bln by 2012 against USD 905 mln in 2006, implying a 5Y CAGR of 11%.

WMP consumption, ths mt



WMP consumption growth by products



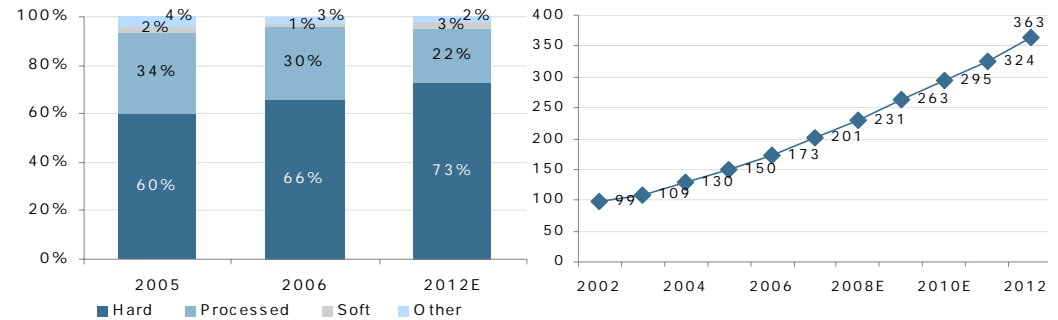
Source: Astarta-Tanit, State Statistics Committee, Concorde Capital estimates

"Cheese!" – Very unsaturated

Current domestic per capita cheese consumption is 3.5 times below that in neighboring Poland and 5.2 times less than the EU average. As demand for cheese is more elastic to income than other dairy goods, we expect that by 2012 consumption will reach Poland's current level. We view cheese as the most promising segment of the domestic dairy industry and estimate consumption to develop at 13% 5Y CAGR to 8 kg/per capita in 2012.

The domestic cheese market is represented by hard, processed and soft cheeses, with the share of the latter being miniscule. We believe consumption of the processed cheese, a low price substitute to hard cheese, will gradually decline due to market saturation and dampening demand.

Cheese market structure by product, ths mt Domestic cheese consumption, ths mt



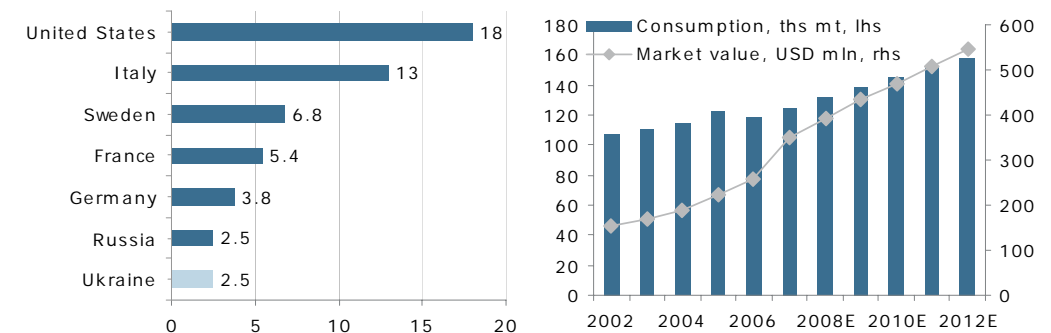
Source: State Statistics Committee, Concorde Capital estimates

Ice cream: Time to take it home

In Ukraine, 80% of ice cream is consumed on-the-go and 20% via family packs and in restaurants, while in Europe these numbers are reversed - 20% and 80%, respectively. In our view, the segment's growth will be driven by in-home (family pack) and in-restaurant ice cream narrowing the gap in product consumption between the hot and cold seasons. We expect domestic consumption of ice cream to increase at 6% CAGR over the next five years and reach the current per capita consumption level of Eastern European countries.

We believe the domestic ice cream market will expand at 9% CAGR over 2007-2012 in monetary terms and reach USD 545 mln in 2012 as Ukrainian consumers, enjoying higher incomes, trade up to higher-priced brands.

Ice cream consumption, kg/per capita, 2006 Market value vs. consumption



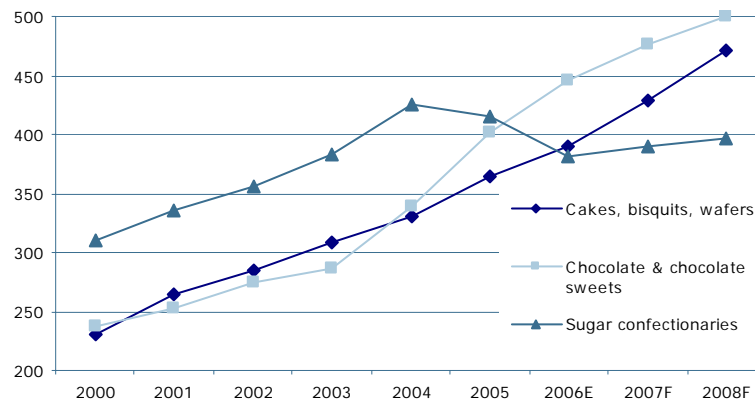
Source: State Statistics Committee, Astarta-Tanit

B2B: Confectionaries as a growth driver

Industrial consumption accounts for 100% of milk powder sales in Ukraine, for butter – over 50%, and canned milk – about 40%. All three products are used in the production of confectionaries (cakes, pastries and chocolate) and ice cream.

Ukraine's confectionary industry is responding to an increase in household incomes that is bringing about a reorientation from cheap caramel to chocolate and cakes (which grew 11% and 7% yoy in 2006 respectively, according to our estimates).

Confectionary production in Ukraine, ths mt



Source: Pro-Consulting, Concorde Capital estimates

Milk powder

68% of Ukrainian milk powder is exported, since it can be relatively easily transported to the regions that lack sources of natural milk, and is used in the production of liquid milk products.

Ukraine mainly concentrates on the production of skimmed milk powder, which is a byproduct of making butter and also used for animal feed. Smaller quantities of whey powder (a byproduct of hard cheese) and whole milk powder are manufactured as well.

As domestic demand for milk feedstock is fully met by raw milk, milk powders are not used to produce whole milk products. Instead, they are consumed by the confectionary industry, and in the production of cheese, milk sausage and ice cream. We expect domestic consumption of milk powder to grow at 8% CAGR in 2007-12.

Butter

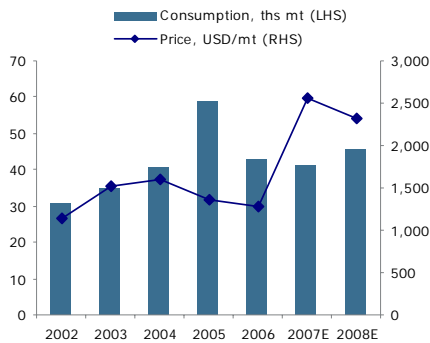
We expect that in the mid-term, growth in industrial consumption of butter will offset declining demand from households, as the Ukrainian population increasingly opts to pursue healthier lifestyles. On the back of these two antithetical trends, we expect butter consumption to increase modestly at 3% CAGR over 2007-2012 (vs. 8% CAGR in 2003-2006).

Canned milk

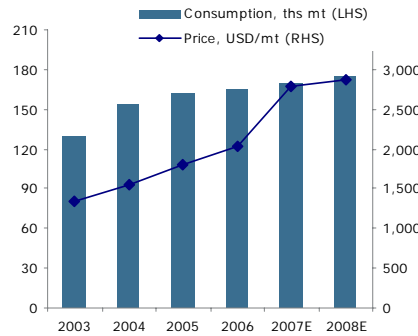
The volume of Ukraine's market for canned milk receded 8% yoy in 2006, after growth of 17% CAGR in 2002-2005. We believe that following the slip in 2006, domestic consumption will remain relatively stable in the mid-term. We expect consumption by households to abate as canned milk is substituted by desserts and dissoluble drinks that contain milk powder. In our opinion, growing demand from the confectionary industry will make up for the decline in household consumption and see this segment posting modest growth of 2% CAGR over 2007-2012.

Ukraine's demand trends

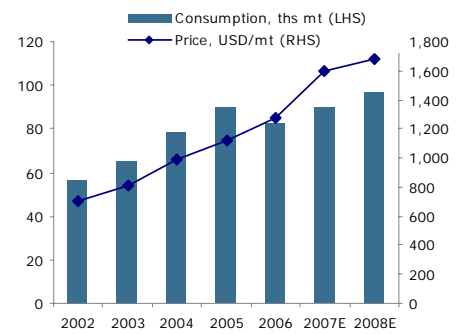
Milk powder



Butter



Canned milk



Source: State Statistics Committee, Concorde Capital estimates

Intense consolidation

Ukraine's dairy industry is in the middle of consolidation that we expect to be finalized within the next five years. In our view, small players with limited access to raw milk feedstock will be either gulped up by larger producers or simply pushed out of business via tightening competition.

In 2000-2006 the industry witnessed an active period of M&A deals with large domestic producers and foreign entrants the main movers and shakers. As a result, 15 large business groups formed Ukraine's dairy market.

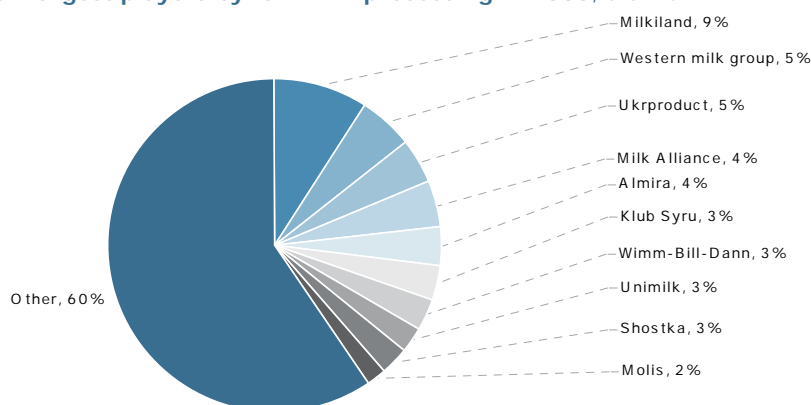
M&A deal history, 2005-2007

Target company	Bidder	Country	Deal price	Stake acquired	Date
Fanni	Lactalis	France	USD 40 mln	51%	2007
Bashtanskiy Cheese	Milk Alliance	Ukraine	c. USD 13-16 mln	51%	2007
Vinnitsya Milk	Ukrcheese Holding	Ukraine	n/a	63.8%	2007
Shostka Milk	Bel Group	France	USD 40-50 mln	95.0%	2007
Rodich Milk	Group Danone	France	c. USD 10 mln	100%	2006
Kuybyshev Milk	Ellada	Russia	USD 2 mln	60.5%	2006
Klub Syru	Renaissance Capital	Russia	USD 197 mln	100%	2006
Vinnitsya Milk	Klub Syru	Ukraine	n/a	62.7%	2005

Source: Companies' data, Astarta-Tanit, ISI Emerging Markets

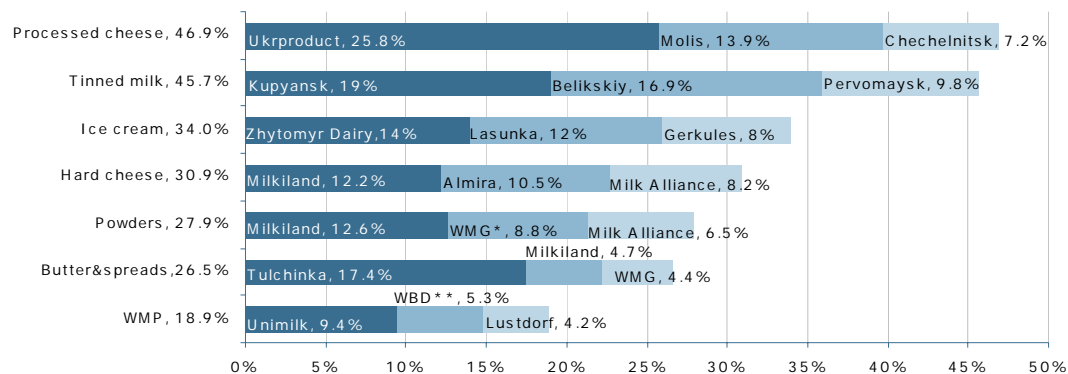
Given the wide variety of dairy goods, we compare major milk companies by the quantity of processed milk rather than in terms of total output of products. Last year 5.6 mln mt of raw milk was processed at domestic dairy plants. The aggregate share of ten largest players in raw milk processing totaled 40%.

Ten largest players by raw milk processing in 2006, ths mt



Source: Companies' data, Astarta-Tanit, Interfax Ukraine, Ukrainian News

The concentration in separate segments is higher than in the market as a whole due to producers' specialization on particular products. The highest concentration is observed in processed cheese and canned milk, where the combined share of the top-3 producers is close to 50%.

Top-3 players production share by segment, 2006


* Western Milk Group

** Wimm-Bill-Dann

Source: State Statistics Committee, Astarta-Tanit

In the mid-term, we expect WMP, milk powder, and butter & spread segments – where concentration is currently the lowest – to see most of the M&A action.

Export potential

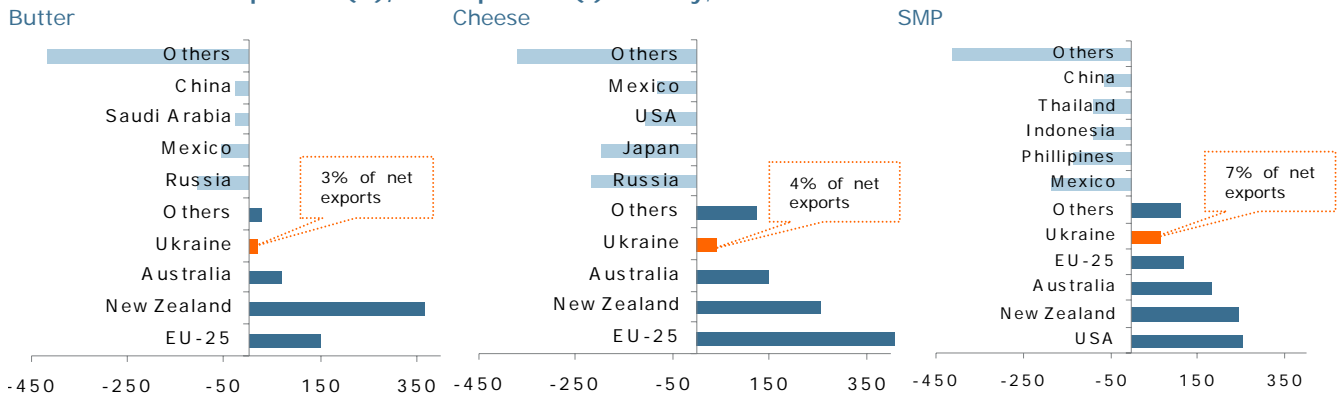
We view conditions on the world's dairy market as favorable for deliveries of Ukrainian products and expect the following developments in the mid-term:

- Facing a deficit of milk, Russia will gradually reopen its borders to more Ukrainian dairy producers
- Ukrainian exporters will be able to diversify deliveries, decreasing the risk of high dependence on Russia

Among the world's top-5 dairy exporters

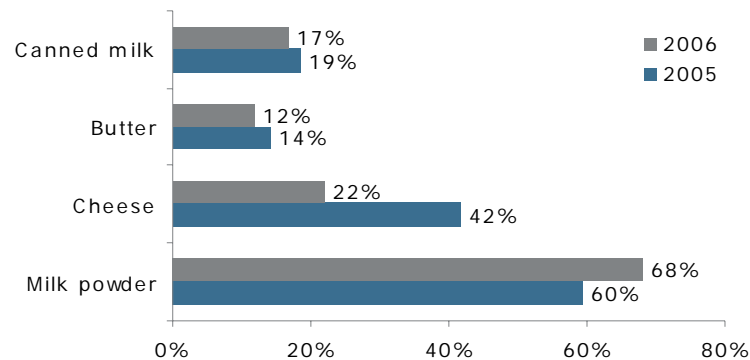
An excess of milk production over domestic demand has placed Ukraine among the world's top exporters of dairy products. Ukraine is active in exporting butter, cheese, skimmed milk powder and canned milk.

International net exporters (+), net importers (-) of dairy, ths mt in 2006



Source: Food and Agricultural Policy Research Institute (FAPRI)

Export shares in Ukraine's dairy production

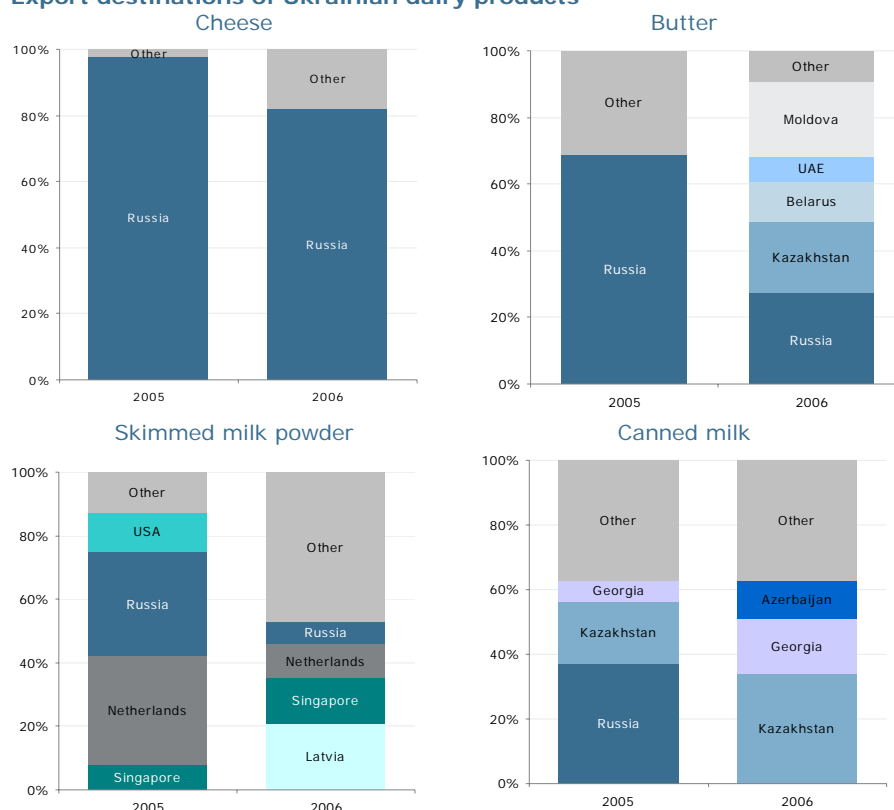


Source: Ukragroconsult, State Statistics Committee

Ukrainian exports of cheese and butter have traditionally been directed to Russia. In 2005, it accounted for 98% of Ukrainian hard cheese exports, and 85% exported butter.

Foreign deliveries of skimmed milk powder and canned milk have historically been more diversified, with destinations including other CIS countries, Western Europe and South East Asia.

Export destinations of Ukrainian dairy products

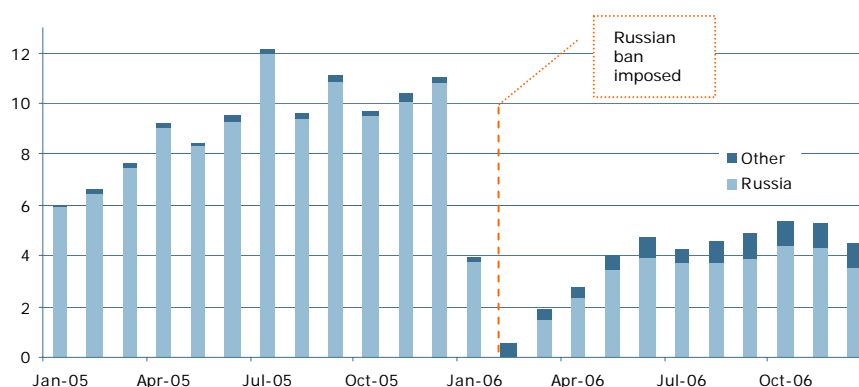


Source: Astarta-Tanit

Case study: Russia opens up

Amid cooling relations, Russia imposed a ban on Ukrainian dairy imports early last year. As a result of the sanctions, foreign deliveries of Ukrainian dairy products dropped 41% yoy to USD 323 mln in 2006.

Export dynamics of hard cheese, 2005-2006, ths mt

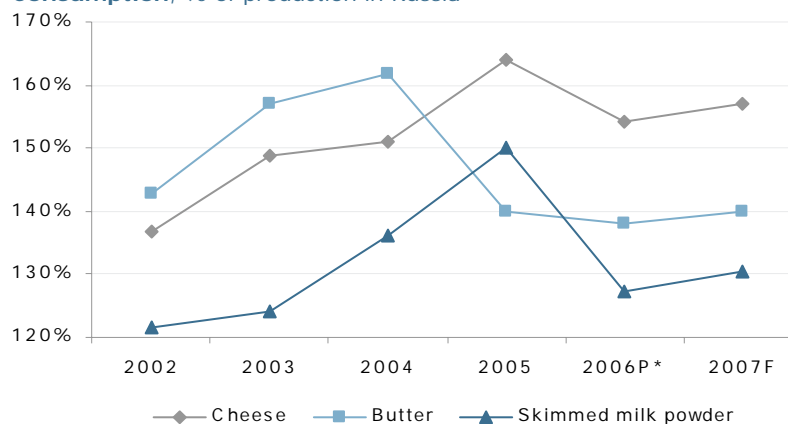


Source: Companies' data

Yet, the situation has been changing since March 2006 when Russia, unable to meet domestic demand internally, started to reopen its borders to selected Ukrainian producers. We expect more Ukrainian companies to be allowed back on the Russian market by 2009; negotiations with several companies are in progress.

According to Food and Agricultural Policy Research Institute's (FAPRI) projections, Russian growth in consumption of cheese and butter will continue outpacing that of production in the mid-term. Ukrainian dairy producers are well positioned to cover this deficit and increase their presence in Russia.

Consumption, % of production in Russia



Source: FAPRI

Russia first readmitted imports from cheese makers, which we believe was a result of the intense demand for this product. As they had been more dependent on the Russian market than other dairy goods producers, they also appear to have done the most lobbying.

Chronology of Russia allowing Ukraine's dairy deliveries

Date	Company	Product
March 1, 2006	Prometey (Milkiland) Ros (Milkiland) Pyryatyn cheese	Cheese
March 16, 2006	Khmelnysk cheese & butter Gadyachsy	Cheese
March 20, 2006	Baltsky milk-canning	Milk powder
July 26, 2007	Shostka Milk	Cheese
Sept. 17, 2007	Novohrad-volynsky cheese	Cheese
Oct. 22, 2007	Kovelmoloko Svitlovodsky butter & cheese	Cheese and milk powder

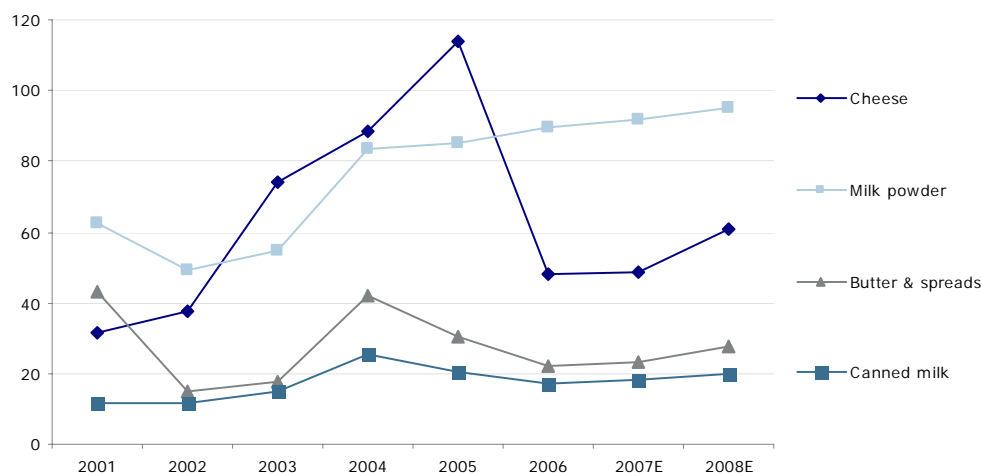
Source: Press reports, Companies' data

In contrast, producers of butter and canned milk, who exported a significant share of their production to Russia prior to 2006, are still faced with a ban.

Milk powder was the only segment that expanded exports in 2006 (5% yoy), thanks to the favorable situation on world markets, less ties to the Russian market, and increased deliveries to Western Europe, Baltic states and Singapore.

Diversification opportunities

Exports of major Ukrainian dairy products, ths mt



Source: Astarta-Tanit, FAPRI, Concorde Capital estimates

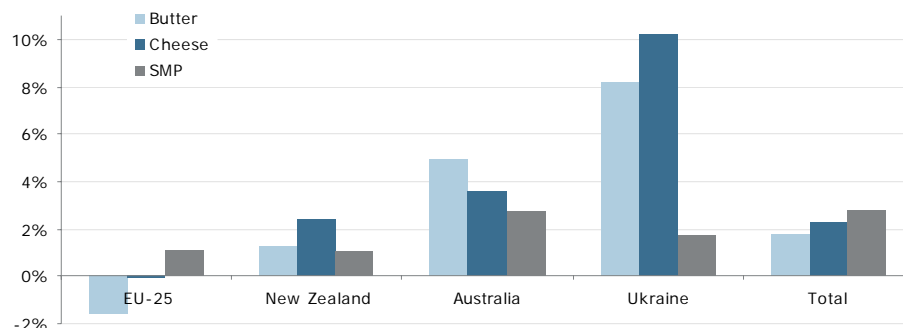
We believe that Ukrainian producers have a good chance to boost foreign deliveries, due to reduced production in Australia in the short-term, and the EU in the mid-term.

- As a result of severe droughts in 2007 that caused lack of pastures and drinking water for animals, Australia, one of world's major suppliers of dairy products, had to partially slaughter its milk herds, diminishing milk output in the short run
- In line with the Common Agricultural policy, the EU canceled export subsidies for domestic producers which has weakened their competitiveness.

At the same time, global demand for dairy products is growing on the back of growth in disposable income and changing consumer patterns in Russia and South East Asia, regions which have traditionally been net importers.

FAPRI is forecasting export growth of 8% and 10% CAGR for Ukrainian butter and cheese, respectively, in 2006-2016. SMP exports are expected to develop at a more modest 2%, as intense competition is expected from the US and Australia.

Net exports of dairy products, 2006-2016E CAGR



Source: FAPRI

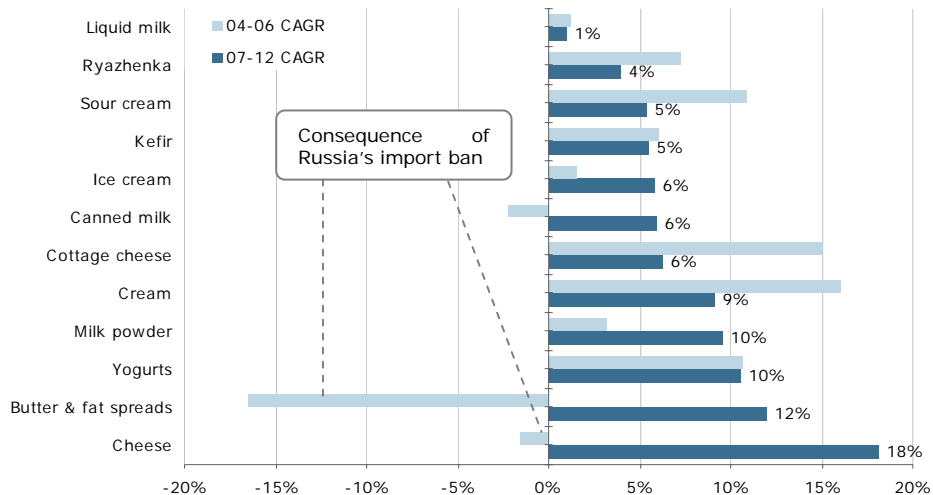
Price takers

Ukrainian dairy exporters are global price takers. Both FAPRI and the Australian Bureau of Agricultural and Resource Economics (ABARE) say that low exports deliveries from Australia and EU will up drive dairy prices for the next two years. Meanwhile, domestic producers will face rising production costs, as we expect domestic prices for raw milk to be preserved at the current high levels until 2009.

Production to ensure net export positions

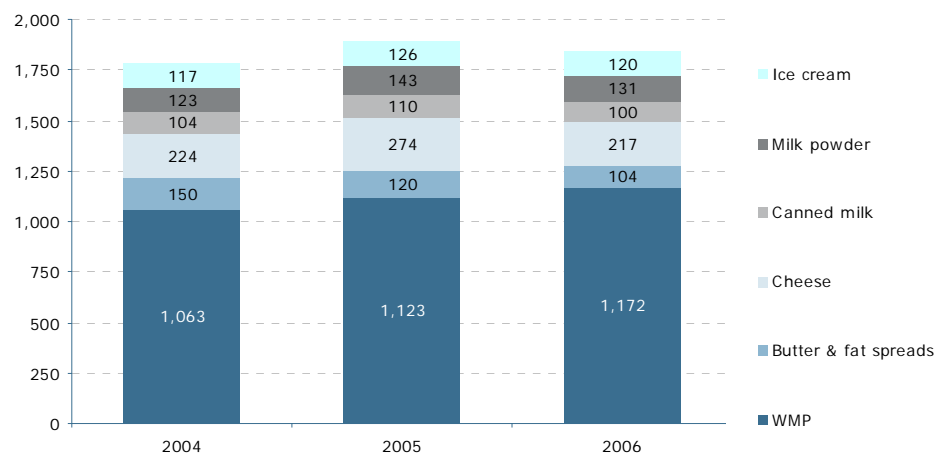
We think Ukrainian production of dairy goods will be triggered by recovering exports to Russia and escalating domestic demand. In our opinion, output will continue to satisfy local consumption, while the share of imports will remain near their currently low level of 1% (mainly yogurts with long-term shelf life).

Production growth by products, ths mt



Source: State Statistics Committee, Concorde Capital estimates

Domestic production of dairy goods, ths mt



Source: State Statistics Committee, Astarta-Tanit

Raw milk rush

The lack of quality raw milk is a key challenge for Ukraine. Growing demand for value added dairy products and higher overall quality requirements by consumers have resulted in intensifying competition for the scarce input.

We expect the high prices for raw milk to continue mounting until 2010 and then stabilize as supplies converge with demand. During this period, we see industry players increasingly going upstream by investing into milk cattle breeding.

Investments come from dairy producers

Rural households with up to five cows produce 80% of raw milk in Ukraine. Small scale milk production results in poor quality and significant fluctuations in supply due, particularly to seasonality. Unreliable raw milk supplies from households coupled with quality and logistics issues are, in our view, the major reasons that push milk processors to search for alternatives. Last year raw milk output in Ukraine amounted to 13.3 mln mt, though dairy producers processed only 42% of it. The rest was sold at open markets or consumed by the producers themselves.

A recent trend among large companies has been to invest in raw milk production to secure input supplies and a competitive advantage over smaller players. We think this will be a prevailing tendency in the next few years, as more Ukrainian dairy makers follow in the footsteps of their Russian peers, who have already been forced to diversify upstream.

Case history: Wimm-Bill-Dann, Russia

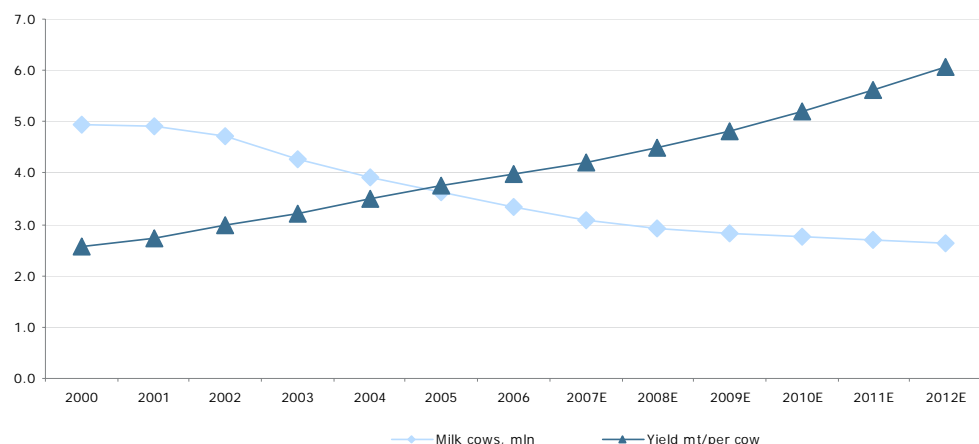
Wimm-Bill-Dann, one of the largest dairy producers in Russia, invested around USD 20 mln in dairy farms over the past two years in order to secure raw milk supplies and offset the effect of seasonal hikes in raw milk prices. Even though Wimm-Bill-Dann does not plan to become vertically integrated, the company's management, forced by the raw milk deficit in Russia, is investing heavily in raw milk production.

Recovery of raw milk production underway

Following a decline in 1990-2000 at -6% CAGR, Ukraine's raw milk output stabilized at 13-14 mln mt. According to our estimates, in 2007-2012 the raw milk production will increase at 5% CAGR. This will be the result of a deceleration in the reduction of livestock to -3% CAGR from -5.6% CAGR in 1990-2006, and an increase in milk yield growth to 8% CAGR over the next five years from 2% in 1990-2006.

We expect that investments by domestic dairy producers will slow the decline in livestock, which has been suffering from low financing into local farms. In 2007, we estimate raw milk output to decrease 3% yoy based on first half production data.

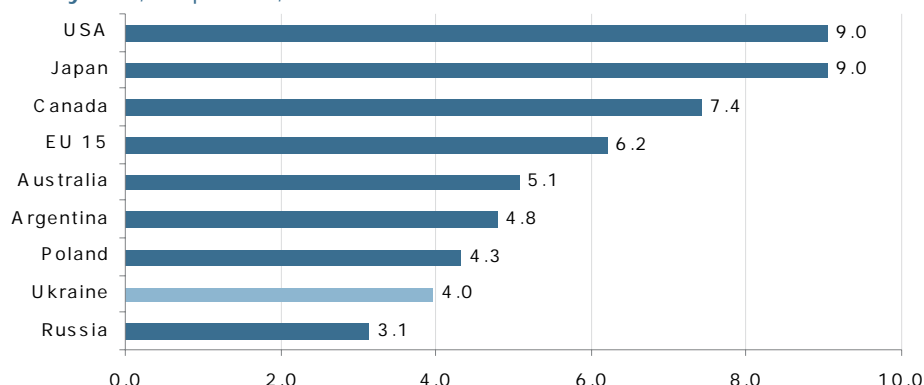
Number of cows vs. milk yield



Source: State Statistics Committee, Concorde Capital estimates

We see further growth potential in milk yield, as it is currently 3.9 mt per cow, 59% below the EU average.

Milk yields, mt/per cow, 2006



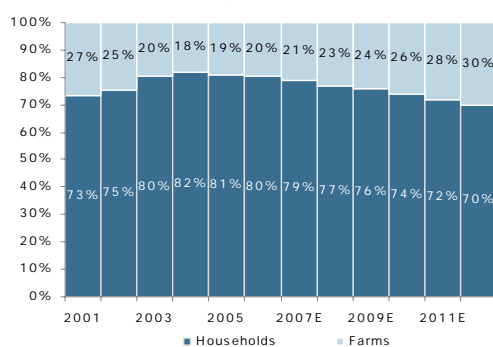
Source: USDA, State Statistics Committee

Among the major reasons for higher milk yield is an anticipated shift in the distribution of milk production from households to farms. While the average yields of farms are less than those of households, yields of privately owned farms in fact exceed yields of households. We believe that as more farms pass into the private ownership from the collective one, their management will significantly improve and their efficiency will surpass households. We estimate that the combined share of farms will increase to 30% by 2012 vs. 19% last year.

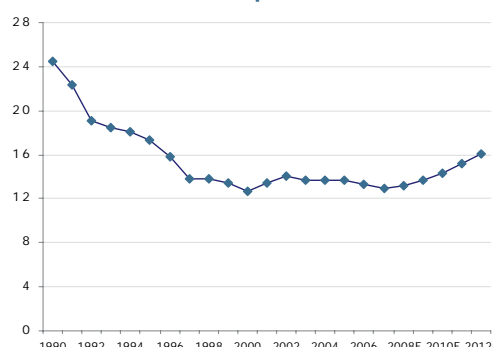
We believe that improvements in milk farming technologies and genetic breeding will allow Ukrainian private milk farms to:

- boost milk yield to the level of European countries within five years
- decrease seasonality of milk production, which is abnormal in Europe

Production shares, households vs. farms



Total domestic milk production, mln mt

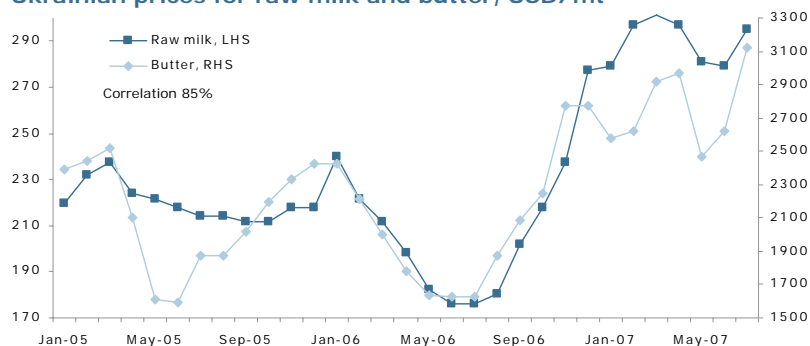


Source: State Statistics Committee, Concorde Capital estimates

Prices follow costs

Ukrainian dairy producers appear to be transferring the increase in production costs to final consumers, a practice that we expect them to continue. The 44% yoy growth raw milk prices in 1H07 (major input for butter production), was accompanied by 45% yoy growth in butter prices in Ukraine.

Ukrainian prices for raw milk and butter, USD/mt



Source: Ukragroconsult

We expect the strong upward trend in raw milk prices to continue until 2009-2010. After that, we believe the growth rate of milk production will meet that of demand. This, in our opinion, will lead to stable prices for raw milk.

COMPANY PROFILES

Galakton

GALTN UZ

www.unimilk.ru

12M target (USD)

Upside

3.6

81%

BUY

INVESTMENT CASE

Benefits from being part of a large holding

As part of Unimilk Group, the second largest dairy producer in Russia, Galakton has access to the financing, modern technologies and best practice management of its holding company. We believe that Unimilk will be investing into raw milk production in Ukraine as it has done in Russia to ensure stable supplies of high quality inputs for Galakton's plants, providing them with a competitive edge.

Strong brand identity

Galakton's core brand for sour milk products, 'Bio-Balance', is highly recognized both in Ukraine and Russia. Introduced in 1998 in Ukraine, it was transferred to Russia, where five Unimilk's plants currently operate under this brand. In turn, Galakton's portfolio has been accreted with brands that have been successful on the Russian market, such as Tema (baby food) and Prostokvashyno (WMP).

First-mover advantage in entering baby food market

Galakton is the only producer of cottage cheese for babies in Ukraine. This provides the company with exposure to a growing and high margin niche market of baby food currently dominated by foreign players. Imports currently do not pose a serious threat to Galakton, as they consist mainly of dry milk products. Potential new domestic entrants are deterred by high quality requirements and costly certifications.

Market only sees part of it

We believe that the market has not priced in Galakton's 92% stake in Kremenchuk Dairy, the other major asset of Unimilk in Ukraine. Kremenchuk Dairy accounts for ~35% of the two companies' combined sales, but this fact is overlooked, as Galakton does not publish consolidated financials.

MARKET INFORMATION

Market price, USD	1.6
MCap, USD mln	46.3
Free float	3%
Free float, USD mln	1.2
No of shares, mln	23.1

STOCK OWNERSHIP

Unimilk Group	93.8%
Other	6.2%

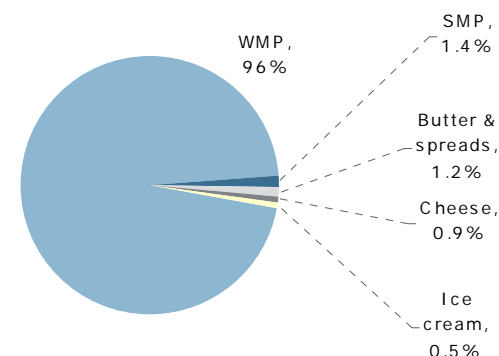
MARKET MULTIPLES

	2006	2007E	2008E
EV/Sales	0.8	0.6	0.5
EV/EBITDA	7.5	5.9	4.9
P/E	19.3	11.2	8.5

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	10.7%	9.5%	10.0%
Net margin	2.8%	3.6%	4.2%
ROE	15.9%	25.6%	25.8%
Net Debt/Equity	123.0%	101.8%	70.8%

Production breakdown in 2006, ths mt

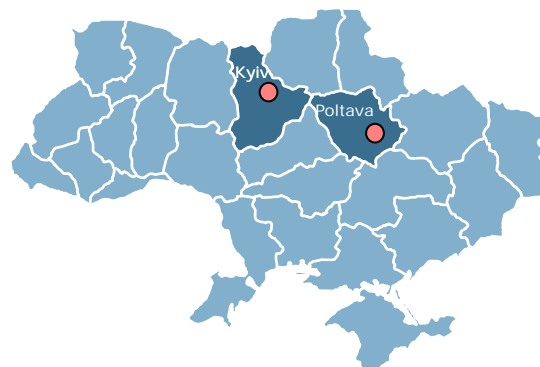


Source: State Statistics Committee, Astarta - Tanit

BUSINESS PROFILE

Galakton is Ukraine's largest WMP manufacturer with a 9.4% share of domestic WMP production in 2006. The company processed 3% of raw milk used in the domestic dairy industry and ranks eighth by this measure. Galakton's production capacities consist of wholly owned Kyiv Dairy Plant #2 ('Galakton') and Kremenchuk Dairy Plant (Poltava region), of which Galakton holds a 92% stake. Unimilk-Ukraine Group, a subsidiary of Russia's dairy producer Unimilk, controls Galakton. Galakton's product portfolio consists of 70 names, sold under seven trademarks. Since 1998 it has been the exclusive supplier of dairy mixes for milk shakes and ice cream to McDonald's Ukraine. In 2006 Galakton invested c. USD 6 mln in modernization, financed mainly by debt, out of which USD 3 mln was spent on launching a manufacturing line for baby nutrition products.

Plant location



Key forecasts

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales, ths mt												
SMP	2.49	1.66	1.91	2.14	2.35	2.59	2.72	2.86	3.00	3.09	3.18	3.28
Change, %		-33.1%	15.0%	12.0%	10.0%	10.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%
Butter	1.9	1.4	1.7	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.2
Change, %		-26.2%	18.3%	13.3%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%
Cheese	1.4	1.0	1.4	1.6	1.8	2.0	2.0	2.1	2.2	2.3	2.3	2.4
Change, %		-27.1%	42.2%	13.9%	11.9%	8.6%	4.0%	3.9%	3.0%	3.0%	3.0%	3.0%
WMP	113.7	110.5	120.5	128.0	137.4	147.4	153.3	159.4	165.8	172.4	179.3	186.5
Change, %		-2.9%	9.1%	6.3%	7.3%	7.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

DCF model

As of November 1, 2007

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
EBITDA	55.3	64.7	76.3	84.1	85.8	91.5	87.7	87.8	82.1	82.4
EBIT	42.0	51.3	62.9	70.9	72.8	78.8	75.4	75.8	70.4	71.0
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	31.5	38.5	47.2	53.2	54.6	59.1	56.6	56.9	52.8	53.3
Plus D&A	13.4	13.4	13.4	13.2	12.9	12.6	12.3	12.0	11.7	11.3
Less CapEx	(29.1)	(22.7)	(20.4)	(16.0)	(14.6)	(13.7)	(13.6)	(13.4)	(13.1)	(12.8)
Less change in OWC	(11.9)	(9.3)	(11.1)	(11.5)	(12.3)	(13.4)	(6.8)	(5.9)	(6.2)	(6.6)
FCFF	-	20.0	29.2	38.9	40.6	44.6	48.4	49.5	45.1	45.2
WACC	12.4%	12.7%	12.4%	12.0%	11.5%	10.8%	10.7%	10.8%	10.8%	10.8%

							Perpetuity growth rate		4.0%
							WACC to perpetuity		11.0%
Terminal Value		280.5							672
							Implied exit EBITDA multiple		8.2x
Firm value		504.5							
Portion due to TV		55.6%							
Less Net Debt		(86.0)							
Equity Value		418.5							
Implied 12M price, USD		3.6							

Sensitivity analysis

	Implied share price, USD				
WACC Y1-10	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
-3.0%	4.1	4.2	4.5	4.7	5.0
-2.0%	3.8	4.0	4.2	4.4	4.7
-1.0%	3.5	3.7	3.9	4.1	4.3
+0.0%	3.3	3.4	3.6	3.8	4.1
+1.0%	3.1	3.2	3.4	3.6	3.8
+2.0%	2.9	3.0	3.2	3.3	3.5
+3.0%	2.7	2.8	3.0	3.1	3.3

	Implied share price, USD				
WACC to perpetuity	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.0%	4.4	4.8	5.3	5.9	6.7
9.0%	3.9	4.2	4.5	4.9	5.4
10.0%	3.6	3.8	4.0	4.3	4.6
11.0%	3.3	3.4	3.6	3.8	4.1
12.0%	3.1	3.2	3.3	3.5	3.7
13.0%	2.9	3.0	3.1	3.3	3.4
14.0%	2.8	2.9	3.0	3.1	3.2

Income Statement Summary, USD mln*

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	76.6	79.5	115.3	129.4	145.4	160.2	171.5	182.9	195.0	206.6	219.0	232.0
Change y-o-y		3.8%	45.0%	12.3%	12.3%	10.2%	7.1%	6.6%	6.6%	6.0%	6.0%	6.0%
Gross Profit	14.3	16.5	22.5	25.9	32.0	35.2	37.7	40.2	41.9	44.4	46.0	48.7
EBITDA	7.0	8.5	11.0	12.9	15.3	16.8	17.2	18.3	17.5	17.6	16.4	16.5
EBITDA margin. %	9.1%	10.7%	9.5%	10.0%	10.5%	10.5%	10.0%	10.0%	9.0%	8.5%	7.5%	7.1%
Depreciation	(2.0)	(2.5)	(2.6)	(2.7)	(2.7)	(2.6)	(2.6)	(2.5)	(2.5)	(2.4)	(2.3)	(2.3)
EBIT	4.9	6.0	8.3	10.3	12.6	14.2	14.6	15.8	15.1	15.2	14.1	14.2
EBIT margin. %	6.4%	7.5%	7.2%	7.9%	8.7%	8.9%	8.5%	8.6%	7.7%	7.3%	6.4%	6.1%
Interest Expense	(1.6)	(1.6)	(2.3)	(2.4)	(2.0)	(1.5)	(1.3)	(1.2)	(1.1)	(1.2)	(1.2)	(1.3)
Other income/(expense)	0	(1)	-	-	-	-	-	-	-	-	-	-
PBT	3.7	3.7	6.0	7.9	10.6	12.7	13.3	14.6	14.0	14.0	12.9	12.9
Tax	(1.2)	(1.3)	(1.5)	(2.0)	(2.7)	(3.2)	(3.3)	(3.6)	(3.5)	(3.5)	(3.2)	(3.2)
Effective tax rate	32.2%	35.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	2.3	2.2	4.1	5.4	7.3	8.7	9.2	10.0	9.6	9.7	8.9	8.9
Net Margin. %	3.1%	2.8%	3.6%	4.2%	5.0%	5.5%	5.3%	5.5%	4.9%	4.7%	4.1%	3.8%

Balance Sheet Summary, USD mln*

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	12.2	13.8	22.0	25.8	31.4	36.1	41.9	49.0	56.3	62.8	69.6	76.3
Cash & Equivalents	0.0	0.0	1.2	1.3	2.9	3.2	5.1	8.3	12.5	16.5	20.4	24.2
Trade Receivables	5.5	6.1	9.2	11.0	13.1	15.2	17.2	19.2	20.5	21.7	23.0	24.4
Inventories	5.4	4.5	7.0	8.3	9.6	11.2	12.7	14.3	15.5	16.4	17.5	18.5
Other current assets	1.3	3.1	4.6	5.2	5.8	6.4	6.9	7.3	7.8	8.3	8.8	9.3
Fixed Assets	23.1	27.9	31.0	33.1	34.5	35.1	35.4	35.6	35.9	36.2	36.5	36.8
PP&E, net	15.1	18.8	23.5	25.6	27.0	27.5	27.9	28.1	28.3	28.6	28.9	29.2
Other Fixed Assets	7.9	9.1	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Total Assets	35.3	41.6	52.9	58.9	66.0	71.2	77.3	84.7	92.2	99.0	106.1	113.1
Shareholders' Equity	11.6	14.1	18.2	23.8	31.1	37.3	43.2	49.2	54.5	59.4	63.8	68.3
Share Capital	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Reserves and Other	9.9	12.3	16.5	22.1	29.4	35.5	41.5	47.5	52.8	57.6	62.1	66.5
Current Liabilities	15.4	18.8	25.5	27.3	25.4	24.7	26.4	29.6	31.7	33.6	36.1	38.5
ST Interest Bearing Debt	4.1	9.6	11.6	11.7	7.9	5.2	5.4	7.3	7.8	8.3	9.2	10.0
Trade Payables	4.2	6.1	9.3	10.5	11.7	13.1	14.0	15.0	16.1	17.0	18.2	19.2
Other Current Liabilities	6.7	2.7	4.6	5.2	5.8	6.4	6.9	7.3	7.8	8.3	8.8	9.3
LT Liabilities	8.2	8.8	9.2	7.8	9.5	9.2	7.7	5.8	5.9	6.1	6.2	6.3
LT Interest Bearing Debt	8.2	7.8	8.1	6.5	8.0	7.6	6.0	4.0	4.0	4.0	4.0	4.0
Other LT	-	1.0	1.2	1.3	1.5	1.6	1.7	1.8	1.9	2.1	2.2	2.3
Total Liabilities & Equity	35.3	41.6	52.9	58.9	66.0	71.2	77.3	84.7	92.2	99.0	106.1	113.1

* Combined financial statements are based on Kremenchuk Milk and Galakton accounts

Shostka Milk

SHMK UZ

<http://www.shostka-cheese.com>
12M target (USD)
47.8
HOLD
Upside
2%

INVESTMENT CASE

Foreign investors bring ambitious growth plans

After having acquired the majority stake in Shostka Milk in April 2007, Fromageries Bel (France) announced plans to double cheese production in two years' time. USD 29 mln in CapEx is envisaged over 2007-2010 to increase capacity, invest in milk farms, and develop marketing and distribution. Part of the CapEx is likely to be financed by raising additional share capital. An EBRD spokesperson told us that the bank plans to acquire a minority stake in this fashion. As of this report's publication, there has not been an official announcement of plans to increase the company's charter fund.

The way to Russia opened

In July 2007, Shostka received a permit to renew exports to Russia. In our opinion, this will help the company to fulfill its plan to double cheese sales by 2010. In 2006 Shostka reduced output by 15% yoy to 9.24 ths mt due to Russia's import ban. The share of exports in the company's total output decreased to 6.5% from 36% in 2005.

Premium charge for strong brand identity

Thanks to its well-known brand, the company preserved its margins and sales in 2006, despite an unfavorable export situation that resulted in intensified domestic competition. Last year, Shostka's EBITDA margin increased to 14.7% vs. 14.4% in 2005, while sales decreased by 1.1% yoy to USD 43.5 mln. We estimate that Shostka was selling its traditional "Rossiyskiy" hard cheese at an 8% premium compared to its peer average in 2006. By May 2007, this premium grew to 9%.

MARKET INFORMATION

Market price, USD	47.0
MCap, USD mln	72.9
Free float	2.5%
Free float, USD mln	1.8
No of shares, mln	1.6

STOCK OWNERSHIP

Fromageries Bel (France)	97.5%
Other	2.5%

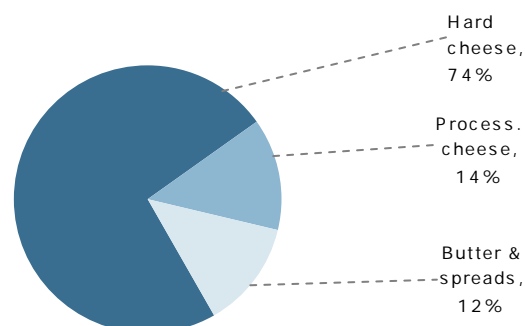
MARKET MULTIPLES

	2006	2007E	2008E
EV/Sales	1.9	1.3	1.1
EV/EBITDA	12.6	9.4	7.3
P/E	28.0	18.2	12.8

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	14.7%	14.0%	15.0%
Net margin	5.9%	5.8%	6.5%
ROE	13.7%	19.4%	22.3%
Net Debt/Equity	41.8%	79.5%	80.2%

Production breakdown in 2006, ths mt



Source: State Statistics Committee, Astarta - Tanit

BUSINESS PROFILE

Shostka Milk is the fifth largest hard cheese manufacturer with a 5.5% share of domestic production in 2006. The company ranked ninth in terms of processed raw milk with 3% of the market last year. It owns 35 milk gathering points equipped with refrigerators and mini laboratories, which enable control of input quality. Shostka's hard, processed, soft cheeses and butter are sold under two trademarks: Shostka and Bili Beregy. Fromageries Bel (France), one of the world's leading cheese makers with 35 subsidiaries worldwide, acquired a 97.5% stake in Shostka Milk in April 2007.

Plant location



Key forecasts

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales, ths mt												
Hard cheese	10.9	9.2	12.1	15.1	18.1	21.0	22.1	23.2	24.0	24.8	25.7	26.5
Change, %	26.0%	-15.3%	31.7%	24.8%	19.7%	15.8%	5.6%	5.0%	3.4%	3.4%	3.4%	3.4%
Including exports	4.7	1.0	1.4	2.1	2.7	3.2	3.7	4.1	4.3	4.5	4.7	5.0
Change, %		-79.5%	50.0%	50.0%	25.0%	20.0%	15.0%	10.0%	5.0%	5.0%	5.0%	5.0%
Butter	1.7	1.6	1.8	1.9	2.0	2.2	2.3	2.5	2.6	2.7	2.9	3.0
Change, %	21.4%	-5.9%	10.2%	7.3%	7.1%	6.8%	6.6%	6.4%	6.3%	5.0%	4.9%	4.7%

DCF model

As of November 1

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
EBITDA	48.9	65.5	80.2	94.1	98.8	99.4	89.9	82.9	83.5	83.9
EBIT	36.4	51.6	65.0	78.9	83.7	84.4	75.1	68.3	69.1	69.8
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxed EBIT	27.3	38.7	48.8	59.2	62.8	63.3	56.3	51.2	51.9	52.4
Plus D&A	12.5	13.9	15.2	15.2	15.1	15.0	14.8	14.6	14.4	14.1
Less CapEx	(69.9)	(56.8)	(53.5)	(22.0)	(20.4)	(18.4)	(18.0)	(16.6)	(15.8)	(15.4)
Less change in OWC	(15.0)	(9.8)	(8.1)	(6.0)	0.4	(5.5)	(1.8)	(4.7)	(5.6)	(6.0)
FCFF	-	(14.0)	2.4	46.4	57.8	54.4	51.3	44.5	44.8	45.1
WACC	12.9%	12.3%	11.7%	11.2%	10.9%	10.8%	10.8%	10.8%	10.8%	10.8%

Perpetuity growth rate 4.0%

WACC to perpetuity 11.0%

Terminal Value 285.4

Implied exit EBITDA multiple 8.0x

Firm value

Portion due to TV 59.5%

Less Net Debt (110.5)

Equity Value

Implied 12M price, USD

479.7

59.5%

(110.5)

369.3

47.6

Sensitivity analysis

Implied share price, USD

WACC Y1-10	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
-3.0%	54.4	57.2	60.5	64.3	68.7
-2.0%	50.2	52.8	55.9	59.4	63.5
-1.0%	46.3	48.8	51.6	54.8	58.6
+0.0%	42.7	45.0	47.6	50.6	54.2
+1.0%	39.4	41.5	43.9	46.7	50.0
+2.0%	36.3	38.2	40.5	43.1	46.2
+3.0%	33.4	35.2	37.3	39.7	42.6

Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.0%	60.2	66.0	73.2	82.6	95.0
9.0%	52.3	56.4	61.2	67.1	74.5
10.0%	46.8	49.8	53.2	57.3	62.3
11.0%	42.7	45.0	47.6	50.6	54.2
12.0%	39.5	41.4	43.4	45.8	48.4
13.0%	37.1	38.5	40.2	42.1	44.2
14.0%	35.1	36.3	37.7	39.2	40.9

Income Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	44.0	43.5	69.2	87.4	106.9	125.5	136.3	147.3	156.3	165.8	175.8	186.5
Change y-o-y		-1.1%	59.3%	26.2%	22.4%	17.3%	8.6%	8.0%	6.2%	6.0%	6.1%	6.1%
Gross Profit	9.5	10.7	17.3	22.7	28.9	35.1	38.2	39.8	39.1	40.6	43.1	44.8
EBITDA	6.3	6.4	9.7	13.1	16.0	18.8	19.8	19.9	18.0	16.6	16.7	16.8
EBITDA margin. %	14.4%	14.7%	14.0%	15.0%	15.0%	15.0%	14.5%	13.5%	11.5%	10.0%	9.5%	9.0%
Depreciation	(1.1)	(2.1)	(2.5)	(2.8)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(2.9)	(2.9)	(2.8)
EBIT	5.2	4.3	7.2	10.3	13.0	15.8	16.7	16.9	15.0	13.7	13.8	14.0
EBIT margin. %	11.8%	9.9%	10.4%	11.8%	12.2%	12.6%	12.3%	11.5%	9.6%	8.2%	7.9%	7.5%
Interest Expense	(0.4)	(0.7)	(1.9)	(2.7)	(2.9)	(2.8)	(2.4)	(1.9)	(1.5)	(1.6)	(1.6)	(1.7)
Other income/(expense)	(0.1)	(0.1)	-	-	-	-	-	-	-	-	-	-
PBT	4.7	3.5	5.4	7.6	10.1	13.0	14.4	15.0	13.5	12.1	12.2	12.2
Tax	(1.3)	(1.0)	(1.3)	(1.9)	(2.5)	(3.3)	(3.6)	(3.7)	(3.4)	(3.0)	(3.0)	(3.1)
Effective tax rate	27.9%	28.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	3.4	2.6	4.0	5.7	7.6	9.8	10.8	11.2	10.1	9.1	9.1	9.2
Net Margin. %	7.8%	5.9%	5.8%	6.5%	7.1%	7.8%	7.9%	7.6%	6.5%	5.5%	5.2%	4.9%

Balance Sheet Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	9.4	11.6	16.2	20.1	25.0	28.8	32.1	34.6	41.0	46.6	51.1	55.9
Cash & Equivalents	0.2	0.4	0.7	0.9	2.1	2.5	4.1	4.4	8.8	12.4	14.9	17.4
Trade Receivables	3.6	5.7	7.3	9.2	11.2	13.2	14.3	15.5	16.4	17.4	18.5	19.6
Inventories	4.1	4.2	6.5	7.9	9.0	9.9	10.3	11.1	12.0	12.6	13.4	14.3
Other current assets	1.6	1.3	1.7	2.2	2.7	3.1	3.4	3.7	3.9	4.1	4.4	4.7
Fixed Assets	16.2	18.3	29.6	38.5	46.2	47.5	48.6	49.3	49.9	50.3	50.6	50.9
PP&E, net	9.4	13.5	25.3	34.1	41.8	43.1	44.2	44.9	45.5	45.9	46.2	46.5
Other Fixed Assets	6.7	4.8	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Total Assets	25.6	29.9	45.8	58.6	71.2	76.3	80.7	83.9	91.0	96.9	101.7	106.8
Shareholders' Equity	16.2	18.7	22.7	28.6	36.2	43.0	50.0	56.7	62.3	66.8	70.0	73.2
Share Capital	5.7	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Reserves and Other	10.5	13.0	17.0	22.9	30.4	37.2	44.2	51.0	56.5	61.1	64.3	67.5
Current Liabilities	6.9	7.2	13.0	16.9	20.0	21.8	21.2	22.6	24.0	26.4	28.0	29.8
ST Interest Bearing Debt	2.0	4.5	8.8	11.0	12.1	11.8	9.3	9.6	9.4	10.8	11.4	12.1
Trade Payables	3.7	1.6	3.1	4.5	6.2	8.1	9.8	10.7	12.3	13.1	13.9	14.9
Other Current Liabilities	0.7	0.6	1.0	1.3	1.6	1.9	2.0	2.2	2.3	2.5	2.6	2.8
LT Liabilities	2.5	4.0	10.2	13.2	15.0	11.5	9.6	4.6	4.6	3.7	3.7	3.7
LT Interest Bearing Debt	2.3	3.8	9.9	12.8	14.6	11.0	9.0	4.0	4.0	3.0	3.0	3.0
Other LT	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.7
Total Liabilities & Equity	25.6	29.9	45.8	58.6	71.2	76.3	80.7	83.9	91.0	96.9	101.7	106.8

Cash Flow Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Income	3.4	2.6	4.0	5.7	7.6	9.8	10.8	11.2	10.1	9.1	9.1	9.2
D&A	1.1	2.1	2.5	2.8	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.8
Non-operating and non-cash items	(0.0)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Changes in working capital	(1.2)	(4.1)	(3.0)	(2.0)	(1.6)	(1.2)	0.1	(1.1)	(0.4)	(0.9)	(1.1)	(1.2)
Operating Cash Flow	3.3	0.6	3.6	6.6	9.0	11.6	13.9	13.2	12.7	11.1	10.9	10.9
Capital Expenditures, net	(6.8)	(4.1)	(13.8)	(11.4)	(10.7)	(4.4)	(4.1)	(3.7)	(3.6)	(3.3)	(3.2)	(3.1)
Other Investments, net	(0.8)	(0.0)	(0.0)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(7.5)	(4.2)	(13.8)	(11.4)	(10.7)	(4.4)	(4.1)	(3.7)	(3.6)	(3.3)	(3.2)	(3.1)
Net Borrowings/(repayments)	1.4	3.9	10.5	4.9	2.9	(4.0)	(4.5)	(4.7)	(0.3)	0.4	0.7	0.7
Dividends Paid	(0.1)	(0.1)	-	-	-	(2.9)	(3.8)	(4.5)	(4.5)	(4.5)	(5.9)	(6.0)
Equity Financing & Other	2.8	0.0	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	4.1	3.8	10.5	4.9	2.9	(6.9)	(8.2)	(9.2)	(4.8)	(4.1)	(5.3)	(5.3)
Beginning Cash Balance	0.2	0.2	0.4	0.7	0.9	2.1	2.5	4.1	4.4	8.8	12.4	14.9
Ending Cash Balance	0.2	0.4	0.7	0.9	2.1	2.5	4.1	4.4	8.8	12.4	14.9	17.4
Net Cash Inflows/Outflows	(0.1)	0.3	0.2	0.2	1.3	0.4	1.6	0.3	4.3	3.6	2.5	2.5

Zhytomyr Dairy

ZHMZ UZ

www.rud.ua

12M target (USD)

3.0

Upside

17%

BUY

INVESTMENT CASE

Ice cream will trigger sales growth

Zhytomyr Dairy, Ukraine's largest ice cream producer, should increase its market share from 14% in 2006 to 20% by 2010, according to our projections. We expect ice cream to be the major driver of sales in the future, and project 9% CAGR in sales over 2007-2012. In 2006 Zhytomyr Dairy increased ice cream output by 25% to 16.4 ths mt, and decreased production of butter and skimmed milk powder.

High profitability will be preserved

We expect Zhytomyr Dairy to continue posting the highest profitability margins of its peers, while concentrating on ice cream production. Thanks to increasing share of ice cream in its product mix in 2006, the company's EBITDA and net income grew by 44% and 83% yoy, respectively, despite a 20% decline in net revenues.

Frozen food as a hedge against raw milk shortage

In 2006 the company started production of frozen fruit & vegetables. We believe the presence of non-milk products in the company's portfolio places it over other rivals, providing a hedge against the lack of raw milk supplies and seasonality of ice cream demand.

Expected to benefit from new quality standards

We believe that Zhytomyr Dairy will benefit from new quality standards imposed by the government for ice-cream production that are scheduled to be enforced starting January 1, 2008. Notably, the standards ban usage of dry milk in ice cream production. This, in our opinion, will drive small competitors, unable to ensure stable deliveries of milk, out of business.

MARKET INFORMATION

Market price, USD	2.6
MCap, USD mln	71.6
Free float	7%
Free float, USD mln	11.1
No of shares, mln	27.9

STOCK OWNERSHIP

Company's management	81.7%
Other	18.3%

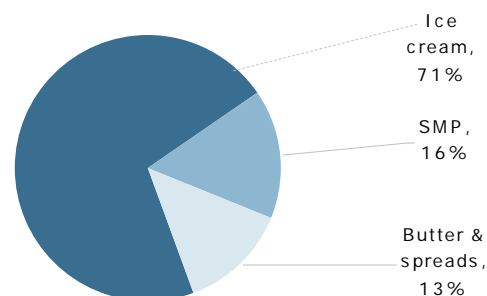
MARKET MULTIPLES

	2006	2007E	2008E
EV/Sales	1.5	1.1	1.0
EV/EBITDA	9.9	7.5	6.4
P/E	20.5	12.3	10.7

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	14.9%	14.9%	15.0%
Net margin	7.1%	8.2%	8.2%
ROE	18.7%	26.8%	24.3%
Net Debt/Equity	2.0%	27.3%	24.0%

Production breakdown in 2006, ths mt



Source: State Statistics Committee, Astarta - Tanit

BUSINESS PROFILE

Zhytomyr Dairy is Ukraine's largest producer of ice cream. In 2006 this product, sold under the brand Rud, made up 51% of the company's revenues. The company ranked third among ice cream exporters in 2006, with 17% of all Ukrainian exports. After joining the WTO, the company's management plans to diversify export destinations to include Poland, Slovakia and the Czech Republic. Last year the company spent USD 5.8 mln to modernize and expand capacities for ice cream production. CapEx was financed with equity. The company holds the lowest share of net debt to equity of traded dairy stocks – 7% at the end of 1H07. Zhytomyr Dairy is certified in accordance with international quality and environment management standards: ISO 9001:2000 and ISO 14001:2004.

Plant location



Key forecasts

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales, ths mt												
Ice cream	13.1	16.4	20.0	23.6	25.9	27.7	29.6	30.5	31.5	32.4	33.4	34.4
Change, %	28.3%	25.3%	22.0%	18.1%	9.8%	6.9%	6.7%	3.1%	3.2%	3.1%	3.1%	3.1%
Butter	4.2	3.1	3.2	3.2	3.3	3.3	3.4	3.5	3.5	3.6	3.6	3.7
Change, %	44.8%	-26.2%	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%
SMP	4.3	3.6	4.1	4.4	4.7	5.0	5.2	5.5	5.7	6.0	6.3	6.6
Change, %	4.9%	-16.7%	15.0%	7.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
including exports of ice cream	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.9	0.9
Change, %		0.0%	20.0%	20.0%	15.0%	15.0%	10.0%	10.0%	10.0%	5.0%	5.0%	5.0%

DCF model

As of November 1

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
EBITDA	53.1	61.2	68.0	72.5	72.4	70.5	72.0	73.2	73.8	74.3
EBIT	44.0	51.2	57.0	60.8	60.1	58.0	59.2	60.3	60.7	61.0
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Taxed EBIT	33.0	38.4	42.8	45.6	45.1	43.5	44.4	45.2	45.5	45.8
Plus D&A	9.0	10.0	10.9	11.6	12.2	12.5	12.7	12.9	13.1	13.3
Less CapEx	(51.6)	(33.9)	(31.7)	(26.6)	(23.3)	(16.3)	(14.4)	(13.4)	(13.5)	(13.5)
Less change in OWC	(17.4)	(5.6)	(3.3)	(4.2)	(2.8)	(1.4)	(4.1)	(4.3)	(3.5)	(3.3)
FCFF	-	8.9	18.7	26.5	31.2	38.3	38.6	40.4	41.6	42.3
WACC	13.8%	13.5%	12.8%	12.2%	11.3%	10.9%	10.8%	10.8%	10.8%	10.8%

		Perpetuity growth rate	4.0%
		WACC to perpetuity	11.0%
Terminal Value	260.2		628.2
		Implied exit EBITDA multiple	8.5x
Firm value	430.1		
Portion due to TV	60.5%		
Less Net Debt	(35.8)		
Equity Value	394.3		
Implied 12M price, USD	2.8		

Sensitivity analysis

Implied share price, USD

WACC Y1-10	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
-3.0%	3.1	3.3	3.5	3.6	3.9
-2.0%	2.9	3.1	3.2	3.4	3.6
-1.0%	2.8	2.9	3.0	3.2	3.4
+0.0%	2.6	2.7	2.8	3.0	3.2
+1.0%	2.4	2.5	2.7	2.8	3.0
+2.0%	2.3	2.4	2.5	2.6	2.8
+3.0%	2.1	2.2	2.3	2.5	2.6

Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.0%	3.5	3.8	4.1	4.6	5.2
9.0%	3.1	3.3	3.5	3.8	4.2
10.0%	2.8	2.9	3.1	3.3	3.6
11.0%	2.6	2.7	2.8	3.0	3.2
12.0%	2.4	2.5	2.6	2.7	2.9
13.0%	2.3	2.4	2.5	2.5	2.7
14.0%	2.2	2.3	2.3	2.4	2.5

Income Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	61.2	49.4	70.5	81.7	90.6	96.6	103.4	108.4	115.2	122.0	128.4	135.1
Change y-o-y		-19.3%	42.7%	15.8%	11.0%	6.6%	7.0%	4.9%	6.2%	6.0%	5.2%	5.2%
Gross Profit	10.1	14.5	20.7	24.1	26.7	28.5	30.0	31.4	32.8	34.8	36.6	38.5
EBITDA	5.1	7.3	10.5	12.2	13.6	14.5	14.5	14.1	14.4	14.6	14.8	14.9
EBITDA margin. %	8.3%	14.9%	14.9%	15.0%	15.0%	15.0%	14.0%	13.0%	12.5%	12.0%	11.5%	11.0%
Depreciation	(1.7)	(2.1)	(1.8)	(2.0)	(2.2)	(2.3)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)	(2.7)
EBIT	3.4	5.2	8.7	10.2	11.4	12.2	12.0	11.6	11.8	12.1	12.1	12.2
EBIT margin. %	5.5%	10.5%	12.4%	12.5%	12.6%	12.6%	11.6%	10.7%	10.3%	9.9%	9.5%	9.0%
Interest Expense	(0.2)	(0.2)	(1.0)	(1.3)	(1.3)	(1.3)	(1.4)	(1.5)	(1.4)	(1.6)	(1.6)	(1.7)
Other income/(expense)	(0.1)	(0.1)	-	-	-	-	-	-	-	-	-	-
PBT	3.0	4.9	7.8	8.9	10.1	10.9	10.7	10.1	10.4	10.5	10.5	10.5
Tax	(1.1)	(1.4)	(1.9)	(2.2)	(2.5)	(2.7)	(2.7)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)
Effective tax rate	36.3%	28.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	1.9	3.5	5.8	6.7	7.6	8.2	8.0	7.6	7.8	7.9	7.9	7.9
Net Margin. %	3.1%	7.1%	8.2%	8.2%	8.3%	8.4%	7.7%	7.0%	6.8%	6.5%	6.1%	5.8%

Balance Sheet Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	11.4	9.5	13.3	15.8	19.3	22.8	28.1	32.6	37.8	43.1	48.3	53.7
Cash & Equivalents	0.6	0.5	0.7	0.8	1.8	3.6	7.2	10.5	14.1	17.8	21.5	25.5
Trade Receivables	5.2	4.5	6.3	7.5	8.8	9.7	10.5	11.2	12.0	12.8	13.5	14.2
Inventories	2.7	3.1	4.5	5.5	6.4	7.2	7.8	8.2	8.9	9.5	10.1	10.6
Other current assets	2.9	1.3	1.8	2.0	2.3	2.4	2.6	2.7	2.9	3.1	3.2	3.4
Fixed Assets	12.1	16.1	24.7	29.7	33.9	36.8	39.1	39.8	40.1	40.2	40.3	40.4
PP&E, net	11.2	14.7	24.3	29.3	33.5	36.4	38.7	39.4	39.7	39.8	39.9	39.9
Other Fixed Assets	0.8	1.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total Assets	23.5	25.6	38.0	45.5	53.1	59.7	67.2	72.4	77.9	83.4	88.6	94.0
Shareholders' Equity	15.3	18.8	24.6	30.2	35.8	41.6	46.8	50.5	54.4	58.4	62.3	66.2
Share Capital	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Reserves and Other	15.0	18.5	24.3	29.9	35.6	41.3	46.5	50.3	54.2	58.1	62.0	66.0
Current Liabilities	7.6	6.8	10.9	12.7	14.7	15.5	17.8	19.3	20.9	22.4	23.7	25.2
ST Interest Bearing Debt	1.4	0.9	4.8	5.4	5.6	5.5	6.7	7.3	8.1	8.8	9.4	10.1
Trade Payables	3.6	2.5	3.2	4.0	5.4	6.1	7.0	7.7	8.2	8.7	9.2	9.7
Other Current Liabilities	2.5	3.1	2.8	3.3	3.6	3.9	4.1	4.3	4.6	4.9	5.1	5.4
LT Liabilities	0.6	-	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
LT Interest Bearing Debt	0.6	-	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other LT	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities & Equity	23.5	25.6	38.0	45.5	53.1	59.7	67.2	72.4	77.9	83.4	88.6	94.0

Cash Flow Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Income	1.9	3.5	5.8	6.7	7.6	8.2	8.0	7.6	7.8	7.9	7.9	7.9
D&A	1.7	2.1	1.8	2.0	2.2	2.3	2.4	2.5	2.5	2.6	2.6	2.7
Non-operating and non-cash items	0.1	6.0	(0.1)	0.0	0.0	(0.0)	(0.0)	0.0	(0.0)	0.0	(0.0)	(0.0)
Changes in working capital	(1.7)	1.2	(3.4)	(1.1)	(0.7)	(0.8)	(0.6)	(0.3)	(0.8)	(0.9)	(0.7)	(0.7)
Operating Cash Flow	2.0	12.8	4.1	7.6	9.1	9.6	9.9	9.8	9.5	9.6	9.8	9.9
Capital Expenditures, net	(2.0)	(5.8)	(10.2)	(6.8)	(6.3)	(5.3)	(4.7)	(3.3)	(2.9)	(2.7)	(2.7)	(2.7)
Other Investments, net	-	(0.6)	(0.1)	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(2.0)	(6.4)	(10.3)	(6.8)	(6.3)	(5.3)	(4.7)	(3.3)	(2.9)	(2.7)	(2.7)	(2.7)
Net Borrowings/(repayments)	0.9	(1.0)	6.4	0.7	0.2	(0.1)	1.2	0.5	0.8	0.7	0.6	0.8
Dividends Paid	-	-	-	(1.3)	(1.9)	(2.4)	(2.8)	(3.8)	(3.9)	(3.9)	(3.9)	(3.9)
Equity Financing & Other	(0.8)	0.5	-	-	-	-	-	-	-	-	-	-
Financing Cash Flow	0.1	(0.5)	6.4	(0.7)	(1.7)	(2.6)	(1.6)	(3.2)	(3.1)	(3.2)	(3.4)	(3.2)
Beginning Cash Balance	0.4	0.6	0.5	0.7	0.8	1.8	3.6	7.2	10.5	14.1	17.8	21.5
Ending Cash Balance	0.6	0.5	0.7	0.8	1.8	3.6	7.2	10.5	14.1	17.8	21.5	25.5
Net Cash Inflows/Outflows	0.1	(0.0)	0.2	0.1	1.0	1.8	3.6	3.3	3.5	3.7	3.7	4.0

Kovelmoloko

KMOL UZ

www.komo.ua

12M target (USD)

Upside

0.7

37%

BUY

INVESTMENT CASE

Participation in holding brings benefits

Kovelmoloko is a part of the Western Milk Group, which is the second largest domestic processor of raw milk with a 5% share of milk processed in 2006. WMG operates a distribution network covering all parts of Ukraine, with a focus on Western regions, where 10 out of 19 distribution offices are located. In addition, Kovelmoloko's access to raw milk supplies should improve as WMG plans to build two farms with herds of 2 ths milk cows each in 2008, which would secure 5-10% of the group's input needs.

Entering high value-added segment

Kovelmoloko plans to capture 7% of the functional (enriched with vitamins and microelements) dairy product market, estimated at 43 ths mt, by yearend and lift its share to 32% by 2008. In addition, WMG plans to launch new workshop for cottage cheese production at Kovelmoloko with an approximate annual production capacity of 5.5 ths mt by the end of 2007. We expect that the introduction of these products will drive the company's revenues from WMP by 64% to USD 23.3 mln in 2008.

MARKET INFORMATION

Market price, USD	0.5
MCap, USD mln	37.3
Free float	22.2%
Free float, USD mln	8.3
No of shares, mln	74.6

STOCK OWNERSHIP

Western Milk Group	47.1%
Treasury shares	30.7%
Other	22.2%

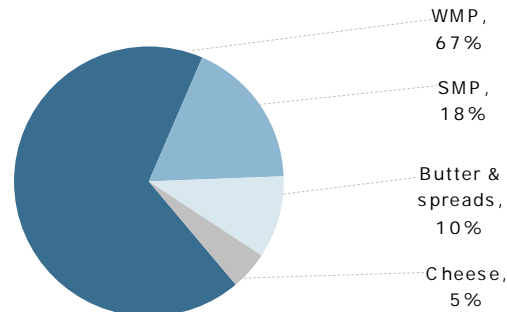
MARKET MULTIPLES

	2006	2007E	2008E
EV/Sales	1.5	1.0	0.6
EV/EBITDA	15.7	12.4	5.5
P/E	186.6	67.0	9.7

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	9.7%	8.0%	11.0%
Net margin	0.8%	1.2%	4.9%
ROE	8.4%	12.4%	46.7%
Net Debt/Equity	186.9%	145.8%	100.2%

Production breakdown in 2006, ths mt

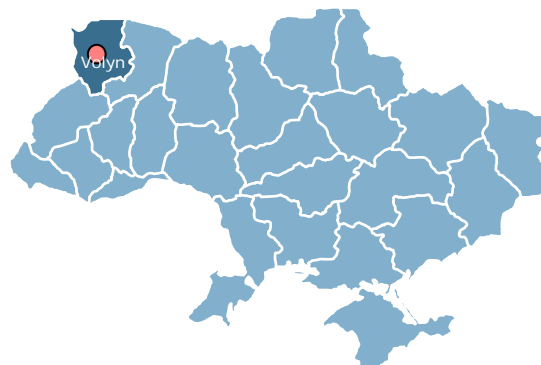


Source: State Statistics Committee, Astarta - Tanit

BUSINESS PROFILE

Kovelmoloko is Western Milk Group's main production asset, accounting for 33% of its output. The company's product mix includes WMP, butter, cheese, canned milk and SMP. Western Milk Group's products carry five trademarks: Komo, Vykrutas, Gurmanika, Optimal and Molochna Rodyna. Kovelmoloko ranked second in terms of exports of butter and SMP with a share of 13.3% and 6.8%, respectively. The company spent USD 3.5 mln on modernization in 2006. In 2007 the holding company invested USD 2 mln to launch a new bottling line to manufacture liquid milk products in PET bottles. In 2007 Kovelmoloko increased its charter fund by USD 3 mln to USD 3.7 mln. Subscription finished on September 21, 2007. In October 2007 Kovelmoloko received a permit to export milk powder to Russia.

Plant location



Key forecasts

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales, ths mt												
SMP	2.4	4.6	5.3	5.9	6.5	7.1	7.5	7.9	8.3	8.5	8.8	9.0
Change, %		90.6%	15.0%	12.0%	10.0%	10.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%
Butter	1.5	2.5	3.0	3.2	3.5	3.6	3.7	3.8	3.9	4.0	4.0	4.1
Change, %		71%	20%	8%	7%	3%	3%	3%	3%	2%	2%	2%
including exports	0.6	33.3%	41.6%	49.9%	57.4%	63.1%	69.5%	72.9%	76.6%	80.4%	84.4%	88.6%
Change, %		-45%	25%	20%	15%	10%	10%	5%	5%	5%	5%	5%
Cheese	2.7	1.2	1.9	2.7	3.6	4.1	5.2	5.5	5.7	5.8	6.0	6.3
Change, %		-57.3%	63.1%	40.0%	34.5%	15.7%	25.2%	5.2%	3.4%	3.4%	3.5%	3.5%
including exports	1.7	0.4	0.5	0.7	0.9	1.0	1.1	1.2	1.3	1.3	1.4	1.5
Change, %		-77.4%	25.0%	50.0%	20.0%	15.0%	10.0%	10.0%	5.0%	5.0%	5.0%	5.0%
WMP	14.2	17.3	25.0	39.0	64.0	67.7	69.7	71.7	73.8	77.6	80.7	83.9
Change, %		22.0%	44.1%	56.0%	64.1%	5.7%	3.0%	3.0%	2.8%	5.2%	4.0%	4.0%

DCF model

As of November 1

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
EBITDA	18.9	43.4	55.9	67.2	72.0	77.3	72.6	62.9	62.9	62.7
EBIT	7.8	31.4	43.5	54.4	58.9	64.1	59.4	49.8	49.9	49.9
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Taxed EBIT	5.9	23.5	32.6	40.8	44.2	48.1	44.5	37.3	37.5	37.4
Plus D&A	11.1	12.1	12.4	12.8	13.1	13.2	13.2	13.1	13.0	12.8
Less CapEx	(48.5)	(39.5)	(25.4)	(25.2)	(24.0)	(19.3)	(17.3)	(14.8)	(14.2)	(14.2)
Less change in OWC	(4.2)	1.8	(0.1)	(5.0)	(4.2)	(6.0)	(6.5)	(3.1)	(8.5)	(8.8)
FCFF	-	(2.0)	19.5	23.4	29.1	35.9	34.0	32.6	27.8	27.2
WACC	11.3%	11.9%	12.3%	12.0%	11.6%	10.9%	10.8%	10.8%	10.8%	10.8%

Perpetuity growth rate 4.0%
WACC to perpetuity 11.0%

Terminal Value	168.7											403.9
Firm value	305.0											6.4x
Portion due to TV	55.3%											
Less Net Debt	(50.1)											
Equity Value	255.0											
Implied 12M price, USD	0.7											

Sensitivity analysis

Implied share price, USD

WACC Y1-10	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
-3.0%	0.8	0.8	0.8	0.9	0.9
-2.0%	0.7	0.7	0.8	0.8	0.9
-1.0%	0.7	0.7	0.7	0.8	0.8
+0.0%	0.6	0.7	0.7	0.7	0.8
+1.0%	0.6	0.6	0.6	0.7	0.7
+2.0%	0.5	0.6	0.6	0.6	0.7
+3.0%	0.5	0.5	0.6	0.6	0.6

Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.0%	0.8	0.9	1.0	1.1	1.3
9.0%	0.7	0.8	0.8	0.9	1.0
10.0%	0.7	0.7	0.8	0.8	0.9
11.0%	0.6	0.7	0.7	0.7	0.8
12.0%	0.6	0.6	0.6	0.7	0.7
13.0%	0.6	0.6	0.6	0.6	0.6
14.0%	0.5	0.5	0.6	0.6	0.6

Income Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	27.1	27.6	46.8	79.0	101.7	111.9	120.0	128.8	138.3	147.9	157.3	167.2
Change y-o-y		1.9%	69.5%	68.6%	28.8%	10.1%	7.2%	7.4%	7.3%	7.0%	6.3%	6.3%
Gross Profit	4.9	4.1	6.1	14.2	19.3	23.5	27.6	29.6	30.4	29.6	30.7	31.8
EBITDA	2.7	2.7	3.7	8.7	11.2	13.4	14.4	15.5	14.5	12.6	12.6	12.5
EBITDA margin. %	10.0%	9.7%	8.0%	11.0%	11.0%	12.0%	12.0%	12.0%	10.5%	8.5%	8.0%	7.5%
Depreciation	(1.6)	(1.9)	(2.2)	(2.4)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
EBIT	1.1	0.8	1.6	6.3	8.7	10.9	11.8	12.8	11.9	10.0	10.0	10.0
EBIT margin. %	4.2%	3.0%	3.3%	7.9%	8.6%	9.7%	9.8%	10.0%	8.6%	6.7%	6.4%	6.0%
Interest Expense	(0.6)	(0.6)	(0.8)	(1.2)	(1.0)	(0.8)	(0.7)	(0.7)	(0.6)	(0.7)	(0.8)	(0.8)
Other income/(expense)	0.0	(0.0)	-	-	-	-	-	-	-	-	-	-
PBT	0.5	0.2	0.7	5.1	7.7	10.1	11.1	12.2	11.2	9.2	9.2	9.2
Tax	(0.2)	-	(0.2)	(1.3)	(1.9)	(2.5)	(2.8)	(3.0)	(2.8)	(2.3)	(2.3)	(2.3)
EBITtaxrate	36.7%	0.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	0.3	0.2	0.6	3.8	5.8	7.5	8.3	9.1	8.4	6.9	6.9	6.9
Net Margin. %	1.1%	0.8%	1.2%	4.9%	5.7%	6.7%	6.9%	7.1%	6.1%	4.7%	4.4%	4.1%

Balance Sheet Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	9.0	12.3	19.8	23.8	27.0	27.9	29.9	35.1	40.1	44.6	47.4	50.1
Cash & Equivalents	0.1	0.1	0.5	0.8	2.0	2.2	3.6	7.2	10.5	13.7	14.9	15.8
Trade Receivables	2.9	4.4	10.3	11.8	12.2	12.3	12.6	13.5	14.5	14.8	15.7	16.7
Inventories	2.0	2.6	3.7	5.8	7.4	8.0	8.3	8.9	9.7	10.6	11.4	12.2
Other current assets	4.0	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Fixed Assets	13.2	14.0	21.4	27.1	29.7	32.2	34.3	35.6	36.4	36.7	37.0	37.2
PP&E, net	12.6	13.3	21.2	26.8	29.4	31.9	34.1	35.3	36.2	36.5	36.7	37.0
Other Fixed Assets	0.6	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Assets	22.2	26.3	41.2	50.9	56.7	60.0	64.3	70.7	76.5	81.3	84.4	87.4
Shareholders' Equity	2.3	2.7	6.3	10.2	15.9	21.2	26.6	32.1	36.7	40.2	42.6	45.0
Share Capital	0.7	0.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Reserves and Other	1.6	1.8	2.4	6.2	12.0	17.3	22.7	28.2	32.8	36.3	38.7	41.1
Current Liabilities	13.3	18.5	25.4	31.0	32.8	32.7	32.4	33.3	34.4	35.6	36.2	36.7
ST Interest Bearing Debt	-	-	0.5	2.0	1.9	2.2	2.1	2.6	3.2	3.8	4.4	4.8
Trade Payables	3.0	5.7	12.2	16.2	18.1	17.7	17.6	17.9	18.3	18.9	19.0	19.0
Other Current Liabilities	10.2	12.7	12.6	12.8	12.8	12.9	12.8	12.9	12.9	12.9	12.8	12.9
LT Liabilities	6.6	5.4	9.6	9.8	8.0	6.1	5.2	5.3	5.4	5.5	5.6	5.7
LT Interest Bearing Debt	6.3	5.1	9.1	9.0	7.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0
Other LT	0.3	0.3	0.5	0.8	1.0	1.1	1.2	1.3	1.4	1.5	1.6	1.7
Total Liabilities & Equity	22.2	26.6	41.2	50.9	56.7	60.0	64.3	70.7	76.5	81.3	84.4	87.4

Cash Flow Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Income	0.3	0.2	0.6	3.8	5.8	7.5	8.3	9.1	8.4	6.9	6.9	6.9
D&A	1.6	1.9	2.2	2.4	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Non-operating and non-cash items	0.0	(0.0)	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Changes in working capital	(2.5)	2.4	(0.8)	0.4	(0.0)	(1.0)	(0.8)	(1.2)	(1.3)	(0.6)	(1.7)	(1.8)
Operating Cash Flow	(0.6)	4.5	2.5	6.9	8.4	9.2	10.2	10.6	9.9	9.0	7.9	7.8
Capital Expenditures, net	(1.3)	(3.5)	(9.6)	(7.9)	(5.1)	(5.0)	(4.8)	(3.9)	(3.5)	(3.0)	(2.8)	(2.8)
Other Investments, net	-	-	0.0	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(1.3)	(3.5)	(9.6)	(7.9)	(5.1)	(5.0)	(4.8)	(3.9)	(3.5)	(3.0)	(2.8)	(2.8)
Net Borrowings/(repayments)	1.7	(1.2)	4.5	1.3	(2.1)	(1.7)	(1.1)	0.5	0.6	0.7	0.6	0.4
Dividends Paid	-	-	-	-	-	(2.3)	(2.9)	(3.7)	(3.8)	(3.5)	(4.5)	(4.5)
Equity Financing & Other	-	0.2	3.0	-	-	-	-	-	-	-	-	-
Financing Cash Flow	1.7	(1.0)	7.5	1.3	(2.1)	(4.0)	(4.0)	(3.1)	(3.2)	(2.8)	(3.9)	(4.0)
Beginning Cash Balance	0.2	0.1	0.1	0.5	0.8	2.0	2.2	3.6	7.2	10.5	13.7	14.9
Ending Cash Balance	0.1	0.1	0.5	0.8	2.0	2.2	3.6	7.2	10.5	13.7	14.9	15.8
Net Cash Inflows/Outflows	(0.1)	0.0	0.4	0.3	1.2	0.2	1.4	3.6	3.2	3.3	1.1	0.9

Ukrproduct Group

UKR LN

www.ukrproduct.com
12M target , USD
1.9
HOLD
12M target , GBP
0.9
Upside
4%

INVESTMENT CASE

Likely acquisition target

Due to its independence from large dairy producers, Ukrproduct is a potential acquisition target for either a large Ukrainian or foreign dairy group. The potential acquirer is likely to be attracted by its solid position on the Ukrainian dairy market. In 2006 Ukrproduct accounted for 5% of milk processed in the country.

Hard cheese added to product line

In summer 2007 Ukrproduct launched production of hard cheese at a new workshop at its Starkon plant. We expect the new product to raise Ukrproduct's profitability, and believe that the company's expertise in brand development will provide it with competitive advantage in this field. We expect hard cheese to account for 10% of Ukrproduct's sales in 2008.

Outstanding corporate governance

Ukrproduct was the first domestic company to list on AIM in 2005. In accordance with AIM's requirements, Ukrproduct's shareholders are provided with semi-annual IFRS financials and regular updates on the company's trends in sales and profits. We also scored Ukrproduct above average in our Corporate Governance rating (for more details see our report of February 2007).

MARKET INFORMATION

Market price, USD	1.8
Market price, GBP	0.9
MCap, USD mln	76.7
Mcap, GBP mln	36.8
Free float	30.4%
Free float, USD mln	23.3
Free float, GBP mln	11.2
No of shares, mln	41.2

STOCK OWNERSHIP

Company's management	69.6%
Other	30.4%

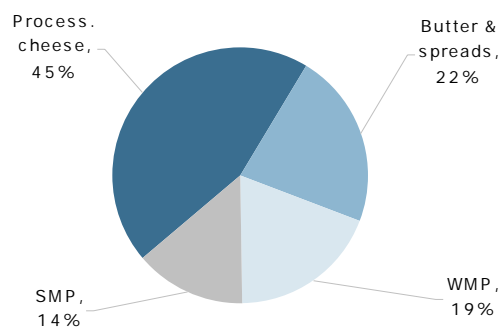
MARKET MULTIPLES

	2006	2007E	2008E
EV/Sales	1.3	1.0	0.8
EV/EBITDA	16.0	8.4	7.0
P/E	38.3	16.2	12.2

KEY RATIOS

	2006	2007E	2008E
EBITDA margin	8.0%	11.7%	11.9%
Net margin	3.1%	5.6%	6.2%
ROE	8.0%	17.6%	20.1%
Net Debt/Equity	27.5%	20.3%	19.6%

Production breakdown in 2006, ths mt

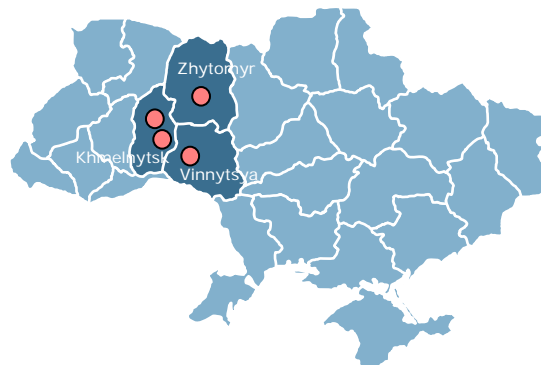


Source: State Statistics Committee, Astarta – Tanit

BUSINESS PROFILE

Ukrproduct Group is the leading producer of processed cheese, with 25.8% of total domestic output last year. The Group ranked third among Ukrainian dairy manufacturers in terms of processed raw milk, holding a 5% market share in 2006. The company's product portfolio includes processed cheese, packaged butter, SMP and hard cheese. It has four production plants and eight distribution subsidiaries. In December 2006, a new SMP facility was installed at Starokonstantinovskiy Dairy Plant (Starkon), which almost doubled the group's SMP production capacities. A new workshop, with planned annual capacity of 3.6 ths mt of hard cheese, at Starkon became fully operational in July 2007.

Plant location



Key forecasts

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Sales, ths mt												
Processed cheese	14.7	12.8	13.5	14.0	14.3	14.5	14.6	14.3	14.5	14.5	14.2	13.8
Butter own	2.1	2.3	2.5	2.7	2.9	3.1	3.2	3.4	3.4	3.7	3.9	4.0
increase, %		8.1%	10.0%	10.0%	7.0%	5.0%	5.0%	5.0%	0.8%	9.4%	5.0%	3.0%
Butter bought	7.2	7.1	7.0	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
increase, %		-2.3%	-1.0%	-1.0%	-1.0%	-1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SMP own	3.7	4.0	4.4	4.8	5.2	5.4	5.7	6.0	6.3	6.6	6.9	7.1
increase, %	5.7%	8.1%	10.0%	10.0%	7.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
SMP bought	4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
increase, %		-1.3%										
Hard cheese	0.0	0	1.0	2.7	3.0	3.3	3.4	3.5	3.7	3.8	3.9	4.0

DCF model

As of November 1

For the purpose of forecasting, local currency is used (UAH mln) unless otherwise noted

for the purpose of forecasting, local currency is used (BRL mm) unless otherwise noted

	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	
EBITDA	49.8	59.8	65.5	69.3	71.6	71.2	74.0	69.7	68.0	61.4	
EBIT	36.8	46.4	52.1	56.1	58.7	58.6	61.6	57.6	56.3	50.0	
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
Taxed EBIT	27.6	34.8	39.1	42.1	44.0	43.9	46.2	43.2	42.2	37.5	
Plus D&A	13.1	13.4	13.3	13.1	12.9	12.6	12.3	12.0	11.7	11.4	
Less CapEx	(29.8)	(27.6)	(19.1)	(14.4)	(13.3)	(13.1)	(12.4)	(12.3)	(12.0)	(11.9)	
Less change in OWC	(2.4)	(8.7)	(5.4)	(1.2)	(2.9)	(0.3)	(2.7)	(2.0)	(3.4)	(0.0)	
FCFF	-	11.8	27.9	39.7	40.7	43.2	43.4	40.9	38.5	37.0	
WACC	14.1%	13.7%	13.0%	12.2%	11.4%	10.9%	10.8%	10.8%	10.8%	10.8%	
										Perpetuity growth rate	4.0%
										WACC to perpetuity	11.0%
Terminal Value	226.9									549.3	
										Implied exit EBITDA multiple	8.9x
Firm value	426.5										
Portion due to TV	53.2%										
Less Net Debt	(32.1)										
Equity Value	394.4										
Implied 12M price, USD	1.9										

Sensitivity analysis

Implied share price, USD

WACC Y1-10	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
-3.0%	2.1	2.2	2.3	2.4	2.6
-2.0%	2.0	2.1	2.2	2.3	2.4
-1.0%	1.9	2.0	2.1	2.1	2.3
+0.0%	1.8	1.9	1.9	2.0	2.1
+1.0%	1.7	1.7	1.8	1.9	2.0
+2.0%	1.6	1.6	1.7	1.8	1.9
+3.0%	1.5	1.6	1.6	1.7	1.8

Implied share price, USD

WACC to perpetuity	Perpetuity Growth Rate				
	3.0%	3.5%	4.0%	4.5%	5.0%
8.0%	2.3	2.5	2.7	3.0	3.4
9.0%	2.1	2.2	2.3	2.5	2.7
10.0%	1.9	2.0	2.1	2.2	2.4
11.0%	1.8	1.9	1.9	2.0	2.1
12.0%	1.7	1.7	1.8	1.9	2.0
13.0%	1.6	1.7	1.7	1.8	1.8
14.0%	1.6	1.6	1.6	1.7	1.7

Income Statement Summary, USD mln

	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Revenues	72.6	64.6	84.3	100.5	110.2	118.6	124.4	130.4	136.4	142.2	147.0	153.5
Change y-o-y		-11.0%	30.5%	19.2%	9.6%	7.6%	4.9%	4.8%	4.6%	4.3%	3.4%	4.4%
Gross Profit	13.9	15.9	21.3	25.2	27.9	30.1	31.6	33.1	34.5	35.1	35.5	36.1
EBITDA	6.3	5.2	9.9	12.0	13.2	14.3	14.8	14.8	15.4	14.5	14.2	13.1
EBITDA margin. %	8.6%	8.0%	11.7%	11.9%	12.0%	12.0%	11.9%	11.4%	11.3%	10.2%	9.6%	8.5%
Depreciation	(1.6)	(2.5)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)	(2.6)	(2.6)	(2.5)	(2.4)	(2.4)
EBIT	4.6	2.6	7.3	9.3	10.5	11.6	12.1	12.2	12.8	12.0	11.7	10.6
EBIT margin. %	6.4%	4.1%	8.6%	9.2%	9.6%	9.8%	9.7%	9.4%	9.4%	8.4%	8.0%	6.9%
Interest Expense	(0.4)	(0.4)	(1.0)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)
Other income/(expense)	-	-	-	-	-	-	-	-	-	-	-	-
PBT	4.3	2.2	6.3	8.4	9.6	10.7	11.2	11.2	11.9	11.0	10.7	9.5
Tax	(0.6)	(0.2)	(1.6)	(2.1)	(2.4)	(2.7)	(2.8)	(2.8)	(3.0)	(2.8)	(2.7)	(2.4)
Effective tax rate	14.4%	9.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	3.6	2.0	4.7	6.3	7.2	8.0	8.4	8.4	8.9	8.3	8.0	7.1
Net Margin. %	5.0%	3.1%	5.6%	6.2%	6.6%	6.8%	6.7%	6.5%	6.5%	5.8%	5.5%	4.7%

Balance Sheet Summary, USD mln

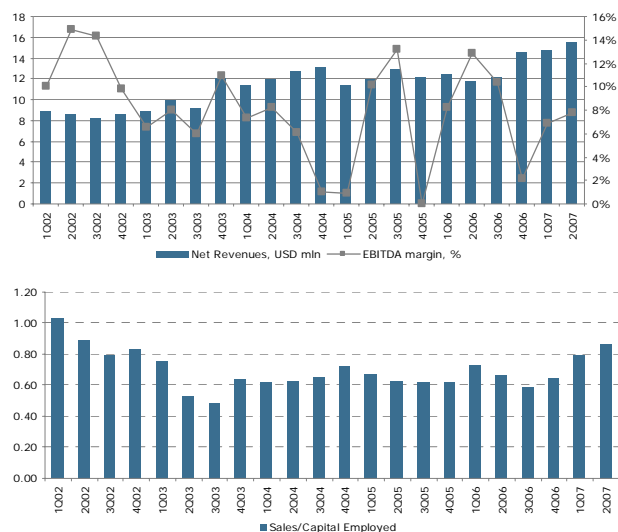
	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Current Assets	16.1	13.0	15.2	18.2	21.3	25.1	28.6	32.6	36.6	39.9	43.3	48.8
Cash & Equivalents	0.8	0.3	0.8	1.0	2.2	4.9	7.0	10.2	12.7	15.1	17.4	20.8
Trade Receivables	6.9	7.3	7.6	9.2	10.6	11.5	12.3	12.9	13.6	14.3	14.8	16.1
Inventories	7.8	5.2	6.8	7.9	8.6	8.7	9.3	9.5	10.3	10.5	11.1	11.9
Other current assets	0.6	0.2	-	-	-	-	-	-	-	-	-	-
Fixed Assets	19.0	24.3	27.5	30.6	31.8	32.0	32.1	32.2	32.2	32.3	32.3	34.5
PP&E, net	16.4	21.3	24.6	27.7	28.9	29.1	29.2	29.3	29.3	29.4	29.5	31.4
Other Fixed Assets	2.6	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.1
Total Assets	35.0	37.3	42.7	48.8	53.1	57.1	60.7	64.8	68.8	72.2	75.7	83.3
Shareholders' Equity	23.0	24.8	29.2	33.2	36.8	39.1	41.6	44.0	46.6	48.9	51.2	56.7
Share Capital	7.1	8.1	8.1	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.7
Reserves and Other	15.9	16.7	21.0	25.0	28.6	30.9	33.4	35.8	38.4	40.7	43.0	47.9
Current Liabilities	10.1	10.8	11.6	13.4	13.9	15.4	16.5	18.1	19.4	20.4	21.4	23.4
ST Interest Bearing Debt	5.3	6.9	6.6	7.3	7.0	7.7	8.0	8.8	9.2	9.6	10.2	11.1
Trade Payables	4.5	3.8	5.0	6.0	6.9	7.7	8.6	9.3	10.3	10.8	11.2	12.3
Other Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
LT Liabilities	2.0	1.7	1.9	2.2	2.4	2.5	2.6	2.7	2.8	2.9	3.0	3.3
LT Interest Bearing Debt	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other LT	1.7	1.5	1.7	2.0	2.2	2.3	2.4	2.5	2.6	2.7	2.8	3.1
Total Liabilities & Equity	35.0	37.3	42.7	48.8	53.1	57.1	60.7	64.8	68.8	72.2	75.7	83.3

Cash Flow Statement Summary, USD mln

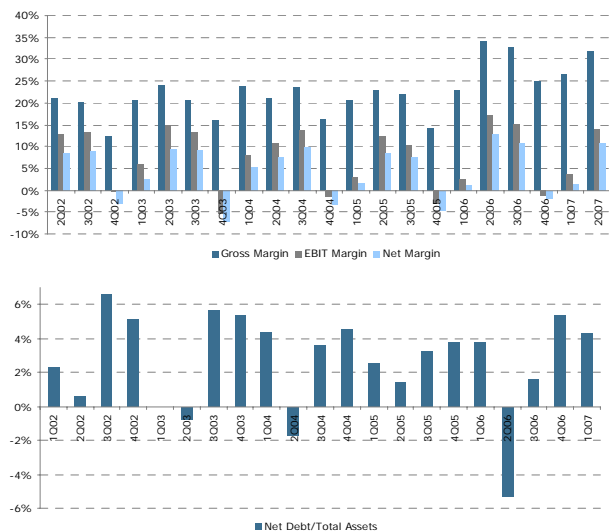
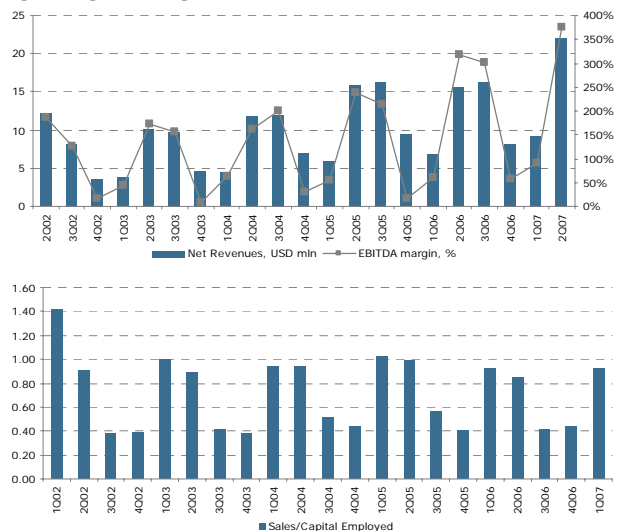
	2005	2006	2007E	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Net Income	3.6	2.0	4.7	6.3	7.2	8.0	8.4	8.4	8.9	8.3	8.0	7.1
D&A	1.6	2.5	2.6	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.4	2.4
Non-operating and non-cash items	1.1	0.8	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Changes in working capital	(6.4)	1.8	(0.5)	(1.7)	(1.1)	(0.2)	(0.6)	(0.1)	(0.6)	(0.4)	(0.7)	(0.0)
Operating Cash Flow	-	7.1	7.1	7.5	9.0	10.6	10.6	11.1	11.0	10.5	9.8	9.6
Capital Expenditures, net	(2.3)	(8.6)	(5.9)	(5.5)	(3.9)	(3.0)	(2.7)	(2.7)	(2.6)	(2.6)	(2.5)	(2.5)
Other Investments, net	(6.2)	-	0.1	-	-	-	-	-	-	-	-	-
Investing Cash Flow	(8.6)	(8.6)	(5.8)	(5.5)	(3.9)	(3.0)	(2.7)	(2.7)	(2.6)	(2.6)	(2.5)	(2.5)
Net Borrowings/(repayments)	1.4	1.5	(0.4)	0.7	(0.3)	0.7	0.3	0.8	0.4	0.4	0.6	0.2
Dividends Paid	(0.3)	(0.5)	(0.4)	(2.5)	(3.6)	(5.6)	(5.9)	(5.9)	(6.2)	(5.8)	(5.6)	(5.0)
Equity Financing & Other	9.4	0.1	0.0	-	-	-	-	-	-	-	-	-
Financing Cash Flow	10.5	1.1	(0.7)	(1.8)	(4.0)	(4.9)	(5.6)	(5.1)	(5.8)	(5.4)	(5.0)	(4.8)
Beginning Cash Balance	1.1	0.8	0.3	0.9	1.0	2.2	5.0	7.3	10.6	13.2	15.8	18.5
Ending Cash Balance	0.8	0.3	0.8	1.0	2.2	5.0	7.2	10.6	13.2	15.8	18.1	20.8
Net Cash Inflows/Outflows	(0.3)	(0.4)	0.5	0.2	1.2	2.8	2.2	3.3	2.6	2.5	2.4	2.3

Quarterly analysis

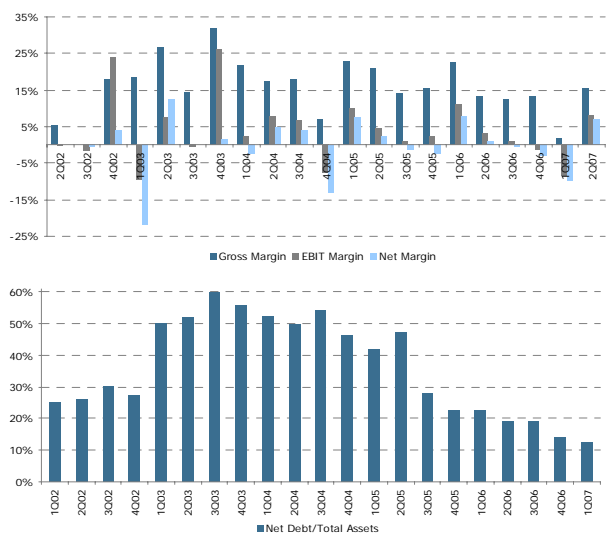
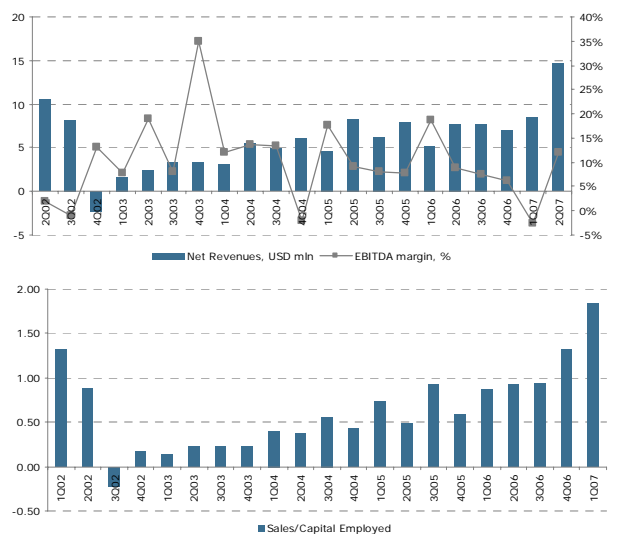
Galakton



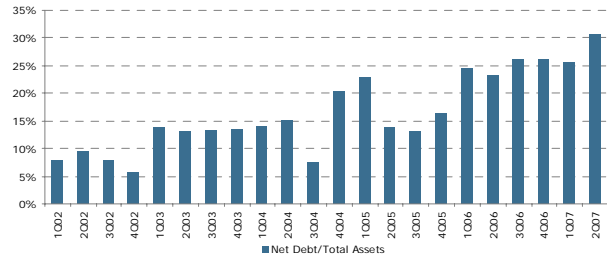
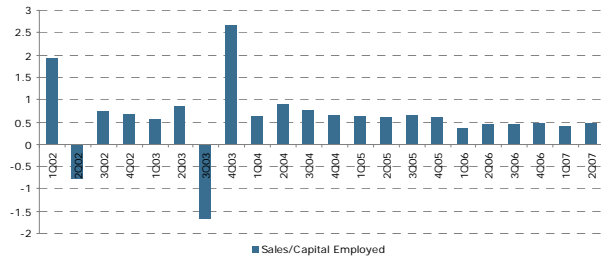
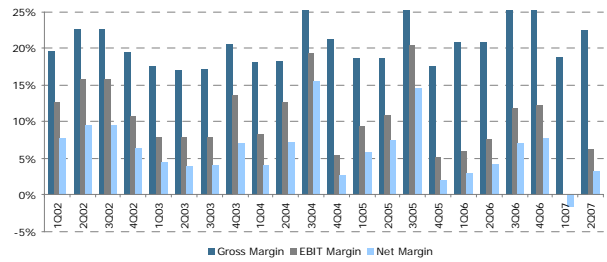
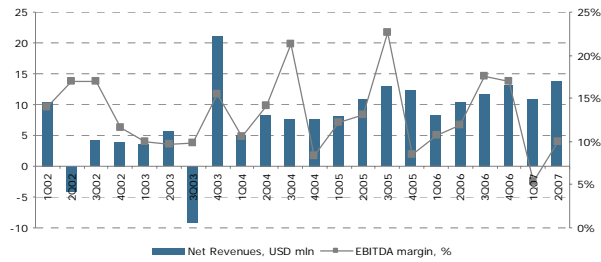
Zhytomyr Dairy



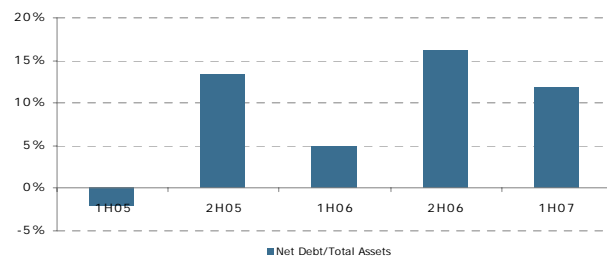
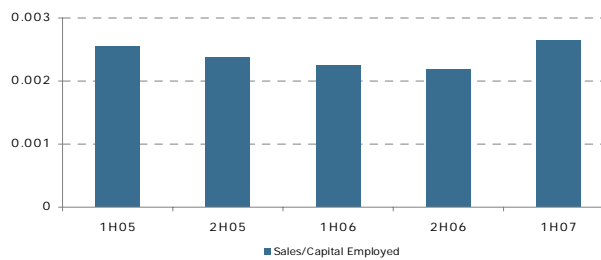
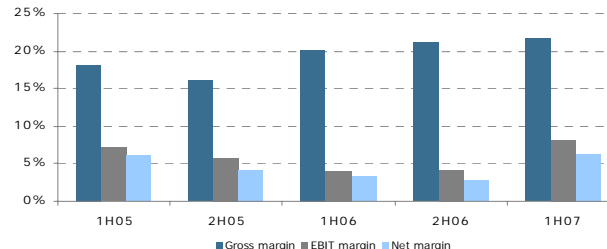
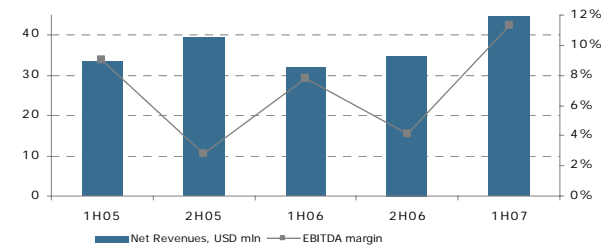
Kovelmoloko



Shostka Milk



Ukrproduct



Concorde Capital
2 Mechnikova Street
21st Floor
Kyiv 01601, UKRAINE

Tel.: +380 44 391 5577
Fax: +380 44 391 5571
www.concorde.com.ua
office@concorde.com.ua

CEO

Igor Mazepa

im@concorde.com.ua

RESEARCH COVERAGE BY SECTOR

Equity Sales

Anastasiya Nazarenko
 Duff Kovacs, CFA
 Zack Watson
 Marina Martirosyan

an@concorde.com.ua
 dk@concorde.com.ua
 zw@concorde.com.ua
 mm@concorde.com.ua

Strategy

Konstantin Fisun
 Oleksandr Klymchuk

kf@concorde.com.ua
 ok@concorde.com.ua

Metals & Mining

Eugene Cherviachenko
 Andriy Gerus

ec@concorde.com.ua
 ga@concorde.com.ua

Director of Research

Konstantin Fisun, CFA

kf@concorde.com.ua

Utilities (Telecom, Energy)

Alexander Paraschiy

ap@concorde.com.ua

Oil & Gas, Chemicals

Vladimir Nesterenko

vn@concorde.com.ua

Consumer/Real Estate Group

Andriy Gostik, CFA
 Olha Pankiv
 Alexander Romanov
 Anna Dudchenko

ag@concorde.com.ua
 op@concorde.com.ua
 ar@concorde.com.ua
 ad@concorde.com.ua

Machinery

Eugene Cherviachenko
 Inna Perepelytsya

ec@concorde.com.ua
 pi@concorde.com.ua

Financial Services, Retail

Alexander Viktorov

av@concorde.com.ua

Macroeconomics

Polina Khomenko

pk@concorde.com.ua

Fixed Income

Oleksandr Klymchuk

ok@concorde.com.ua

Corporate Governance

Nick Piazza

np@concorde.com.ua

News/Production

Nick Piazza
 Polina Khomenko

np@concorde.com.ua
 pk@concorde.com.ua

Editor

Brad Wells

bw@concorde.com.ua

Disclaimer

This report has been prepared by Concorde Capital investment bank for informational purposes only. Concorde Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Concorde Capital might have a conflict of interest that could affect the objectivity of this report.

Concorde Capital, its directors and employees or clients might have or have had interests or long /short positions in the securities referred to herein, and might at any time make purchases and/or sales in them as a principal or an agent. Concorde Capital might act or has acted as a market-maker in the securities discussed in this report. The research analysts and/or corporate banking associates principally responsible for the preparation of this report receive compensation based upon various factors, including quality of research, investor/client feedback, stock picking, competitive factors, firm revenues and investment banking revenues.

Prices of listed securities referred to in this report are denoted in the currency of the respective exchanges. Investors in financial instruments such as depository receipts, the values or prices of which are influenced by currency volatility, effectively assume currency risk.

Due to the timely nature of this report, the information contained might not have been verified and is based on the opinion of the analyst. We do not purport this document to be entirely accurate and do not guarantee it to be a complete statement or summary of available data. Any opinions expressed herein are statements of our judgments as of the date of publication and are subject to change without notice. Reproduction without prior permission is prohibited. © 2007 Concorde Capital