# DakorWest

## Management Presentation

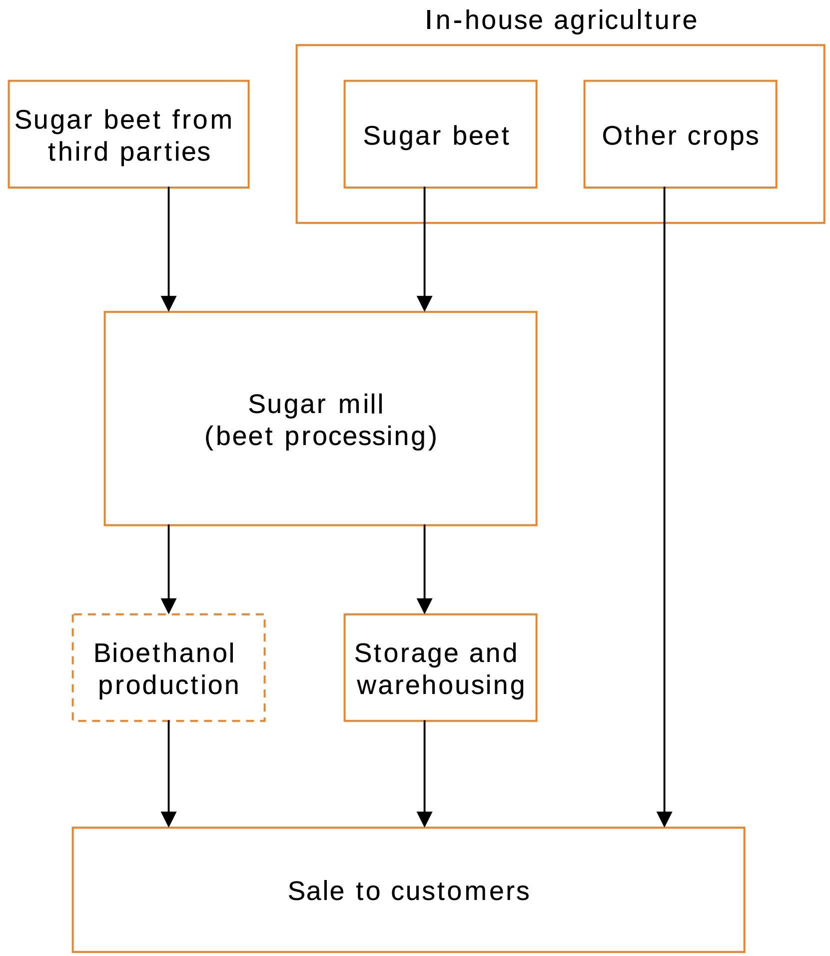
April, 2008

# Company Overview

# Company Profile

- Agroindustrial holding located in Western Ukraine. Principal activity: production of sugar from in-house and third-party sugar beet. Cultivates grain, rapeseed and other crops for sale
- Sixth-largest sugar producer in Ukraine. Operates four sugar mills with a total processing capacity of 16 ths mt of sugar beets per day
- In-house sugar beets and other crops are cultivated on 9 agricultural farms on 113 ths ha of arable land
- Organic growth strategy through modernizing and increasing capacity put Dakor in a position to take advantage of consolidation trends observed in the Ukrainian sugar industry

**Principal business scheme**




**Key financials, USD mln.**

| | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|---|
| **Net Revenues** | **36** | **63** | **77** | **115** | **143** | **165** |
| Change y-o-y | n/a | 77% | 22% | 49% | 25% | 15% |
| **EBITDA** | **3** | **16** | **19** | **31** | **40** | **47** |
| EBITDA margin, % | 8% | 25% | 25% | 27% | 28% | 29% |
| **Net Income** | **2** | **8** | **11** | **15** | **23** | **32** |
| Net Margin, % | 5% | 13% | 14% | 13% | 16% | 20% |

*Source: Company's management accounts*

# Company Profile

## Vast land bank

- 113 ths ha of land under lease
  All plots are located within 50 km of production sites

- Our agricultural business goal is to ensure 100% internal beet supply, to be achieved in the 2008/09 season

# Investment Case

# Investment Case

## 1. Industry Consolidation

- Consolidation of the Ukrainian sugar market is set to accelerate within the next five years at the expense of small players
- 10 sugar mills did not relaunch in the 2007/08 season and 35 more are expected to be either shut down or acquired over the next season

**Dakor expanded its share of production to 6% in 2007 compared to 4% in 2006:**

- access to quotas
- our own supplies of raw materials
- high operational efficiency

## 2. Land + Sugar = Efficiency

- **113 ha** of arable land under lease
- **78%** of raw materials grown in-house – the highest share of any traded Ukrainian producer
- the area of sugar beet harvesting increased **by 60%** in 2007 and by 4% more in 2008
- Energy-saving program allowed for a decrease in gas consumption of **6%**
- Better-than-market-average beet yield
- New production equipment and transportation vehicles
- Vertical integration and modernization

**Vast land bank and in-house produced raw materials provide basis for business growth and high margins**

- increased sugar production by 3% in 2007/2008 amidst an overall industry decline of 27%
- healthy EBITDA margin of 25% in 2007

# Investment Case

## 3. WTO accession

A 260 ths mt quota on raw cane sugar imports will take effect after accession and will be allocated among the largest players

Ukraine gradually lifts grain export quota restrictions

- Dakor as a major market player is poised to benefit from cane sugar import – two of our mills are technologically capable of processing raw cane sugar, allowing for us to participate in WTO import quota allocations
- The value of our side crop business will rise as domestic grain prices will converge with those on the global level after WTO accession
- New distribution markets

## 4. IPO planned

- IPO on an international stock exchange planned for 2009-2010
- Currently double-listed on PFTS and the Frankfurt Stock Exchange. Considering Frankfurt, Warsaw and London Stock Exchanges for IPO

# Stock Performance Review

- In 2007, Dakor placed a 24% equity stake with institutional investors to finance capacity upgrades
- The stock price has grown by 58% since placement in July, 2007

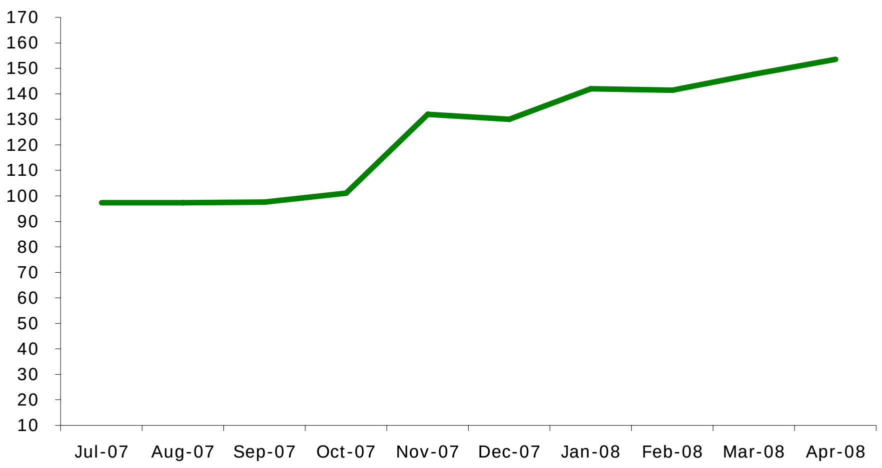
**Market Multiples**

| | 2007 | 2008E |
|---|---|---|
| EV/Sales | 3.2 | 2.5 |
| EV/EBITDA | 12.6 | 9.1 |
| P/E | 16 | 16.1 |

**Stock Ownership**

| | |
|---|---|
| Korylkevych Family & Management | 76% |
| Institutional Investors | 24% |

**Stock price dynamics**






Дакор
західна компанія

# Use of Proceeds

**17.5 mln USD** raised from placement in 2007

| USD 0.7 mln | USD 1.6 mln | USD 2.6 mln | USD 4.5 mln | USD 8.1 mln |
|---|---|---|---|---|
| Additional land lease and cultivation | Transportation vehicles | Agricultural equipment | Modernization of sugar mills | Financing of spring field work and harvesting |

**Additional land lease and cultivation**
- 35 thousand ha

**Transportation vehicles**
- 20 trucks
- transportation depot

**Agricultural equipment**

91 units:
- seeders
- sprinklers
- cultivators
- other

**Modernization of sugar mills**

Increase in production capacity**:**
- Dubno – by 25%
- Zolochiv – by 10%
- Kremenets – by 8%
- Ostrig – by 4%

**Financing of spring field work and harvesting**

63 thous. ha planted:
- sugar beets – 20
- wheat - 18
- barley - 8
- corn - 5
- rapeseed - 4
- other – 8


Дакор західна компанія

# Market Overview

# Sugar Land

1. **The gross profit from each hectare of land used for cultivation of sugar beets is higher than from other crops:**

- In 2006, Dakor earned gross profit from selling sugar made from in-house beets that was **8 times higher** than from selling other crops
- In 2007, a year marked with the lowest sugar prices on record, Dakor was still earning a **88% higher** return on sugar than on other crops

| | **Other Crops** | | **Sugar (made from in-house beets)** | |
|---|---|---|---|---|
| | **2006** | **2007** | **2006** | **2007** |
| Price, USD/mt | 135 | 195 | 562 | 483 |
| Production costs, USD/mt | 96 | 103 | 412 | 413 |
| Revenues, USD/ha | 216 | 331 | 1,963 | 2,050 |
| Costs, USD/ha | 154 | 175 | 1,440 | 1,755 |
| **Gross profit, USD/ha** | **63** | **157** | **522** | **295** |

2. **A longer history of land cultivation by sugar companies implies lower operation-related risks**

We have been cultivating sugar beets and other crops since 1999 and possess unique experience in this field

# Ukrainian Sugar Sector – The Case for Consolidation

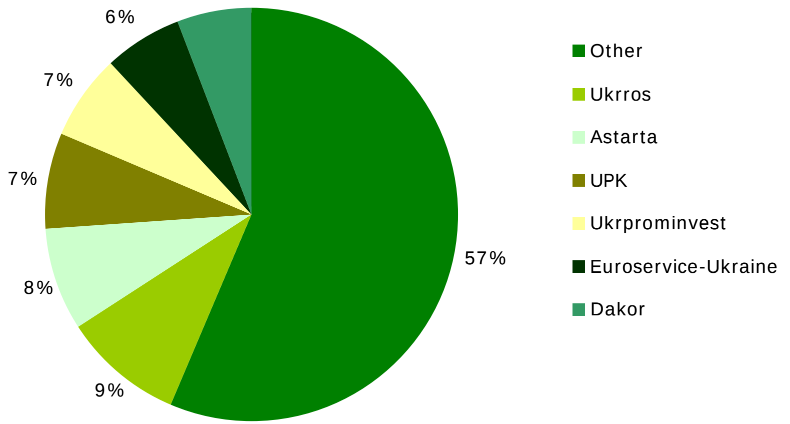
**1. Concentration is increasing**

- Small producers go out of business - of 192 registered sugar mills, only 109 were in operation during 2007/08
- The share of the six largest sugar producers increased from a combined 41% in 2006/07 to 43% in 2007/08

**2. The market share is redistributed between the larger players**

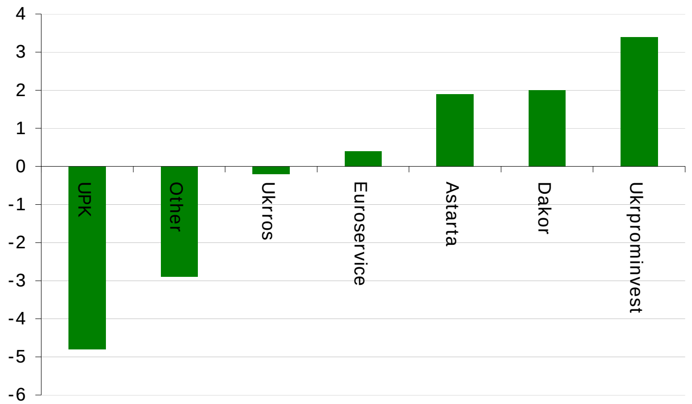
- Dakor increased its market share from 4% to 6% in 2007.
- UPK, the largest producer in Ukraine in 2006, has slipped to the third place unable to ensure raw material supplies

**Sugar production breakdown, 2007/08**




*Source: Ukrsugar*

**Change in market shares, 2007/08 vs 2006/07 seasons**




*Source: Ukrsugar*

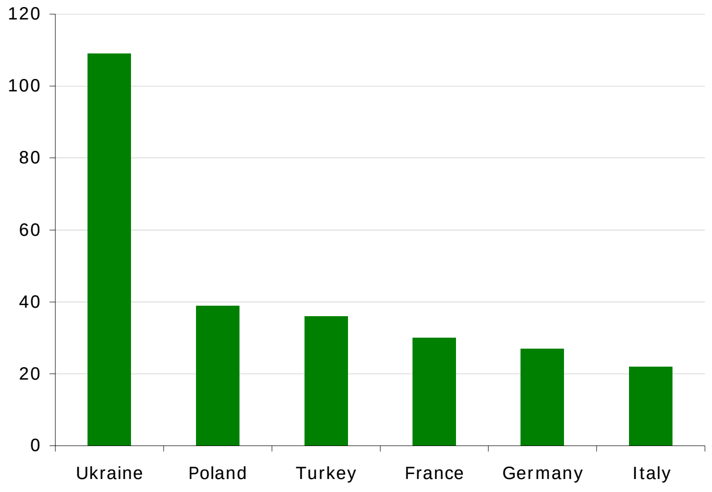
# Ukrainian Sugar Market – The Case for Consolidation

**3. We foresee further consolidation due to the following reasons:**

- expected stricter quota regulations – mills unable to ensure beet supplies for over 45 days of operation can be refused a production quota
- absence of ensured sugar beet supplies
- lack of bargaining power of small companies and unavailability of cheaper in-house beets, therefore, leading to higher costs
- deficient working capital → forced to sell sugar at minimum prices at the end of the season

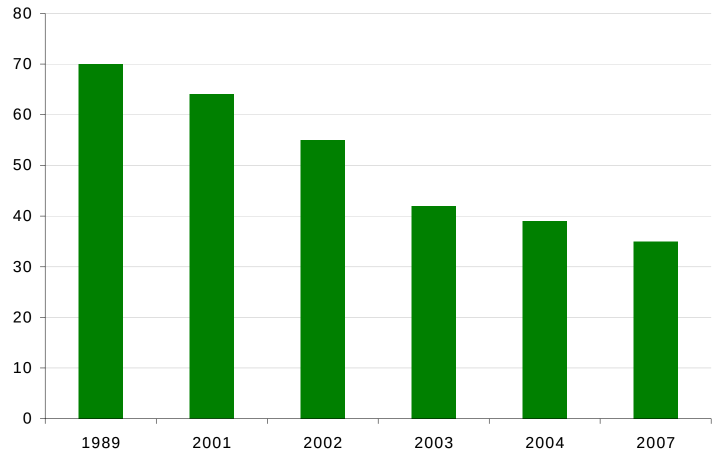
**4. Similar consolidation trends have been observed in other European countries**

**Number of sugar mills in selected countries, 2007**




*Source: Ukrsugar*

**Sector consolidation in Poland**




*Source: IER research*



Дакор західна компанія

# Beneficial Regulations

## Dakor is poised to benefit from the following regulations:

- Ukraine's agricultural companies pay fixed agricultural taxes, which are equal to 0.15% of the estimated value of rented land, and normally are several times lower than income taxes, which could have been used otherwise. The law is valid until the beginning of 2010.

- Agricultural producers are also exempt from VAT payments. We believe that the strong lobbying power of the agricultural sector will keep this legislation valid until at least 2010.

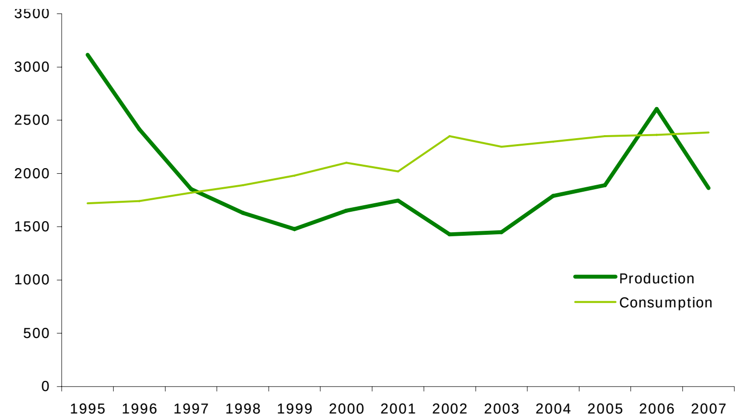
- Partial compensation of interest payments to agricultural companies on loans to purchase equipment, construction and capital expenditures.

- Domestic sugar production in Ukraine is regulated by quotas set annually by the government. The Ukrainian Association of Sugar Producers – Ukrsugar – advises the government on such quotas' allocation. Recently, Dakor, among other large market players, has rearranged the board of Ukrsugar and, in fact, took control over the quotas' allocation

# Ukrainian Market – Supply and Demand to Balance

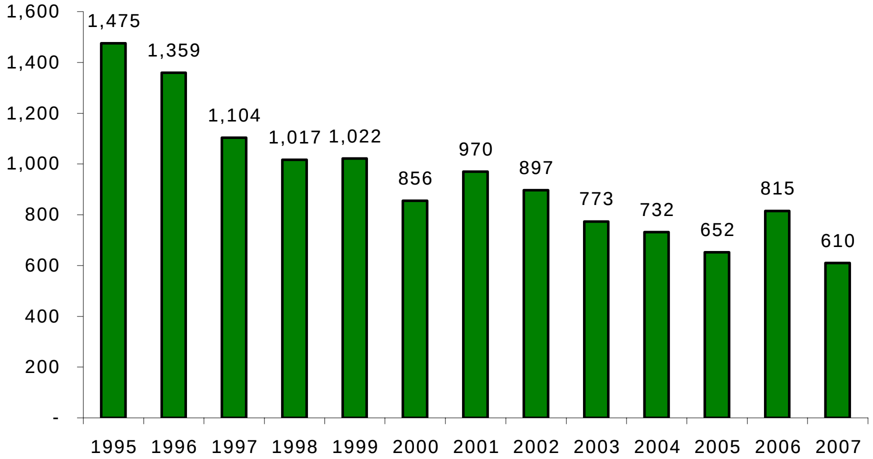
- The market is readjusting after the oversupply of 2006/07
- Sugar prices growth in 2007 comprised 29%, it is expected to be 30% in 2008 to reach USD 528/mt
- Sugar supply in Ukraine in 2007/08 was 13% below demand and 27% lower than last season's output
- Sugar consumption in Ukraine is relatively stable, with 2.1 mln mt in 2007.

**Sugar production and consumption in Ukraine**



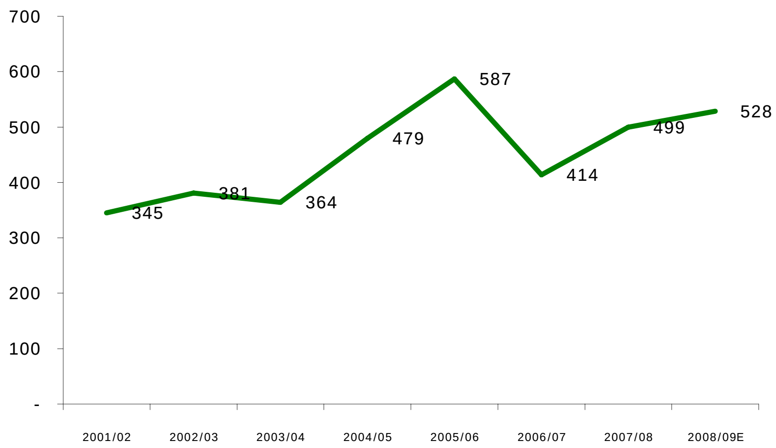

*Source: State Statistics Committee*

**Area planted with sugar beet**




*Source: State Statistics Committee*

**Sugar price in Ukraine, USD, excl VAT**




*Source: State Statistics Committee*

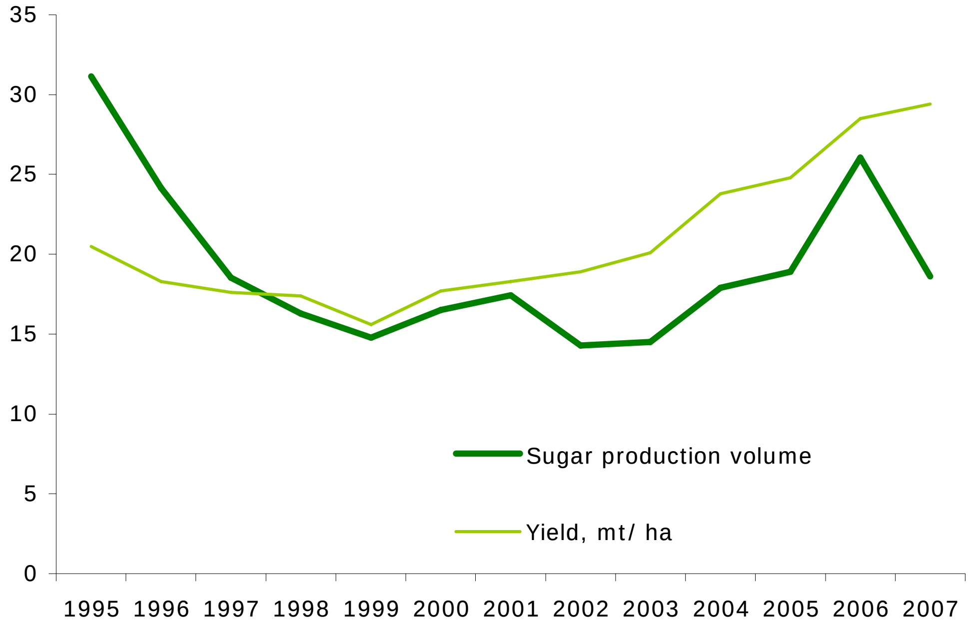


Дакор західна компанія

# Ukrainian Market – Supply and Demand to Balance

- The sugar beet cultivation strategy is shifting from an extensive to an intensive type with a gradual increase in yield per hectare
- Modern cultivation technologies allowed us to achieve a yield of 36.6 mt per hectare in 2007. We plan to harvest up to 45.5 mt per hectare in 2008 which is comparable to the harvest in the neighboring Poland at 50 mt per hectare
- The volume of production decreased significantly in 2007 as a reaction to the overproduction of 2006

**Sugar output and sugar beet yield in Ukraine**




*Source: State Statistics Committee*

# Company Strategy

# Company Strategy

## Strategic plans

## Implementation results

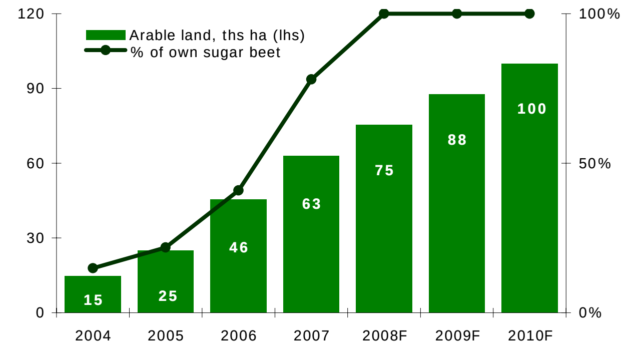
### 1. Further vertical integration

- Increase land bank under our control

The amount of land under lease increased from 78 thous. ha in 2006 to 113 thous. ha in 2007. 15 thous. ha in 2006 and 37 thous. ha in 2007 were left fallow as part of crop rotation cycle

- Increase in-house sugar beets production to a self-sufficient level

78% of sugar beet needs is met with in-house production. A 100% self-sufficiency will be achieved in 2008




### 2. Modernization of production facilities

- Increase total beet processing capacity

Beet production capacity was increased to 16 ths mt of sugar beets per day in the 2007/08 season from 14.1 in 2006

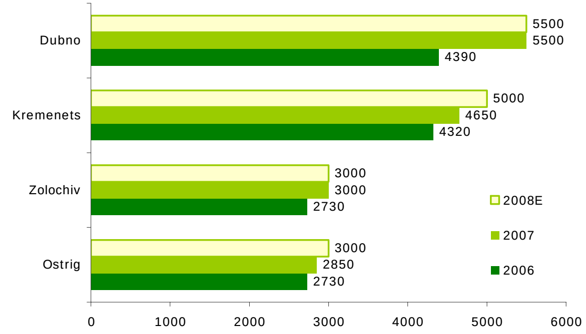
- Increase harvesting efficiency

Purchase of modern transportation and agricultural machines. 20 trucks were purchased in 2007

- Increase production quality

ISO 9001 certification of Dubno and Zolochiv sugar mills by the end of 2008

**Production capacities**



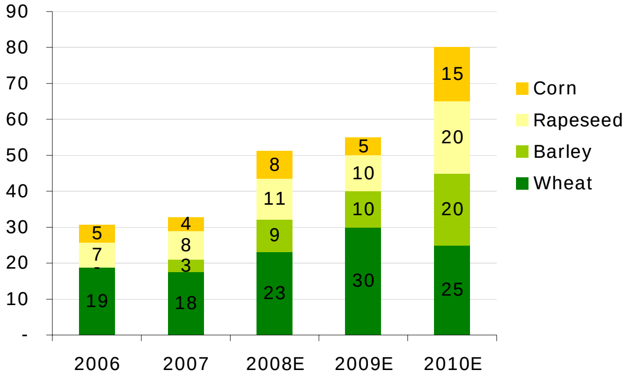



Дакор західна компанія

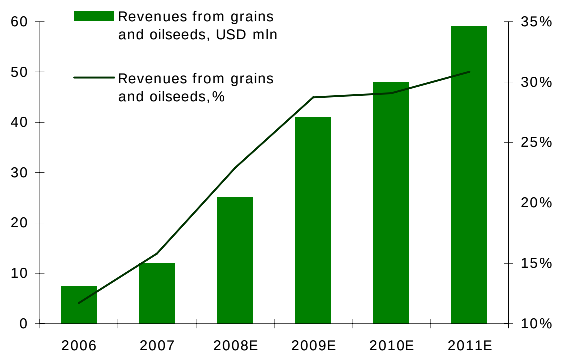
## 3. Business Diversification

- Cultivation of other crops. The prices for grain are expected to increase by 30% due to WTO accession and will stay high in long-term due to the global population growth

**Area planted, thous. ha**




**Dakor's agricultural business**




- Production of high-margin premium-quality sugar for confectionaries and beverage producers

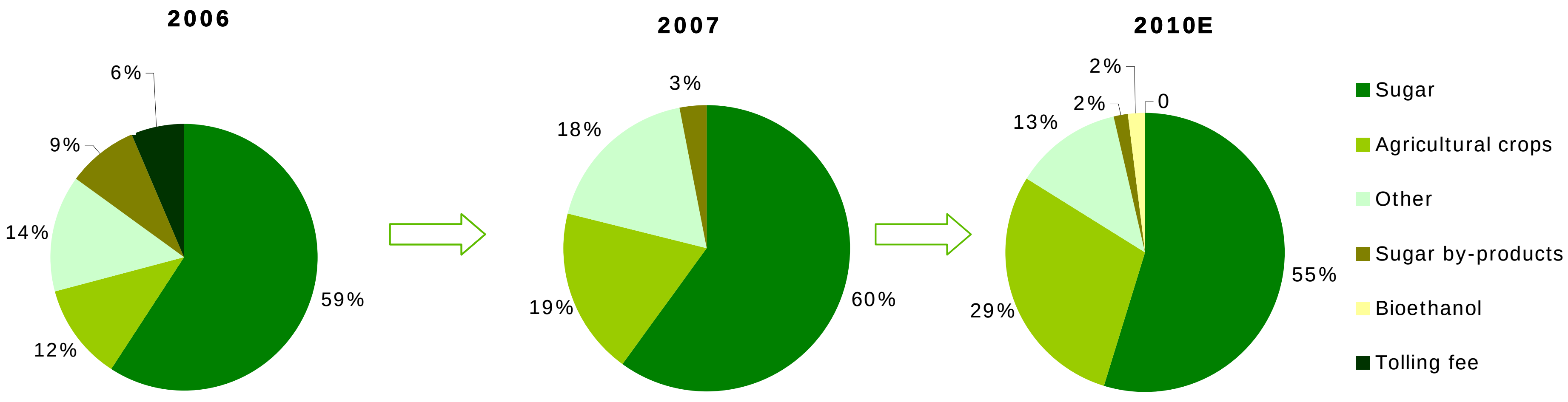
> Dakor already cooperates with Konti – Ukraine's second-largest confectionary producer.
> By 2010, up to 13% of total revenues will come from premium sugar sales

- Bioethanol production. It would lead to additional margins and provide in-house fuel in case of gas prices hikes

> We expect the industry regulations to be worked out and adopted by the end of 2008. Production could be started at the end of 2008.

# Company Strategy

Revenues breakdown

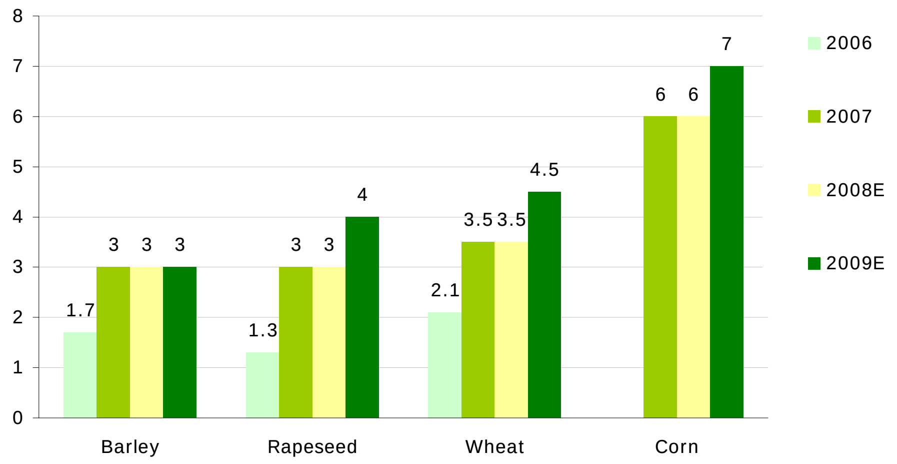


# Company Strategy

## 4. Increase of each culture yield from ha

- Proper cultivation technologies (e.g. crop rotation, application of high-quality fertilizers, timely sowing, etc.) will lead to increases in crop yields

**Yield, t / ha**




## 5. Purchase of land once the moratorium on sale of agricultural land is lifted

- According to Ukrainian legislation, lessees have pre-emptive rights to buy out land.
- The ban is expected be cancelled in 2008/09.
- The management estimates the purchase price per hectare to be USD 300-500.

**Forecast**

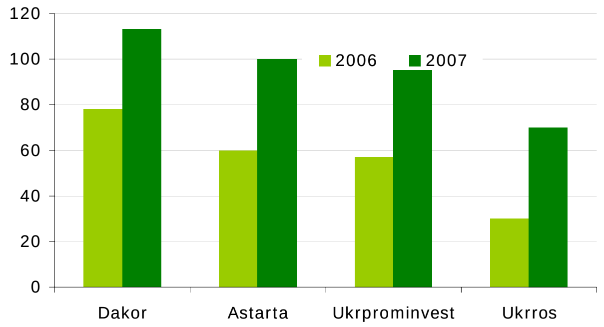
Once the land market is estabished, the land value is expected to appreciate at least to the levels found elsewhere in Eastern Europe (e.g. USD 3,600 per ha in Poland in 2007)

# Increasing Capacity

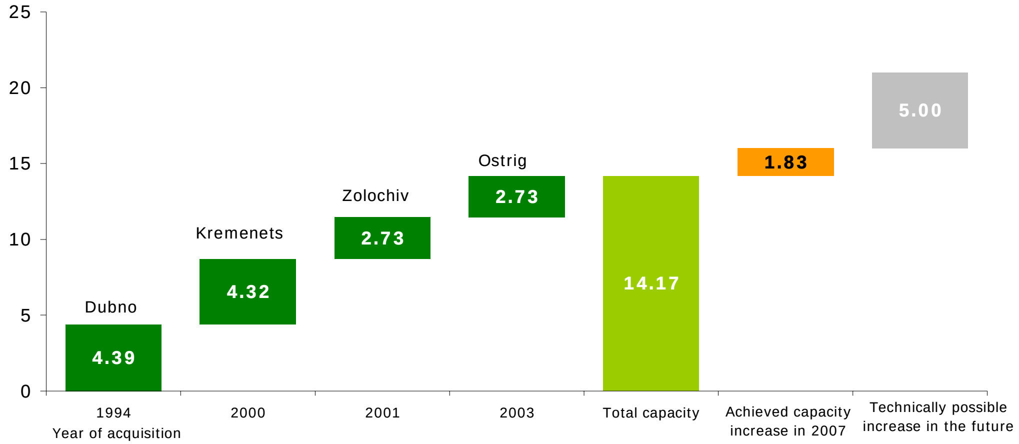
- Dakor comes in second in a close tie with its closest competitor for the amount of land under its control

- In the face of consolidation, Dakor plans to increase its production plants' capacities and gradually decrease idle capacity.

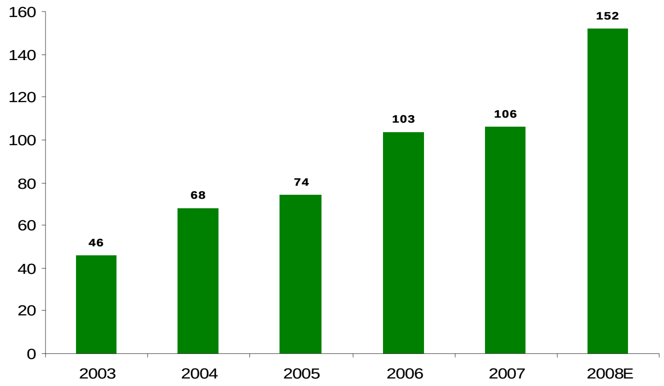
**Land bank increase**




**Production capacity increase**




**Production volume, mt**



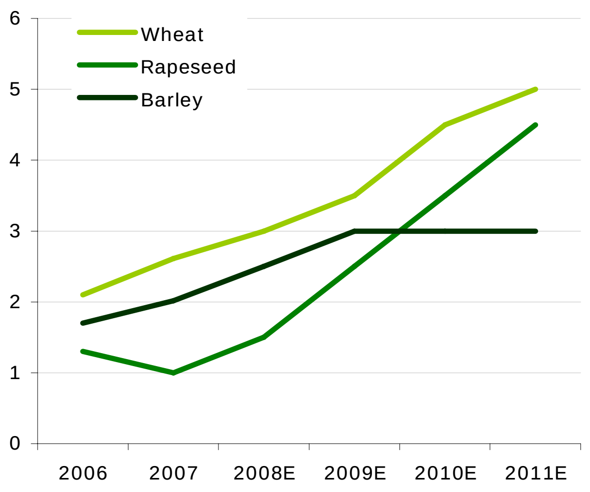
# Focus on Operating Efficiency

## Key efficiency drivers:

- Better land utilization

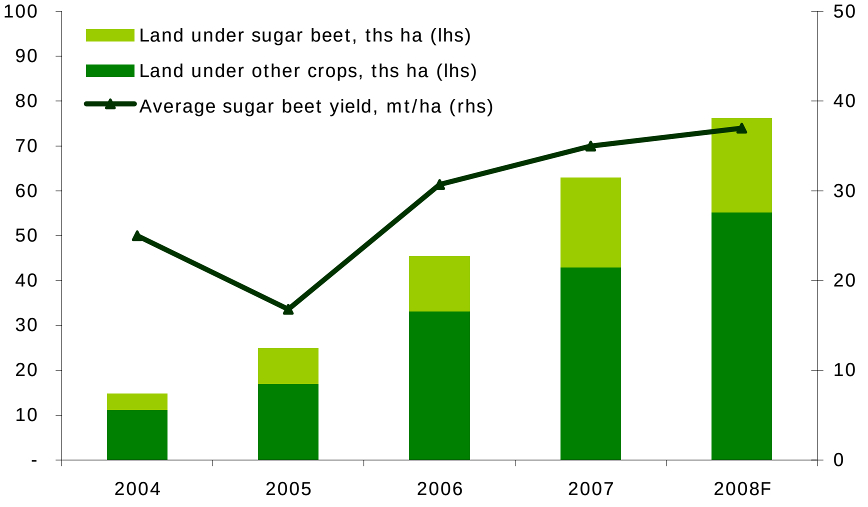
Dakor has increased its share of internally grown Beets from 42% in 2006 to 78% in 2007. In-house grown beets are 13% cheaper than those bought from the third parties

**Dacor's crops' yields, mt / ha**




*Source: Company data*

**Beet yield, mt / ha**

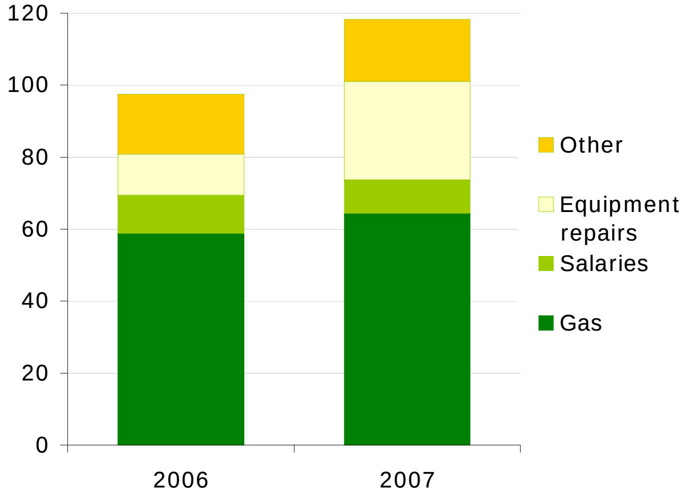



*Source: Company data*

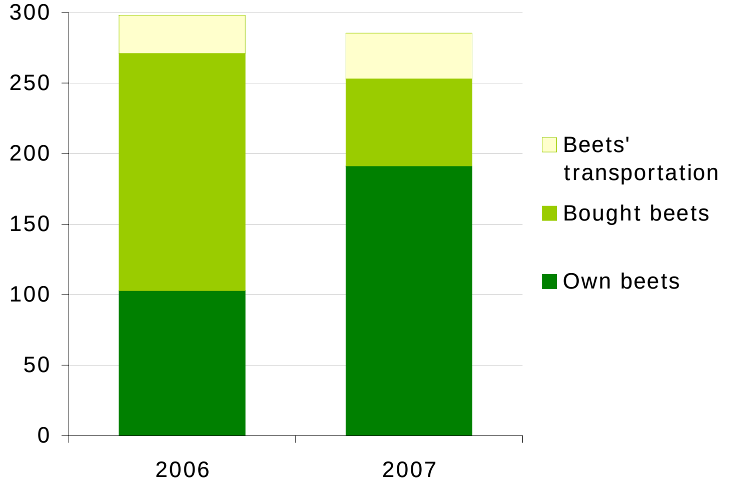
# Focus on Operating Efficiency

- Better utilization of main resources — Dakor's efforts to raise efficiency resulted in a significant mitigation of the impact of increased costs for major inputs: gas, salaries and mineral fertilizers
- Modernization of equipment — Modernization of equipment resulted in a 6% decrease in gas consumption relieving part of the 35% growth in the effective gas price for the company during the production season

**Beets processing, USD / mt of sugar***




**Beets cultivation & transportation,USD / mt of sugar***




**Including beets processed on commission and production costs of byproducts (molasses and feed)*
*Source: Company data*

# Investment Plans

**The Company plans to invest USD 35 mln in 2008**

| | | |
|---|---|---|
| 32% or USD 11,1 mln | Agricultural equipment | 39 units will increase the efficiency of the cultivation and harvesting process |
| 32% or USD 11 mln | Elevator construction<br>Dubno: 2008 – 50 thous. m2<br>Zolochiv: 2009 – 30 thous. m2 | Ownership of elevator will allow us to halve the transportation, drying and storage costs |
| 21% or USD 7,3 mln | Modernization of sugar mills | The production capacity of the Ostrig sugar mill will increase by 5%, the Kremenets – by 8% |
| 7% or USD 2,5 mln | Transportation vehicles | 34 new trucks will help to facilitate the logistics in light of constantly increasing production volumes |
| 5% or USD 1,7 mln | Press for presscake production | Installation of the new press will increase production capacity by 50%, will halve gas consumption and will decrease electricity usage |
| 4% or USD 1,3 mln | Centrifuge and presscake granulating equipment | This equipment will enable us to increase sugar output and significantly upgrade quality while cutting back on energy consumption |

# Company Financials

# Income Statement

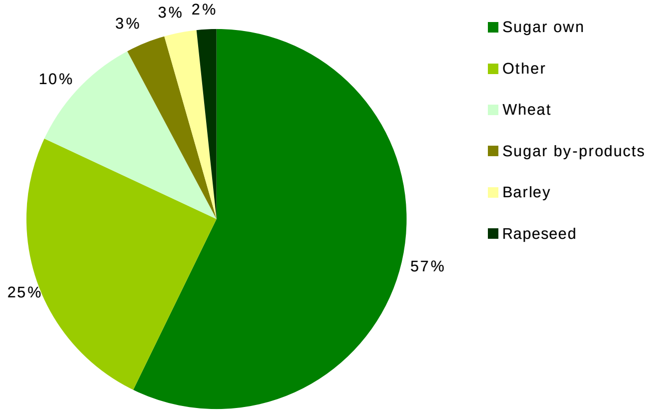
**Income Statement summary, USD mln.**

| | 2006 | 2007 | 2008E |
|---|---|---|---|
| **Net Revenues** | **63** | **77.0** | **115** |
| *Change y-o-y* | 76.8% | 22.1% | 48.9% |
| Cost Of Sales | -44.2 | -56.6 | -76.8 |
| Gross Profit | 19 | 20 | 38 |
| Other Operating Income/Costs. net | 1 | 4 | 3 |
| SG&A | -3.5 | -5.5 | -9.2 |
| **EBITDA** | **16.1** | **19.3** | **31.5** |
| *EBITDA margin. %* | 25.5% | 25.1% | 27.5% |
| Depreciation | -4.4 | -3.7 | -6.5 |
| **EBIT** | **12** | **16** | **25** |
| *EBIT margin. %* | 18.5% | 20.2% | 21.8% |
| Interest Expense | -4.9 | -7.3 | -10.8 |
| Financial income | 1.3 | 0.8 | 1.0 |
| Other income/(expense) | 0.5 | 2.1 | 0.4 |
| **PBT** | **8.6** | **11.2** | **15.5** |
| Tax | -0.2 | -0.3 | -0.5 |
| **Net Income** | **8.3** | **10.9** | **15.1** |
| *Net Margin. %* | 13.2% | 14.1% | 13.2% |

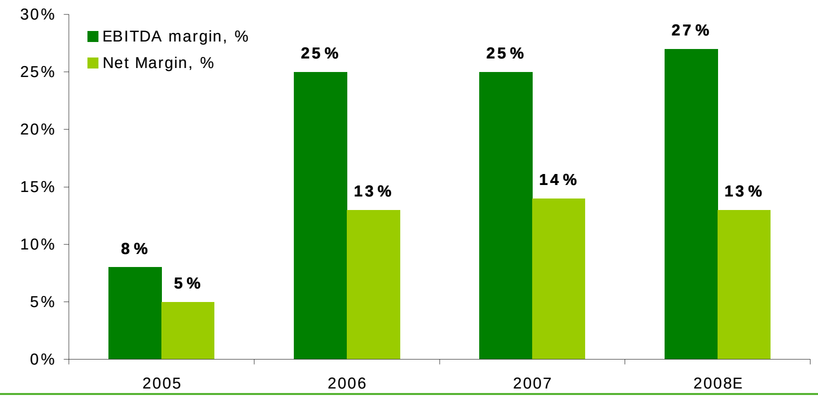
*Source: Company's management accounts*

- A significant increase in production costs is due to the rise of repair expenditures which is a one-off event related to the 2007 modernization program
- 2007 profits from the sugar line were lower due to a 31% decline in sugar prices. Dakor has compensated with revenues from its agricultural business
- Half of Dakor's sugar output is sold to traders, less than 1% is packed and retailed, the rest is delivered directly to industrial customers the largest of which is Konti – Ukraine's second-biggest confectionary
- 16% of revenues were generated from the agricultural business

**Revenue breakdown, % of total sales in 2007**




**Profitability Margin**



# Balance Sheet

**Balance Sheet summary, USD mln.**

| | 2006 | 2007 | 2008E |
|---|---|---|---|
| **Current Assets** | **47** | **112** | **80** |
| Cash & Equivalents | 0 | 1 | 1 |
| Trade Receivables | 3 | 27 | 7 |
| Inventories | 39 | 54 | 61 |
| Other current assets | 5 | 30 | 11 |
| **Fixed Assets** | **45** | **57** | **71** |
| PP&E. net | 43 | 55 | 69 |
| Other Fixed Assets | 2 | 2 | 1 |
| **Total Assets** | **92** | **169** | **151** |
| **Shareholders' Equity** | **43** | **70** | **75** |
| Share Capital | 5 | 21 | 23 |
| Reserves and Other | 38 | 49 | 51 |
| **Current Liabilities** | **39** | **77** | **49** |
| ST Interest Bearing Debt | 34 | 51 | 39 |
| Trade Payables | 2 | 22 | 5 |
| Accrued Wages | 1 | 0 | - |
| Accrued Taxes | 1 | 1 | - |
| Other Current Liabilities | 2 | 3 | 6 |
| **LT Liabilities** | **10** | **22** | **27** |
| LT Interest Bearing Debt | 10 | 17 | 27 |
| Other LT | 0 | 5 | 0 |
| Bridge Financing | - | - | 0 |
| **Total Liabilities & Equity** | **92** | **169** | **151** |

*Source: Company's management accounts*

# Company's Management

**Danylo Korylkevych**
*Supervisory Board Chairman*

- Served as CEO of the Company for 2002-2007
- Has a degree in Mechanical Engineering from the Kyiv Institute of Food Technologies
- Has extensive experience in food technologies obtained serving in different positions including CEO of the Dubno mill for 1987-1998

**Yuriy Ivaschenko**
*CEO*

- Since 2001, has served as auditor, CFO, and First Deputy Director
- Previously worked for the tax authorities eventually being promoted to Head of the Tax Inspection
- Has degrees in Economics and Mechanical Engineering from the Rivne Water Management Institute

**Svitlana Borodenko**
*Deputy Director*

- Joined the Company in 1993
- Previous served in advocacy from 1978
- Has a degree in Law from Lviv State University named after I. Franko

**Myroslav Polio**
*Chairman of the Board of Directors*

- Joined the Company in 2006
- Gained broad professional experience while working as an accountant, private entrepreneur and sales manager and a Deputy Director
- Has a degree in Economics from the Rivne Institute of Economics and Humanities

**Ivaschuk Ljudmila**
*CFO*

- Joined the Company in 2001 as the chief accountant's assistant at the Dubno sugar mill
- Has served as the Dubno sugar mill chief accountant
- Took office as the Company's CFO in 2007
- Has a degree in Rural Economics from the Lviv Agrarian University

**Oleksandr Shamak**
*Deputy Director*

- Joined the Company in 2006 as the Deputy Director in charge of Machinery and Equipment
- Has a degree in Mechanical Engineering from the Rivne Water Management Institute