

### Overview of Food and Non-Food Sectors

#### Food and Non-food Sectors

Ukraine's food and non-food goods industries have witnessed strong growth over the past several years thanks to surging domestic consumer demand. In 2005, consumer spending on food and beverages increased by 5.5% in real terms, to USD 17 bil., representing 20.6% of GDP. Spending on non-food goods grew by 30% in real terms, to USD 4.5 bil., or 5.4% of GDP.

**Non-food spending still small in value terms, but outpaces growth in food spending**

#### Food Sector Overview

Since 2001, Ukraine has more than doubled its output of domestically produced food products. In 2005, food processing ranked among the fastest growing domestic industries, with real growth of 13.7% y-o-y. In value terms, production in the food and beverage industry stood at USD 11.97 bil. (measured in producer prices), accounting for 15.7% of total industrial output and for 14.6% of GDP. The highest growth was posted by vegetable products (29.8%), beverages (24%), tobacco (18.2%), and dairy products (up 15.6%), all of which are targeting both domestic sales and exports.

**Food and beverage output grew 13.7% in 2005...**

In 2005, exports accounted for 10.8% of domestic food production, or USD 1.29 bil. in value terms, which represented 3.7% of Ukraine's total exports. In some segments, however, such as dairy production, exports accounted for 48% of total production.

Consumption of dairy products, for 2004

	Ukraine	Russia	EU (25 members)
Per capita cheese consumption (kg)	2.7	3.5	12.8
Per capita fluid milk consumption (kg)	69.6*	87.5*	72.2
Skim milk powder (kg)	0.49	1.18	2.22

Source: Canadian Dairy Information Center, State Statistics Committee of Ukraine, Dragon capital

\* Includes processed milk and milk sold in open markets.

Per capita consumption of most food staples in Ukraine is still below the corresponding average figures for developed countries. The rise in consumer spending and domestic consumption combined with growth in agricultural and food exports will continue to provide a strong impetus to food processors. We expect the industry to grow faster in value terms than other sectors.

**...and is expected to continue outperforming other sectors**

Further growth in some segments, though, depends on Ukraine's relations with Russia. In January of 2006, several product segments with traditionally high exports to Russia had been banned, citing improper documentation and low quality standards as the main reason for the bans. We view Russia's move as politically motivated and expect the ban to be lifted soon after the March parliamentary elections.

**In some segments good relations with Russia is a key.**

#### Competition

The Ukrainian food sector's competitive environment is mixed. Of the country's 1,500 meat processing companies, the top ten producers account for about 40% of total output. Of more than 3,000 baking and milling companies, the largest 20 control about 40% of the market. And of more than 100 non-

**Competition moderate in meat, baked, and some dairy segments...**

alcoholic beverage companies, the top ten control 60% of the market. In the cheese segment, which consumes half of total milk output, the top ten producers account for about 50% of total output. In most of the food processing industries, consolidation is lively over the next few years.

Competition is much stronger in sunflower oil processing, confectionery, brewing, milk and ice-cream, tobacco, and distillery segments. Of the approximately 2,000 producers of non-refined sunflower oil, the top ten account for 70% of the market. In the refined sunflower oil subcategory, which includes 70 producers, the top ten account for 88% of total output. Of the 120 domestic confectioners, the top ten control over 70% of the market, while at the same time, the domestic beer market is 90% controlled by ten companies with the top three (Obolon, Sun Interbrew, BBH Ukraine) accounting for 63% of total production. Of 100 local ice cream producers, the top ten control over 70% of the market, while the top four (Lasunka, Zhytomyr Dairy Plant, Hercules, and Troyanda) account for 41% of total output. Of 300 milk processing plants, the top ten control 68% of the market. In the tobacco industry, the top five of 15 manufactures in Ukraine (Phillip Morris Ukraine, Reemtsma Ukraine, VAT Pryluky, JT International, and Halaher Ukraine) account for over 95% of domestic output. And of more than 70 domestic distillers, the largest ten produce about 70% of total output.

**...but stronger in  
sunflower oil extraction,  
confectionary, ice-cream,  
cheese, and tobacco**

Food Industry Segments (ths. tonnes)	2005 (ths. tonnes)	2005/2004 (%)
Meat	565	16.4%
Sausages	285	-8.4%
Sunflower Oil	1299	0.4%
Milk	850	23.9%
Butter	117	2.6%
Cottage cheese	82.1	16.4%
Cheese	271	21.7%
Fermented milk	490	6%
Baked goods	2115	-1.9
Sugar	2120	-1.2%
Chocolate (includes cacao)	282	16%
Confectionary (including white chocolate, but not cacao)	288	-6.4%
Cigarettes (bil. units)	108.9	12.6

Source: State Statistics Committee of Ukraine

#### Ukraine's top 15 Food & Beverage Producers (2004)

Company	Product Group	Sales (USD mil.)		Change (y-o-y;%)	Net Income (USD mil.)		Change (y-o-y;%)
		2003	2004		2003	2004	
Roshen	Confectionery	259.2	317.8	22.6	(0.5)	(5.02)	n/a
Mironovskiy	Meat Production and Processing	114.9	246.0	114.0	0.06	0.79	1216.0
Obolon	Brewing, Soft Drinks, Bottled Water	163.6	213.3	30.4	13.2	13.3	0.8
AVK	Confectionery	120.9	160.0	32.3	4.2	6.5	54.7
Sun Interbrew Ukraine*	Brewing	123.9	159.7	28.9	6.87	10.0	45.6
Kraft Foods Ukraine	Confectionery	120.5	158.1	31.2	(3.6)	9.8	
Kyivkhlilb	Bakery	89.6	120.0	33.9	1.7	1.5	0.12
Dnipropetrovsk Oil Extraction Plant	Sunflower Oil Refining	115.0	119.2	3.7	11.0	1.04	(90.5)

Kiev Konti	Confectionery	69.8	100.7	44.2	5.0	8.0	60
Pologovskiy Oil Extraction Plant	Sunflower Oil Refining	56.3	99.3	76.4	(0.12)	0.36	
Sandora	Juices	82.0	95.5	16.4	4.74	6.49	36.9
Slavutych Brewery	Brewing	70.7	93.1	31.6			
Coca-Cola Beverages	Soft Drinks, Bottled Water	75.6	93.1	23.1	1.79	4.53	153.1
Svitoch Confectionary	Confectionery	89.6	84.5	(5.6)	(0.8)	(5.9)	
Korovay (Luhansk)	Bakery	52.9	75.8	43.3	0.3	0.8	166.7

Notes: Distillers not presented; \*Includes Rogan and Chernihiv breweries. Source: Company reports, Investytsiyna Gazeta, Dragon Capital.

#### Ukraine's top five tobacco Producers (2004)

Company	Product Group	Sales (USD mil.)		Change (y-o-y;%)	Net Income (USD mil.)		Change (y-o-y;%)
		2003	2004		2003	2004	
Philip Morris Ukraine	Tobacco	308.4	384.2	24.5	29.9	30.4	1.7
Reemtsma Ukraine	Tobacco	179.6	179.8	0.1	10.6	10.6	0.0
V.A.T. Pryluky	Tobacco	153.8	158.4	3.0	11.0	6.7	(39)
JT International Company	Tobacco	97.6	135.5	38.8	(8.68)	(1.8)	n/a
Halaher Ukraine	Tobacco	59.8	77.0	28.7	4.3	5.4	25.6

Source: Company reports, Investytsiyna Gazeta, Dragon Capital.

#### Non-Food Sector Overview

In 2005, spending on non-food consumer goods in Ukraine grew by 26.7% y-o-y, to USD 1.73 bil., representing 2.1% of GDP. The market for household goods, cosmetics and perfume was estimated at USD 1.2 bil.

Imports account for a significant share of the market. In 2005, official imports of cosmetics grew by 38%, to USD 388.4 mil., or 1.07% of Ukraine's total imports. Imports of household consumer goods (soap, washing powder and cleaning products) surged by 160%, to USD 158.6 mil., representing 0.44% of total imports. It is difficult to estimate the actual value of imports as many local importers try to minimize import duties by reporting lower prices. Moreover, there is still a significant share of unaccounted gray imports.

The share of Ukrainian-made non-food consumer items in retail sales differs substantially by product group. For example, in 2005, domestically made soap accounted for around 70% of total retail sales in this segment, the share of synthetic and household cleaning products stood at 55%, while perfume and cosmetics accounted for only 30%.

Of the top eight sellers of non-food consumer goods in Ukraine, Procter & Gamble, SC Johnson, Schwarzkopf & Henkel, and USI have local production facilities, while Avon Cosmetics, Oriflame, and Mary Kay sell only imported products.

The non-food consumer goods market is very competitive. The top ten producers account for 93% of total output, while the top five hold an 82% share, including the leader, Global Cosmetics, with 34%. The market for household goods (washing powder and cleaning products) is 85%-controlled by five companies, including Procter & Gamble with a 53.1% share.

**Spending on non-food consumer goods rose by 26.7% in 2005**

**A significant share of imports**

**Imports share differs from 30% to 70% in some segments**

**A very competitive market**

**Top Non-food Consumer Goods Companies in Ukraine**

Company	Product Group	Sales (USD mil.)		Change (y-o-y;%)	Net Income (USD mil.)		Change (y-o-y;%)
		2003	2004		2003	2004	
Procter & Gamble	Household Goods	143.8	223.9	55.7	12.0	20.0	66.7
Avon Cosmetics Ukraine	Cosmetics	72.5	82.7	14.0	9.2	13.6	47.8
Gillette Ukraine	Men's Cosmetics	42.9	62.9	46.6	2.94	7.29	148.0
USI, CHPTF	Household Goods, Cosmetics	44.3	45.2	2.0	0.21	0.27	28.5
Oriflame Ukraine	Cosmetics	40.0	n/a	n/a	n/a	(0.79)	n/a
SC Johnson	Household Goods	26.9	34.2	27.1	2.45	2.82	15.1
Schwarzkopf & Henkel	Cosmetics	20.3	24.8	22.1	1.48	2.22	50.0
Mary Kay Ukraine	Cosmetics	13.4	20.4	52.2	1.1	1.18	7.3

Source: Company reports, Investytsiyina Gazeta, Dragon Capital.