

## **TRADING UPDATE**



**Kyiv, Ukraine - January 27, 2017** - Ukrproduct Group Limited (“Ukrproduct” or the “Group”) (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), today announces the following trading update for the year ended 31 December 2016.

During 2016 Ukrproduct has continued to face the headwinds induced by the political situation and the Ukrainian economy. Currency weakness continued with a contracted geographic market place and intense competition. Consumers are low in spending power and confidence.

In this challenging context Ukrproduct’s response is to focus on cash: ensure its product offering is competitive; focus on customers affording acceptable margins and therefore on cash production. Ukrproduct seeks further to underpin the trading effort with productivity/cost improvements.

### **Trading**

As to be expected, overall volumes fell although revenues improved given product mix and price inflation. Gross margins in most product lines improved apart from skimmed milk powder.

Branded products were given more focus with key categories butter and spreads showing improved volume and margins. Margins on processed cheese were maintained on slightly lower revenues. Private label made improved gross profits on significantly reduced volumes as marginal contracts were terminated. Those retained/developed reflected the quality demanded by the retailer and commensurate margins. The kvass beverage continued to make a strong

gross profit contribution. This category offers opportunities and the product offering has been extended with white kvass and healthy rose hip drinks being test marketed.

The exchange rate depreciation has facilitated development of the export business not least to CIS countries. More recent growth of domestic dairy prices in the Ukraine has provided some constraint.

Skimmed milk powder has been a negative in terms of available prices being historically low across the world, particularly in the first half. Spare capacity at our Starokonstantyniv facility has however afforded opportunities for profitable contract processing.

In 2016 Ukrproduct maintained its approved supplier status with a major international company, confirming that the company's products meet high international quality requirements.

## **Finances**

Whereas overall volumes fell in 2016, revenues improved. In difficult markets gross margins generally showed some improvement, subject to skimmed milk powder which returned a shortfall in excess of £0.6m year on year.

However given significant cost reductions, EBITDA improved by several points into positive territory. This was encouraging and although the Group expects to report a loss for the year this will be sizably lower than in 2015.

Cash in such trading circumstances continues to be the focus. Along the lines mentioned the Ukrproduct trading model is cash oriented not least through release of working capital. This is allowing ongoing servicing of its debt obligations, including interest payments to EBRD under the terms of the more favourable debt restructuring agreement signed last June.

## **Outlook**

Ukrproduct will continue to work towards profitability whilst delivering positive cash flow. Plans as defined above delivered improved performance in 2016 will be further implemented. Management agility will be required in the febrile market place but confidence has risen not least as also has the Ukrainian economy.

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**For further information, please visit [www.ukrproduct.com](http://www.ukrproduct.com) or contact:**

Ukrproduct Group Ltd

Jack Rowell, Non-Executive Chairman

Tel: +380 44 232 9602

Alexander Slipchuk, Chief Executive Officer

[www.ukrproduct.com](http://www.ukrproduct.com)

ZAI Corporate Finance Ltd.

Nominated Adviser and Broker

Peter Trevelyan-Clark, Jamie Spotswood

Tel: +44 20 7060 2220

[www.zaicf.com](http://www.zaicf.com)

*This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.*

**Ukrproduct Group Ltd is one of the leading Ukrainian producers and distributors of branded dairy products and kvass, a traditional fermented beverage. The Group's product portfolio includes processed and hard cheese, packaged butter, skimmed milk powder (SMP) and kvass. Ukrproduct has built a range of recognisable product brands ("Our Dairyman", "People's Product", "Creamy Valley", "Molendam", "Farmer's") that are well known and highly regarded by consumers. The Group reported unaudited consolidated total assets of approximately GBP 13.8 million as at June 30, 2016 and unaudited consolidated revenues of approximately GBP 8.2 million for the six months then ended. In its full year ended 31 December 2015, the Group reported audited revenues of approximately GBP 22.2 million. Ukrproduct's securities are traded under the symbol "UKR" on AIM, a market operated by the London Stock Exchange.**

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" the negative of such terms or other similar expressions. These statements are only predictions and they may differ materially from the actual events or results. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in*

*such projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Ukraine, rapid technological and market change in our industry, as well as many other risks specifically related to the Group and its operations.*