



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

September 24, 2014

**UKRPRODUCT ANNOUNCES UNAUDITED INTERIM FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

Kyiv, Ukraine – September 24 2014 – 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 its unaudited interim consolidated IFRS financial results for the six months ended 30 June 2014.

KEY FIGURES

(Figures in brackets are for the six months ended and as at 30 June 2013 when the exchange rate was the 12.33 UAH/GBP compared to 16.99 UAH/GBP in this reporting period)

- **Total revenues decreased by 30% year on year to GBP 17.2 m (GBP 24.7 m), however the decrease in national currency made up 5%**
- **Gross profit margin improved to 22.7% (15.0%) resulting in gross profit increase by 5% to GBP 3.9 m (GBP 3.7m)**
- **Revenues in dairy branded products segment decreased by 41% year on year to GBP 11.3 million (GBP 19.1 million) and gross profit decreased by 20% year on year to GBP 2.1 million (GBP 2.7 million)**
- **In kvass the revenues decreased by 40% year on year to GBP 0.7 million (GBP 1.2 million) and gross profit down by 39% year-on-year**
- **Skimmed Milk Powder (SMP) revenues increased by 36% to GBP 4.7 million (GBP 3.5 million) and gross profit increased to GBP 1.3 million (GBP 0.3 million)**
- **EBITDA increased by 42% to GBP 1.8 million (GBP 1.3 million) year-on-year**
- **Profit from operations more than doubled year on year reaching GBP 1.3 million (GBP 0.6 million)**
- **Profit before FOREX increased to GBP 835 k (GBP 33 k)**
- **The negative effect of currency exchange differences amounted to GBP 2.8 million**
- **Cash balance of GBP 0.4 million (GBP 0.6 million).**

CEO’S REPORT

As to be expected the unstable political and economic situation has provided a challenging business environment for all businesses in Ukraine. Consumer confidence has fallen and the population’s purchasing power has been reduced by rising costs including the very significant increase in fuel prices due to the deterioration of relations between Ukraine and Russia. The significant hryvna devaluation has further accentuated the management challenge. It has increased the cost of imported materials but potentially affords export opportunities.

In dairy the lack of exports to Russia led to an oversupply and some dumping on the domestic market. However and importantly it led to improved milk availability that was followed by a decline in raw milk prices. **Branded dairy products** experienced lower sales given the market conditions and also not least as the result of consumer price increases necessitated earlier in the year by the pressure on unit cost. At the

same time more raw milk availability at lower prices coupled with the consumer price increase ensured a good improvement in the profit margins of branded dairy category. Thus despite the revenues decline the gross profit in H1'2014 has increased year-on-year.

In **butter** segment the Company saw the decrease in both volumes and revenues, however the margins improved substantially. The overall market of **spreads** in Ukraine continues to decline as consumers switch their preferences back to the traditional butter. Thus Ukrproduct's category of spreads saw a decrease in both sales and profits. **Processed cheese** showed the decrease in revenues and gross profit despite the improvement in contribution margin. The **hard cheese** sales have been the most affected by the restrictions on exports to Russia and dumping of product and as result have reduced year-on-year.

With the hryvna devaluation vs US dollar of 47% in H1'2014 the Company aimed at increasing **export** revenues significantly improving its SMP export sales and exploring new export markets for its branded products.

Skimmed Milk Powder (SMP) - The SMP segment showed a significant year-on-year growth in H1'2014 benefitting from higher domestic and export demand and better prices given the exchange rate. Moreover the Company continued to enhance its reputation as the high quality and reliable supplier to the large multinational companies in Ukraine as planned following the upgrade of production facility within the scope of the EBRD financed project.

The sales of **kvass** showed a decrease in H1'2014 compared to the same period last year due to the summer weather colder than usual and difficulties selling into Crimea. However the Company expects the second half of the season to improve on sales not least due to an extensive marketing support and further development of geographical coverage.

Distribution services - Given the commoditization in this business segment the Company now operates at a lower level with focus on growing quality business allowing good profitability. As result although the revenues in this segment decreased in H1'2014 compared to the last year, the gross margin showed an improvement.

Finances - Overall the aforementioned factors resulted in the sizeable year-on-year increase in Company's EBITDA and operating profit for the first half of 2014. Operating cash-flow was substantially improved during the period. The significant hryvna devaluation has offset such operating improvement via a negative exchange difference charge. The effect of exchange rate has led to the Group reporting a loss for H1'2014.

As previously announced the banking confidence in Ukraine has fallen and this is limiting credit facilities. Ukrproduct Group however has successfully renewed its bank facilities for working capital. Ukrproduct also benefited from further support of the European Bank for Reconstruction and Development ("EBRD") which has restructured the loan repayment taking into account significant hryvna devaluation.

The Group's cash levels and bank facilities are sufficient to meet current debt obligations in the short and medium term.

On the **operational** side the Company continued its progress implementing the second stage of modernization project with the European Bank for Reconstruction and Development. Meanwhile the Company is continuing to see the positive effect of the first stage of the project which has become even more relevant given the rise in energy costs.

Additionally the Company has adjusted its business model including change of sales and logistics structure. This proved to be successful and resulted in better efficiency of operations. The financial outcomes of these initiatives are now being seen.

Outlook – Within the context of the unstable environment, Ukrproduct will sustain its positive approach adapting to changes in opportunity with its trading partners and the consumer. In particular restoration of branded product volumes will receive focus underpinned by a strong marketing programme. The final stage of modernization project, EBRD supported, will become fully operational by the end of the year.

Conference call information

Ukrproduct management will host a conference call today at 12 am (London time) / 1 pm (CET) / 2 pm (Kiev Time) to present and discuss the unaudited financial results for the six months ended 30 June 2014.

The dial-in numbers for the conference call are:
+44 (0) 20 3003 2666 - Standard International Access
0808 109 0700 - UK Toll Free
Password - UKR

For the play-back of further information, please visit www.ukrproduct.com or contact:

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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 total assets of approximately GBP 21.1 million as at June 30, 2014 and consolidated revenues of approximately GBP 17.2 million for the six months ended June 30, 2014. 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.

FINANCIAL REVIEW

	(GBP thousands)			(UAH thousands)		
	Jan- June 2014	Jan- June 2013	YOY Change	Jan-June 2014	Jan- June 2013	YOY Change
Revenue	17 237	24 689	-30%	290 443	304 523	-5%
Gross Profit	3 913	3 710	5%	65 934	45 760	44%
EBITDA	1 840	1 299	42%	31 004	16 022	94%
(Loss) / profit after tax	-2 007	173	n/a	-33 818	2 122	n/a

	(GBP thousands)			(UAH thousands)		
	Jan- June 2014	Jan- June 2013	YOY Change	Jan-June 2014	Jan- June 2013	YOY Change
Revenue						
- Branded products	11 342	19 116	-41%	191 113	235 784	-19%
- Skimmed milk products	4 717	3 458	36%	79 481	42 652	86%
- Kvass	737	1 224	-40%	12 418	15 097	-18%
- Services	164	196	-16%	2 763	2 418	14%
- Other	277	695	-60%	4 667	8 572	-46%
Gross Profit						
- Branded products	2 119	2 652	-20%	35 704	32 712	9%
- Skimmed milk products	1 293	270	379%	21 787	3 330	554%
- Kvass	390	640	-39%	6 572	7 894	-17%
- Services	70	28	150%	1 180	345	242%
- Other	41	120	-66%	691	1 480	-53%

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2014 AND 2013
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2014	Six months ended 30 June 2013
	£ '000	£ '000
Revenue	17 237	24 689
<i>including of branded and SMP products</i>	16 059	22 574
Cost of sales	(13 324)	(20 979)
Gross profit	3 913	3 710
Administrative expenses	(1 163)	(1 158)
Selling and distribution expenses	(1 349)	(1 907)
Other operating income/ expenses, net	(110)	(71)
Profit from operations	1 291	574
Finance expense, net	(456)	(541)
Profit before FOREX	835	33
Effect of foreign currency translation	(2 822)	112
Profit before taxation	(1 987)	145
Income tax expense	(20)	28
Profit for the Six months	(2 007)	173
Attributable to:		
Equity holders of the Parent	(2 007)	173
Non-controlling interest	-	-
	(2 007)	173
Earnings per share:		
Basic	(5,06)	0,4
Diluted	(5,06)	0,4

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2014 AND 2013
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2014	Six months ended 30 June 2013
	£ '000	£ '000
Profit for the Six months	(2 007)	173
Other comprehensive income		
Exchange differences on translation to the presentation currency	(5 377)	932
Other comprehensive income for the Six months, net of tax	(5 377)	932
Total comprehensive income for the Six months, net of tax	(7 384)	1 105
Attributable to:		
Equity holders of the Parent	(7 384)	1 105
Non-controlling interests	-	-
	(7 384)	1 105

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014 AND 31 DECEMBER 2013 AND 30 June 2013
(in thousand GBP, unless otherwise stated)

	As at 30 June 2014 £ '000	As at 31 December 2013 £ '000	As at 30 June 2013 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	11 719	18 185	19 192
Intangible assets	1 082	1 136	1 262
Available for sale investments	-	-	32
Deferred tax assets	12	66	87
Total non-current assets	12 813	19 387	20 573
Current assets			
Inventories	1 725	3 010	3 738
Trade and other receivables	4 615	6 919	7 442
Current taxes	1 435	2 399	2 659
Other financial assets	122	176	163
Cash and cash equivalents	434	1 006	653
Total current assets	8 331	13 510	14 655
TOTAL ASSETS	21 144	32 897	35 228
Equity and liabilities			
Equity attributable to equity holders			
Share capital	3 967	3 967	3 967
Other reserves	(4 051)	1 430	2 529
Retained earnings	10 758	12 672	13 798
Total equity attributable to equity holders of the parent	10 674	18 069	20 294
Non-controlling interest	-	-	-
Total equity	10 674	18 069	20 294
Liabilities			
Non-Current Liabilities			
Bank borrowings	5 322	5 118	4 998
Deferred tax liabilities	361	636	636
Total Non Current Liabilities	5 683	5 754	5 634
Current Liabilities			
Bank borrowings	2 482	5 802	5 883
Trade and other payables	2 230	3 226	3 272
Current income tax liabilities	28	18	90
Other taxes payable	47	28	55
Total Current Liabilities	4 787	9 074	9 300
TOTAL LIABILITIES AND EQUITY	21 144	32 897	35 228

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2014 AND 2013
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2014 £ '000	Six months ended 30 June 2013 £ '000
Cash flows from operating activities		
Profit before taxation for the six months	(1 987)	145
Adjustments for:		
Exchange difference	2 822	(112)
Depreciation and amortisation	549	725
Loss of disposal of non-current assets	9	1
Impairment of trade receivables	34	1
Disposal of subsidiaries	-	20
Interest income	(3)	(1)
Interest expense	459	542
Decrease / (increase) of inventories	298	(147)
Decrease in trade and other receivables	221	320
Increase/ (decrease) in trade and other payables	146	(1 545)
Cash generated from operations	2 548	-51
Interest received	3	1
Income tax paid	(48)	(156)
Net cash generated by operating activities	2 503	(206)
Cash flows from investing activities		
Payments for property, plant and equipment	(300)	(523)
Proceeds from sale of property, plant and equipment	12	12
Repayments / (proceeds) from loans issued	(8)	44
Net cash used in investing activities	(296)	(467)
Cash flows from financing activities		
Own shares acquisition	-	(109)
Interest paid	(459)	(542)
Net proceeds / (repayments) from short term borrowing	(1 928)	1 539
Repayments of investment borrowing	(64)	-
Net cash used in financing activities	(2 451)	888
Net (decrease) / increase in cash and cash equivalents	(244)	215
Effect of exchange rate changes on cash and cash equivalents	(328)	23
Cash and cash equivalents at the beginning of the six months	1 006	415
Cash and cash equivalents at the end of the six months	434	653

UKRPRODUCT GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2014 AND 2013
(in thousand GBP, unless otherwise stated)

	Attributable to equity holders						Total attributa ble to equity holders of the parent £ '000	Non- controlli ng interest £ '000	Total Equit y £ '000
	Share capital	Share premiu m	Merge r reserv e	Revaluati on reserve	Retaine d earnings	Translati on reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000			
As at 1 January 2013	4 082	4 555	(367)	3 877	13 496	(6 339)	19 304	-	19 304
Profit for the six months					173		173	-	173
Other comprehensive income						932	932		932
Total comprehensive income	-	-	-	-	173	932	1 105	-	1 105
Depreciation on revaluation of non current assets				(135)	135		-		-
Reduction of revaluation reserve				-	(6)		(6)		(6)
Dividends paid					-		-		-
Acquiring of shares	(115)	6					(109)		(109)
As at 30 June 2013	3 967	4 561	(367)	3 742	13 798	(5 407)	20 294	-	20 294
Profit for the six months					(877)		(877)	-	(877)
Other comprehensive income				38		(1 361)	(1 323)		(1323)
Total comprehensive income	-	-	-	38	(877)	(1 361)	(2 200)	-	(2200)
Depreciation on revaluation of non current assets				(112)	112		-		-
Reduction of revaluation reserve				(32)	6		(26)		(26)
Group restructuring completion			367		(367)				-
Acquiring of shares	-	1					1		1
As at 31 December 2013	3 967	4 562	-	3 636	12 672	(6 768)	18 069	-	18 069
Profit for the year					(2 007)		(2 007)	-	(2007)
Other comprehensive income						(5 377)	(5 377)		(5377)
Total comprehensive income	-	-	-	-	(2 007)	(5 377)	(7 384)	-	(7384)
Depreciation on revaluation of non current assets				(91)	91		-		-
Reduction of revaluation reserve				(15)	2		(13)		(13)
Effect from tax rate change				2			2		2
Acquiring of shares	-	-					-		-
As at 30 June 2014	3 967	4 562	-	3 532	10 758	(12 145)	10 674	-	10 674

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

The interim financial statements are unaudited but have been reviewed by the auditors whose review report is set out below.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for revaluation of certain properties.

The same accounting policies, presentation and methods of computation have been followed in this unaudited condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2013, except for the impact of the items described below.

The preparation of the unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates.

The comparatives for the six months ended 30 June 2014 are extracted from the Group's consolidated financial statements for the year ended 31 December 2013. The auditor's report for those accounts was unqualified, but did include references to an emphasis of matter in respect of the Group incurring a loss during the year, primarily as a result of the volatile political and economic situation in Ukraine. This has resulted in a number of challenges to the Group, including but not limited to the significant devaluation of the local currency and the increase in raw milk prices. The Group applied for a waiver from the EBRD in connection with financial covenants contained in the loan agreement, which was granted by the EBRD. Group management believes that they will continue to receive the support of the EBRD for the foreseeable future. The directors have also put in place a number of additional cost efficiency measures including but not limited to the reconstruction of manufacturing facilities in Starokonstantinov, further optimization in the number of its subsidiaries and streamlining its business processes. Additionally, due to the position in the Ukraine, there is a risk that the Group may not be able to operate in Crimea following its occupation by Russia. As at the year end 31 December 2013 and subsequently as at the period ended 30 June 2014 of this report the Group continues to operate in Crimea, and monitor the situation.

Going concern

The unaudited condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due, for the foreseeable future.

During the period, the Group has breached its loan covenants with the EBRD, and has since obtained a loan waiver from the EBRD. It is our view that the EBRD will continue to support the Group through our capital projects, during a time of political unrest. Director's view, have therefore concluded that is appropriate to prepare these financial statements on a going concern basis. The financial statements do not include adjustments that would be required if the Group was unable to continue as a going concern.

2. Earnings per share

Basic earnings per share have been calculated by dividing net loss/profit attributable to the ordinary shareholders (loss/profit for the year) by the weighted average number of shares in issue.

	Six months ended	Six months ended
	30 June 2014	30 June 2013
Net (loss) / profit attributable to ordinary shareholders, £'000	(2 007)	173
	39	39
Weighted number of ordinary shares in issue	673 050	673 050
Basic earnings per share, pence	(5,06)	0,4

	39	39
Diluted average number of shares	673 050	673 050
Diluted earnings per share, pence	(5,06)	0,4

3. Approval of interim financial statements

The unaudited condensed consolidated financial statements were approved by the board of directors on 19 September 2014.