



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

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**UKRPRODUCT GROUP LIMITED  
ANNOUNCES TRADING UPDATE**

**Kyiv, Ukraine** – July 7, 2011 – Ukrproduct Group (“Ukrproduct” or “the Group”) (AIM: UKR), a leading producer and distributor of branded dairy products in Ukraine, today published the following trading update ahead of its first half year results in September 2011.

The Group continued to operate in a challenging economic environment in H1 2011, with consumer purchasing power further declining on the back of increasing utility bills and high inflation expectations. Ukrainian businesses were challenged by the new Tax Code, effective April 1, 2011 and pressure from the tax authorities. The dairy sector was also affected by a new milk subsidy regime which effectively requires milk processors to pay double VAT, with no clear time frame for receiving a refund.

Despite this challenging environment, Ukrproduct’s sales in the year-to-date have shown an encouraging step forward. Revenue in H1 2011 is expected to increase by approximately 25% year-on-year. The Group strengthened its leading position in the butter segment, increasing its market share by approximately 1.5%. Furthermore, although sales of processed cheese are expected to be lower than in H1 2010, volumes remained stable and Ukrproduct increased its market share by around 2% year-on-year due to a contraction of market capacity and therefore recovered its leading position in the sector, despite extreme price competition at the lower end of the market. Sales of packaged and bulk spreads are expected to increase significantly in H1 2011 as the product offering has been improved in this segment.

Ukrproduct also launched a private label project for processed cheese with two major Ukrainian retail chains. We believe that, going forward, sales under private label projects will become a mainstream mass market product and will therefore reinforce the Group’s position in a highly price competitive environment.

Skimmed milk powder (SMP) benefitted from a favourable trading environment on the export markets, but the stockpiles of SMP from 2010 in Ukraine led to an unexpected price decrease on the domestic market, which undermined profitability in this sector.

The Group continued to develop distribution of third party products. Sales of kvass – a traditional brewed drink introduced last year – made good advances allied to encouraging profitability. Going forward, Ukrproduct aims to further increase the profitability of kvass distribution and to cover more retail chains. The Group will also leverage the new active kvass clients to increase penetration of other branded products.

On the operational side, the Group has started the works to complete the modernization of the plant at Starokostiantyniv under the project with finance from the European Bank for Reconstruction and Development. This project is expected to achieve substantial cost savings not least due to increased efficiency of energy consumption.

Ukrproduct's management expects both revenue and EBITDA in H1 2011 to be up year-on-year. Administrative expenses were held stable, while Selling and Distribution expenses increased in line with the sales volumes and due to the reorganization of the sales force.

In May 2011 the Group secured a new three-year credit facility with OTP Bank, which will ensure sufficient working capital. Cash levels are healthy and sufficient to meet ongoing obligations.

In the second half of the year, the Group expects to continue facing the challenges of the new VAT subsidy regime and Tax Code. Nevertheless, management expects further sales improvement in branded products, private label products and kvass distribution, driven by marketing activity at points of sale and effective consumer outreach. However, the pressure on margins is expected to continue in the competitive market place, accentuated by increases in fuel and other input prices.

The Group intends to provide a further trading update when its first half results are announced in September.

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**For further information, please visit [www.ukrproduct.com](http://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. The Group's product portfolio includes processed and hard cheese, skimmed milk powder (SMP) and butter. 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 has modern production facilities that comprise four operational dairy plants in western and central regions of Ukraine (a dairy plant in Starokonstantyniv with two satellite plants in Krasyliv and Letychiv, and a butter and cheese plant in Zhytomyr) with a total annual integrated capacity of approximately 70,000 tonnes of dairy products. With its own fleet of more than 150 vehicles, Ukrproduct has one of the largest logistics and distribution networks in Ukraine which covers the country's eight major cities.**