



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

23 December, 2011

## **UKRPRODUCT GROUP ANNOUNCES TRADING UPDATE FOR THE YEAR ENDING 31 DECEMBER 2011**

**Kyiv, Ukraine** – 23 December, 2011 – Ukrproduct Group Limited (“Ukrproduct”, the “Company” or, together with its subsidiaries, the “Group”) (AIM: UKR), one of the leading producers and distributors of branded dairy products in Ukraine, today provides the following trading update for the year ending 31 December 2011 ahead of announcing its full year results in April 2012.

In line with the Group’s plans, revenues in 2011 are expected to improve by an average of 10% year on year. Branded/own label products showed continued progress both in terms of revenue and aggregate gross profit. The Group continued to strengthen its leading position in the overall butter segment, increasing its market share by 1.1 percentage points (7.9% in 2011 compared to 6.8% in 2010)<sup>1</sup> as well as expanding its market share in the processed cheese segment from an average of 14.0% in 2010 to an average of 14.7% in 2011.

Gross margins were pressured by higher input prices (especially fuel) and reduced by a surge in the milk price earlier in the Autumn season than usual, brought about by a shortage and the subsequent competition for supply. These milk price dynamics were in addition to the inflation in milk prices caused by the new government VAT subsidy system that has been introduced in 2011 but, in relation to which, the subsidies remain unpaid. At the same time, the competitive market place made it difficult to fully recover such high cost inflation by increasing prices.

SMP remained subdued with the world trading environment and high input costs negating profit making opportunities, in contrast with last year. However, the Group managed to minimize the adverse market impact of these factors by producing SMP only as a by-product of profitable butter manufacture.

Revenue and gross profit from distribution services improved in line with the new focus based on the utilization of Ukrproduct's pan-Ukrainian distribution network of both vehicles and warehouses. Kvass drink distribution in particular made significant advances with more penetration into retail chains largely supported by marketing efforts.

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<sup>1</sup> Overall butter market shares are taken from State Statistics Committee data and include both packaged and bulk butter. Management estimates that the Group’s market share for packaged butter has increased from 22% to 24.3% year-on-year.

Export sales of branded products have also benefitted from improved focus and showed a similar story of improved sales and gross profit.

As previously communicated the government introduced a stringent Tax Code inducing much higher tax charges. Improved planning in the second half has mitigated the impact of the introduction of the Code and further opportunities are to be pursued to this end.

The challenging market situation accentuated the need for cost reduction. A further cost reduction programme has been implemented and the benefits of this programme will be evident starting in January 2012. In this context, the reconstruction work associated with the EBRD-financed project to modernize the Starokostiantyniv plant has continued on schedule, with the first significant benefits of this major project expected to be seen in mid-2012.

The Group strengthened its management team by appointing Mr.Vyacheslav Osypenko to the position of Director of the Production Department. Management believes that Mr.Osypenko's broad experience in the food industry will complement the professional expertise of the management team and looks forward to his contribution to the development of the Group's business.

Overall, during the year, Ukrproduct succeeded in building growth in sales and gross profit by focussing on branded/own label products, distribution services and exports. It was disappointing that allied profitability was undermined by the increase in fuel costs and by the very high milk price inflation, all within a competitive market place. SMP profitability was reduced due to world market conditions and domestic milk costs. In addition, taxation has become an issue. As a result of these factors, the Company now expects that before and after tax profits for the current financial year ending 31 December 2011 will be below previous expectations.

Ukrproduct's response is to continue its planned growth in sales with added emphasis on the cost reduction programme and the reduction of the incidence of taxation. All these programmes are underway and the outlook is for significant improvement in 2012.

Ukrproduct's financial position remains stable. The Group's cash levels are sufficient to meet current debt obligations in the short and medium terms.

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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 dairy plants in western and central regions of Ukraine (Zhytomyr, Starokonstantyniv, Krasyliv and Letychiv) with a total annual integrated capacity of approximately 60,000 tons of dairy products. With its own fleet of more than 125 vehicles, Ukrproduct has one of the largest logistics and distribution networks in Ukraine which covers the country's eight major cities. The Group reported total assets of approximately GBP 26.3 million as at June 30, 2011 and consolidated revenues of approximately GBP 25.0 million for the first six months of 2011. 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 that actual events or results may differ materially. 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.*