



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

13 September, 2012

UKRPRODUCT ANNOUNCES UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

Kyiv, Ukraine – 13 September 2012 – Ukrproduct Group Limited (“Ukrproduct” or the “Group”) (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy products and now in addition beverages (kvass), today announces its unaudited interim consolidated IFRS financial results for the six months ended 30 June 2012.

FINANCIAL HIGHLIGHTS – MAJOR IMPROVEMENT IN PROFITABILITY

(Figures in brackets are for the six months ended or as at 30 June 2011)

- **Revenues similar to 2011 but improved sales product mix grew margins**
- **Gross profit increased by 27% to GBP 4.3 m (GBP 3.4 m), with increase in gross profit margin to 16.9% (13.5%)**
- **Dairy branded/own label products performed strongly, with gross profit growth by 32% year-on-year**
- **Kvass grew significantly both in revenue and gross profit by 46.8% and 254% respectively year-on-year following the incorporation of the kvass producing company into the Group and growth of sales**
- **Skimmed Milk Powder (SMP) saw an increase in revenue by 6% but a significant decline in gross profit as a result of low prices on the world market and a weak global economy**
- **EBITDA increased by 27% to GBP 1.47 m (GBP 1.15 m) year-on-year**
- **Tax management reduced the effective tax rate to 29% (41%)**
- **Profit after tax up 106% year-on-year to GBP 0.636m (GBP 0.309 m)**
- **Cash Flow from operating activities was GBP 1.775 m (GBP 0.5833 m)**
- **Cash at the end of the 6 months was GBP 0.8 m (GBP 0.4 m)**
- **Major cost saving capital expenditure at Starokostiantyniv Plant completed successfully**
- **No interim dividend is proposed in view of this major capital expenditure program**
- **Earnings per share increased to 1.6 pence (0.8 pence)**

Sergey Evlanchik, CEO of Ukrproduct, commented: “In the first half of 2012 the Group focused on recovering the margins thus, whilst the sales remained in line with the previous year, the Group achieved a substantial improvement in profitability. Branded dairy products accounted for the lion’s share of the Group’s sales and gross profit. The newly acquired business of kvass also proved to be a success. The SMP sector remained challenging, with the market conditions severely undermining the profitability. A focus on efficient tax planning helped to mitigate the negative effect of the new stringent Tax Code.”

CEO'S REPORT

In H1'2012 the economic environment in Ukraine remained challenging with consumer purchasing power further constrained by the effective inflation. The dairy sector was mainly affected by the ban on hard cheese exports to Russia which caused an oversupply on the domestic market of hard cheese and consequently of butter and Skimmed Milk Powder as several producers chose to switch to the output of these products. On the positive side, the restrictions on export to Russia together with the re-introduction of the milk subsidy regime prompted higher milk volumes availability in Ukraine which led to first stabilization and later a gradual decrease in raw milk prices.

The Group focused on improving the overall profitability thus, although the sales were in line with the last year, the gross profit showed an encouraging increase of 26.8%. The gross profit in branded dairy products improved by 31.5%, not least due to the repositioning of Group's product offering.

The butter market in Ukraine grew, mostly due to an increase in bulk butter output. The lack of hard cheese exports to Russia as mentioned above led to a domestic market cluttered with competitors. Ukrproduct therefore successfully focused on improving the sales margins rather than pursuing market share. Thus, despite some decrease in sales revenues compared to H1'2011, the Group achieved an increase in aggregate gross profit of 16.9%.

As the market of processed cheese expanded, the Group increased its sales both in revenue and tonnage terms and therefore confirmed its leadership in terms of market share. The gross profit showed a significant increase compared with H1'2011.

In the segment of hard cheese the Group has repositioned its product offering and its market position is growing though from a small base.

The Skimmed Milk Powder segment remained suppressed, with several factors further deteriorating profitability: namely increased energy costs, weak world market conditions and an overhang in the Ukrainian market. In order to minimize the losses, the Group decreased its output strictly to the volumes that need to be produced as the by-product of butter production.

The performance of the recently acquired business of kvass, a traditional fermented beverage, which the Group was exclusively distributing from September 2010 was a highlight. The sales of kvass increased by over 47% year-on-year in monetary terms as the Group expanded the geography of sales and strengthened the presence in the existing regions, largely supported by the integrated marketing communication. The Group thereby improved its market share with this authentic natural drink. The gross profitability also showed a very encouraging growth unhindered by the economic environment.

A very important step forward was made on the operational side with the completion of the first stage of modernization project with finance from the European Bank for Reconstruction and Development (EBRD). This modernization will substantially improve energy efficiency and productivity of Starokostiantyniv Dairy Plant, driving down the unit cost. The Group is now seeing the benefits and will continue to build up the savings.

OUTLOOK

The outlook for the second half of 2012 is to a similar economic environment perhaps accentuated by inflationary currency devaluation and government spending pre the autumn elections. The trading and volume trends will again be pursued in dairy and kvass. Margins will remain pressured with seasonal milk prices increase and persisting inflation pressures, especially in fuel. This may be partially compensated by an anticipated improvement SMP prices. Nevertheless, the cost optimization program including the EBRD financed project is critical to Ukrproduct success.

Within these dynamics Ukrproduct looks to continue an improved performance.

FINANCIAL REVIEW

	<i>(GBP thousands)</i>			<i>(UAH thousands)</i>		
	Jan-Jun 2012	Jan-Jun 2011	Year- on-year change	Jan-Jun 2012	Jan-Jun 2011	Year- on-year change
Revenue	25,343	25,008	1%	319,084	321,850	-1%
Gross Profit	4,279	3,375	27%	53,875	43,436	24%
EBITDA	1,467	1,151	27%	18,470	14,815	25%
Profit after tax	636	309	106%	8,008	3,977	101%
Basic earnings per share (pence)	1.56	0.77	102%	-		

	<i>(GBP thousands)</i>			<i>(UAH thousands)</i>		
	Jan-Jun 2012	Jan-Jun 2011	Year- on- year change	Jan-Jun 2012	Jan-Jun 2011	Year- on- year change
Revenue						
- Branded products	15,987	15,992	0%	201,286	205,815	-2%
- Skimmed milk products	3,970	3,738	6%	49,985	48,108	4%
- Kvass	1,130	770	47%	14,227	9,910	44%
- Services	200	400	-50%	2,518	5,148	-51%
- Other	4,056	4,108	-1%	51,068	52,869	-3%
Gross Profit						
- Branded products	3,732	2,837	32%	46,985	36,511	29%
- Skimmed milk products	-239	-7	-	-3,009	-90	-
- Kvass	619	175	-	7,794	2,252	-
- Services	16	214	-93%	201	2,754	-93%
- Other	151	156	-3%	1,901	2,008	-5%

Ukrproduct's consolidated revenues in H1 2012 were in line with H1 2011 at GBP 25.3 million. The Branded products segment continued to account for the majority of the Group's revenues, representing 63% of total revenues (64% in H1'2011). Branded products segment revenues remained at the same level of GBP 16 million. Sales of processed cheese and processed cheese product increased by 23% year-on-year. The revenues of packaged butter and spreads decreased by 12% year-on-year due to focusing on increasing the profitability and abstaining from the low-profitability projects and activities. The revenue of the Skimmed

milk products (“SMP”) segment increased by 6% year-on-year. The revenues from kvass increased by 47% year-on-year.

The Group’s gross profit increased by 27% from GBP 3.4 million in H1 2011 to GBP 4.3 million in H1 2012 with a gross profit margin of 16.7% in the first half of 2012 compared to 13.5% in the corresponding period of 2011. The rise in gross profit was mainly due to the focus on profitability in Branded product sales and kvass profit, which increased by 47%.

Ukrproduct continued to suffer from an unfavourable pricing environment in SMP in the first half of 2012, and as a result the gross losses from Skimmed milk products increased by GBP 0.2 m. The segment delivered a negative gross profit margin of -6% compared to -0.2% in the previous period.

Group EBITDA in H1 2012 increased by 27% from GBP 1.2 million in H1 2011 to GBP 1.5 million in H1 2012.

Profit after tax increased by 106% year-on-year to GBP 0.64 million in H1 2012 (GBP 0.31 million). These figures incorporate the exchange gain of difference growth by GBP 0.2 million year-on-year.

The Group’s basic earnings per share (EPS) doubled year-on-year from 0.8 pence to 1.6 pence in the first half of 2012.

Net cash generated by operating activities totalled GBP 1.5 million in the first half of 2012 (GBP 0.3 million), reflecting increased gross margins of Branded products and decreased inventories.

The Group’s cash balances stood at GBP 0.8 million as at 30 June 2012, compared to GBP 0.4 million as at 30 June 2011. Bank borrowings include GBP 5.2 million of long term credit from EBRD for the financing of a project to increase energy efficiency and productivity of the Group’s production facilities. As at 30 June 2012, the Group had a credit facility in UAH with OTP Bank equivalent to GBP 3.0 million (GBP 2.7 million). The Group’s cash level is sufficient to meet current debt obligations in the short and medium term.

Business circumstances dictate prudence and the conservation of cash. The Board has therefore decided not to pay an interim dividend in respect of the first six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Conference call information

Ukrproduct management will host a conference call today at 10.30 am (London time) / 11.30 am (CET) / 12.30 pm (Kiev Time) to present and discuss the unaudited interim results.

UK dial-in (toll-free): 0808 109 0700

Ukraine (toll-free): 0 800 50 20590

International dial-in: +44 (0) 20 3003 2666

The participant password is: Ukrproduct

A replay will then be available for 30 days after the conference call on Ukrproduct Group web-site.

For 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 now in addition kvass, a traditional fermented beverage. The Group's product portfolio includes processed and hard cheese, skimmed milk powder (SMP),) and butter 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 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 33.5 million as at June 30, 2012 and consolidated revenues of approximately GBP 25.3 million for the six months ended June 30, 2012. Ukrproduct's securities are traded under the symbol "UKR" on AIM, a market operated by the London Stock Exchange. 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.

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2012 AND 2011
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2012	Six months ended 30 June 2011
	£ '000	£ '000
Revenue	25,343	25,008
<i>including of branded and SMP products</i>	19,957	19,730
Cost of sales	(21,064)	(21,633)
Gross profit	4,279	3,375
Administrative expenses	(1,510)	(1,384)
Selling and distribution expenses	(1,573)	(1,323)
Other operating expenses/income, net	(228)	33
Profit from operations	968	701
Finance expense, net	(268)	(155)
Effect of foreign currency translation	192	(22)
Profit before taxation	892	524
Income tax expense	(256)	(215)
Profit for the Six months	636	309
Attributable to:		
Equity holders of the Parent	636	315
Non-controlling interest	-	(6)
	636	309
Earnings per share:		
Basic	1.6	0.8
Diluted	1.6	0.8

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2012 AND 2011
(in thousand GBP, unless otherwise stated)

	Six months ended	Six months ended
	30 June 2012	30 June 2011
	£ '000	£ '000
Profit for the Six months	636	309
Other comprehensive income		
Exchange differences on translation to the presentation currency	(235)	(723)
Other comprehensive income for the Six months, net of tax	(235)	(723)
Total comprehensive income for the Six months, net of tax	401	(414)
Attributable to:		
Equity holders of the Parent	401	(408)
Non-controlling interests	-	(6)
	401	(414)

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
POSITION AS AT 30 JUNE 2012 AND 31 DECEMBER 2011 AND 30 JUNE 2011
(in thousand GBP, unless otherwise stated)

	As at 30 June 2012 £ '000	As at 31 December 2011 £ '000	As at 30 June 2011 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	19,181	17,173	11,220
Intangible assets	1,305	1,055	960
Available for sale investments	87	169	85
Deferred tax assets	41	50	260
Total non-current assets	20,614	18,447	12,525
Current assets			
Inventories	2,955	4,634	3,564
Trade and other receivables	7,526	6,906	8,215
Current taxes	1,458	404	1,202
Other financial assets	179	177	396
Cash and cash equivalents	808	512	395
Total current assets	12,926	12,633	13,772
TOTAL ASSETS	33,540	31,080	26,297
Equity and liabilities			
Equity attributable to equity holders			
Share capital	4,082	4,082	4,082
Other reserves	2,484	2,868	1,091
Retained earnings	13,145	12,367	13,182
Total equity attributable to equity holders of the parent	19,711	19,317	18,355
Non-controlling interest	-	-	14
Total equity	19,711	19,317	18,369
Liabilities			
Non-Current Liabilities			
Bank borrowings	5,155	3,844	-
Deferred tax liabilities	843	881	1,295
Total Non Current Liabilities	5,998	4,725	1,295
Current Liabilities			
Bank borrowings	3,499	3,514	2,661
Trade and other payables	4,192	3,165	3,679
Current income tax liabilities	73	108	113
Other taxes payable	67	251	180
Total Current Liabilities	7,831	7,038	6,633
TOTAL LIABILITIES AND EQUITY	33,540	31,080	26,297

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2012 AND 2011
(in thousand GBP, unless otherwise stated)

	Six months ended	Six months ended
	30 June 2012	30 June 2011
	£ '000	£ '000
Cash flows from operating activities		
Profit before taxation for the six months	892	524
Adjustments for:		
Exchange difference	(192)	22
Depreciation and amortisation	499	450
Loss / (profit) of disposal of non-current assets	5	8
Impairment of trade receivables	35	30
Interest income	(1)	(18)
Interest expense	269	173
Decrease / (increase) of inventories	1,562	266
Decrease / (increase) in trade and other receivables	(1,663)	(2,964)
Increase in trade and other payables	369	2,091
Cash generated from operations	1,775	582
Interest received	1	18
Income tax paid	(309)	(286)
Net cash generated by operating activities	1,467	314
Cash flows from investing activities		
Payments for property, plant and equipment	(2,520)	(223)
Proceeds from sale of property, plant and equipment	11	400
Repayments / (proceeds) from loans issued	(3)	(184)
Net cash used in investing activities	(2,512)	(7)
Cash flows from financing activities		
Dividends paid	-	(204)
Interest paid	(269)	(173)
Net proceeds from short term borrowing	28	(163)
Increase in long term borrowing	1,629	-
Net cash used in financing activities	1,388	(540)
Net increase in cash and cash equivalents	343	(233)
Effect of exchange rate changes on cash and cash equivalents	(47)	(48)
Cash and cash equivalents at the beginning of the six months	512	676
Cash and cash equivalents at the end of the six months	808	395

UKRPRODUCT GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2012 AND 2011

(in thousand GBP, unless otherwise stated)

	Attributable to equity holders						Total attributable to equity holders of the parent £ '000	Non- controlling interest £ '000	Total Equity £ '000
	Share capital	Share premium	Merger reserve	Revaluat ion reserve	Retained earnings	Transla tion reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '001			
As at 1 January 2011	4,082	4,555	(1,427)	4,366	12,817	(5,426)	18,967	20	18,987
Profit for the six months					315		315	(6)	309
Other comprehensive income						(723)	(723)		(723)
Total comprehensive income	-	-	-	-	315	(723)	(408)	(6)	(414)
Depreciation on revaluation of non current assets				(123)	123		-		-
Reduction of revaluation reserve				(131)	131		-		-
Dividends paid					(204)		(204)		(204)
As at 30 June 2011	4,082	4,555	(1,427)	4,112	13,182	(6,149)	18,355	14	18,369
Profit for the six months					95		95	(4)	91
Other comprehensive income				206		695	901		901
Total comprehensive income	-	-	-	206	95	695	996	(4)	992
Depreciation on revaluation of non current assets				(179)	179		-		-
Reduction of revaluation reserve				(5)	(29)		(34)		(34)
Exclusion from Group			1,060		(1,060)		-	(10)	(10)
As at 31 December 2011	4,082	4,555	(367)	4,134	12,367	(5,454)	19,317	-	19,317
Profit for the year					636		636	-	636
Other comprehensive income						(235)	(235)		(235)
Total comprehensive income	-	-	-	-	636	(235)	401	-	401
Depreciation on revaluation of non current assets				(141)	141		-		-
Reduction of revaluation reserve				(8)	1		(7)		(7)
Dividends paid					-		-		-
As at 30 June 2012	4,082	4,555	(367)	3,985	13,145	(5,689)	19,711	-	19,711

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

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

The unaudited condensed consolidated financial information has 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 financial information as were applied in the preparation of the Group's financial statements for the year ended 31 December 2011, except for the impact of the items described below.

Change in accounting for Goodwill

Goodwill in the amount of GBP 157 k, that arose at the time of purchase of LLC "Zhyvyi Kvass" in December 2011 was reclassified into the value of trade mark "Arseniyivskiy".

The preparation of the interim financial information 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 2011 are extracted from the Group's consolidated financial statements for the year ended 31 December 2011. The auditor's report for those accounts was unqualified and did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

2. Earnings per share

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

	Six months ended	Six months ended
	30 June 2012	30 June 2011
Net profit attributable to ordinary shareholders, £'000	636	315
Weighted number of ordinary shares in issue	40,817,600	40,817,600
Basic earnings per share, pence	1.6	0.8
Diluted average number of shares	40,817,600	40,817,600
Diluted earnings per share, pence	1.6	0.8

3. Comparative information

Certain information in the consolidated statement of cash flows has been reclassified to conform with the presentation format adopted in the current year. The restatement has no effect on the financial results or financial position of the Group.

4. Subsequent events

On July 2, 2012 a customer of the Group returned a batch of skimmed milk powder to the amount of GBP 312 k. The product will be sold under foreign economic contracts in August-September 2012.

5. Approval of interim financial statements

The interim financial statements were approved by the board of directors on 12 September 2012.