



FOR IMMEDIATE RELEASE

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## **TRADING UPDATE FOR THE YEAR ENDED 31 DECEMBER 2012**

**Kyiv, Ukraine** – Ukrproduct Group Limited (“Ukrproduct” or the “Company”) (AIM: UKR), one of the leading producers and distributors of branded dairy products and beverages (kvass) in Ukraine, today provides the following trading update for the year ended 31 December 2012 ahead of announcing its full year results in April 2013.

Over the year 2012 the economic environment in Ukraine was determined by a number of factors both positive and challenging. Consumer spending was constrained by the high level of effective inflation and negative expectations in view of the government election which took place in October.

**THE DAIRY SECTOR** was mainly affected by the restriction on hard cheese exports to Russia and the consequent oversupply on the domestic market of hard cheese, butter and Skimmed Milk Powder. On the positive side, the restrictions on export to Russia together with the re-introduction of the milk subsidy regime led to higher raw milk volumes availability in Ukraine. It also caused the decrease in the raw milk prices in the first eight months of the year thus allowing the margins increase. However this trend was interrupted as the Government introduced the inflationary minimum raw milk price starting from September to gain the support of milk producing households ahead of the elections.

The butter market in Ukraine grew, mostly due to an increase in bulk butter output caused by the lack of hard cheese exports to Russia. Ukrproduct therefore successfully focused on increasing the profitability of sales whilst maintaining its volume market share in packaged butter in line with the last year. Thus, despite the decrease in sales revenues the Company looks towards the increase in gross profitability.

The market of processed cheese expanded largely contributed by the increase in imports. The Company enhanced its market leadership gaining additional market share of over 2%. Sales showed a material increase both in revenue and tonnage terms, allowing the gross profit to show an even more significant increase compared with 2011.

The Company’s hard cheese category benefitted from the new focus and repositioning of product offering which allowed the launch into the retail chains. As a result its market position and profitability are growing although from a small base.

The profitability in Skimmed Milk Powder segment remained a challenge despite the gradual recovery of the world prices started in Q4’ 2012. The Company thus focused on securing the local supplies to multinational companies where its better quality allowed higher margins. Otherwise output was limited to that necessary as the by-product of butter production. Ukrproduct is exploring alternative production models to improve profitability.

**DISTRIBUTION SERVICES** - In line with its strategy the Company continued to explore and develop the opportunities of distribution services based on its pan-Ukrainian logistics system. Revenues were further improved.

**BEVERAGES** – The performance of the recently acquired business of kvass, a traditional fermented beverage continued its success through the year. The sales demonstrated a significant increase compared to 2011 as the Company expanded the regional coverage especially into the resort areas and strengthened the presence in the existing regions, supported by strong sales and marketing in the high season and the launch of new pack sizes. As result

kvass has improved its market position being now ranked among the five largest players on the domestic market. The margin ensured an encouraging growth in gross profitability unhindered by the economic environment.

The **operational highlight** was the completion of the first stage of the plant modernization project with finance from the European Bank for Reconstruction and Development (EBRD). The Company has seen the first benefits from this major capital expenditure which translated into improved energy efficiency and productivity of Starokostiantyniv Dairy Plant, driving down the unit cost. The savings from this project are ongoing and will contribute to the repayment of the loan to EBRD which is due to start mid 2013.

**FINANCIALLY** overall Ukrproduct looks to an encouraging improvement year on year. The expected sales and margins will have a very positive affect on EBITDA. This trend will run through to Net Income level though after absorbing the higher interest charges induced by the EBRD loan.

Other than the Starokostiantyniv project investment, operating cash flow improved with significant cash being released from working capital. The Group's cash levels are sufficient to meet current debt obligations in the short and medium term.

**OUTLOOK** is to a similar economic environment. In Dairy further market consolidation with stronger quality competition from imports is expected. Ukrproduct will pursue growth in building on its good market positions in packaged butter and processed cheese with hard cheese a development opportunity. Kvass has more available growth opportunities in new retailers and strengthening the brand in existing channels. Margins will be supported not least by the ongoing cost reduction program.

Thus although in challenging markets Ukrproduct looks to consolidate its progress and further improve going forward.

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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, 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 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 200 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.*