



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

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TRADING UPDATE FOR THE FIRST HALF OF 2013

Ukrproduct Group Limited, one of the leading producers and distributors of branded dairy foods and beverages (kvass) in Ukraine, today published the following trading update ahead of its first half year results in September 2013.

The economic environment in the first half of 2013 continues to be challenging due to weak demand and uncertainty over sustainability of Ukrainian economic policy currently adopted by the State authorities.

DAIRY - In sharp contrast to last year the dairy sector was mainly marked by the shortage of raw milk supply caused by the lengthy winter. This coupled with Russia resuming dairy imports for some Ukrainian producer led to strict competition and consequently higher than expected raw milk prices have continued into the year. The competitive market environment did not allow compensation for the increase of unit cost by lifting the consumer prices until late April, thus the margins were under pressure. Nevertheless in terms of sales the major dairy product groups performed well. The leading market shares in packaged butter and processed cheese were sustained and hard cheese increased.

In butter segment the Company has seen the increase in both volumes and revenue, however the margins were challenged by the high input costs. The overall market of **spreads** in Ukraine showed a significant decline as result of consumers switching their preferences back to the traditional butter. Although the decline in Company's spread sales could not be eliminated it was less significant than the overall market contraction.

Processed cheese showed further increase in sales in revenues and volumes and improved aggregate margin due to securing new clients and adjusting the product mix especially in the premium price segment.

The Company continues to focus on the development of its **hard cheese** segment. In H1'2013 the sales are expected to show a significant increase in both volumes and revenues along with the increase in profitability as result of better penetration into the profitable retail chains channel.

Skimmed Milk Powder (SMP) segment showed a strong recovery from the previous year benefitting from higher domestic and export demand and better prices. Moreover the Company enhanced 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. As a result the SMP contributed well to the Company moving into good profitability though sales were constrained by the limited supply of milk.

BEVERAGES - The sales of **kvass** showed further increase supported by the improvement in geographical coverage as well as sales and marketing investment. Along with that the margins benefitted from the unique nature of this fresh product on the Ukrainian market.

DISTRIBUTION SERVICES continued to develop with the focus on growing quality business with sustainable margins. Sales of products becoming commoditized have been eliminated. As the issues with VAT refund on export persisted, the Company mainly concentrated on domestic operations. While sales have been reduced returns have been maintained.

FINANCIAL RESULTS for the half year will reflect the sensitivity of the dairy business margins to the ongoing high milk prices with the previously buoyant butter category being affected in particular. However such pressure will be mitigated by the improving dairy sales, the move into profit of SMP, the containment of overheads and also the successful move into the beverages where kvass will again show its worth. Overall these factors indicate an EBITDA similar to last year. Net income however will be impaired by the expected sizeable increase in interest charges arising from the EBRD loan. The Group's cash levels are sufficient to meet current debt obligations in the short and medium term.

OUTLOOK is for the economic environment to remain similar. Within this context UPG will continue to pursue its strategies of business development.

In operations EBRD has approved a further Euro 1.3 million loan for the second stage of modernization. This will focus on upgrading the production platform for butter improving both quality and cost. Such approval shows confidence in the Company and its plans to progress. Also the EBRD monitoring system of its investment adds weight to the Ukrproduct corporate governance.

In trading terms the Company will pursue the positive sales trends in dairy products where the recent price increases have allowed margin recovery in offsetting the high milk costs. Kvass progress is planned to continue with further geographic penetration backed by aggressive marketing. Cost efficiency is being continuously pursued by an effective program.

In all management see more appropriate trading profitability restored and look to a much improved second half.

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

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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 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 33.7 million as at December 31, 2012 and consolidated revenues of approximately GBP 60.2 million for the twelve months ended December 31, 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.