



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

03 January, 2014

**UKRPRODUCT ANNOUNCES TRADING UPDATE  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**Kyiv, Ukraine** – 03 January 2014 – Ukrproduct Group Limited (“Ukrproduct” or the “Group”) (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), today announces the following trading update for the year ended 31 December 2013 ahead of announcing its full year results in April 2014.

The economic environment during 2013 continued to be challenging. The dairy sector was mainly marked by the significant increase in raw milk prices across both domestic and global markets and a shortage of raw milk supply in Ukraine.

**Branded Dairy Products** showed a positive sales trend and the revenues for the year are expected to improve by an average 11% year-on-year. The profitability however was negatively affected by the further escalation of raw milk prices reaching the level in average 24% higher than in the previous year. The reasons behind the price increase were the shortage and active exports to Russia by hard cheese producers-holders of relevant permits and consequently stricter competition for supplies. Ukrproduct addressed the situation by gradually increasing the consumer prices in line with the market. However those price increases lagged the rising input costs and were not sufficient to fully compensate them. As result the annual gross profit from branded dairy products is now expected to drop by 33% year-on-year.

The category of packaged butter was the most affected by the increase in the price of raw milk which constitutes a very substantial proportion of this product’s unit cost. Thus despite the expected slight increase in revenues (~3%) the gross profit is expected to decrease by half.

Processed cheese showed further increase in sales in both revenues and volumes due to securing new clients and increasing selling prices in line with the market trends. However the quickly rising input costs did not allow a similar increase in gross profit which is now expected to be in average 2% below the previous year.

Hard cheese category benefitted from the further penetration into the profitable retail chains and is expected to show a 23% increase in sales along with reaching a 13% profitability compared to the zero profitability in the previous year.

**Skimmed Milk Powder** segment showed a strong recovery in profitability from the previous year benefitting from higher domestic and export demand and better prices. However the shortage of raw milk supply constrained the sales volumes. As result the sales are expected to decline by 13% year on year whilst the gross profit is expected to achieve in average 6% compared to the negative profitability in the previous year.

**Kvass** was further supported by the sales and marketing initiative and improvement in geographical coverage. As result the brand of this unique fresh product was significantly strengthened and the market share substantially improved. However at the same time the sales were

affected by the short high season caused by poor weather in the summer. Consequently both the revenues and gross profit are expected to decline by in average 15%.

**DISTRIBUTION SERVICES** continued but with the focus on growing quality business with sustainable margins. Sales of products becoming commoditized and cash consuming have been eliminated. As the issues with VAT refund on export persisted, the Company mainly concentrated on domestic operations. While sales are expected to decline substantially the decline in gross profit will be less.

**FINANCIAL RESULTS** for the year will reflect the sensitivity of the dairy business margins to the ongoing high raw milk prices with the previously buoyant butter category being affected in particular. Such pressure could only be partially mitigated by the gradual improvement of branded dairy sales, the resumption of Skimmed Milk Powder profitability and the containment of overheads. Overall these factors cause the Company to expect the EBITDA significantly lower than the last year. Net income will be impaired by the sizeable increase in interest charges arising from the EBRD loan leading to the negative net profitability for the year.

The Group has started to repay the EBRD loan and made the first instalment of Euro 600 k in December 2013. The Group's cash levels and facilities are sufficient to meet current debt obligations in the short and medium term.

**GOING FORWARD** – Ukrproduct plans to return to positive profitability in 2014. The positive sales trends in dairy will be developed further. Kvass market position will be strengthened by marketing programs. Skimmed Milk Powder margins will be sustained but overall profitability will be subject to milk availability.

Margins are under the ongoing pressure from input costs especially milk and utilities. To this end the Company has further enhanced its costs optimization program. This embraces site consolidation, outsourcing of distribution, sales force efficiency and overhead elimination. Benefits will be evidenced from the beginning of 2014.

Meanwhile the second stage of plant modernization with finance from the European Bank for Reconstruction and Development has continued on schedule. It is focused on upgrading the production platform for butter and spreads improving both quality and cost and is expected to be completed in early 2014. Ukrproduct is continuing its close cooperation with the Bank.

**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 foods and beverages (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 35.2 million as at June 30, 2013 and consolidated revenues of approximately GBP 24.7 million for the six months ended June 30, 2013. 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.*