



UKRPRODUCT GROUP

**FINAL RESULTS FOR THE FINANCIAL YEAR
ENDING 31 DECEMBER 2013**

Ukrproduct Group Limited (AIM: UKR), one of the leading producers and distributors of branded dairy products and beverages (kvass) in Ukraine announces its audited consolidated IFRS final results for the twelve months ending 31 December, 2013.

The full text of the 2013 Annual Report, incorporating the 2013 Audited Financial Statements, is available on the Company's website www.ukrproduct.com.

A summary of the Audited Financial Statements follows in this announcement. Shareholders are advised to read the full text of the 2013 Annual Report in its entirety.

Chairman and Chief Executive Officer's Report:

The economic environment during 2013 continued to be challenging due to weak demand and an uncertain political situation in Ukraine. At the same time the dairy sector was mainly marked by the significant increase in raw milk prices across both domestic and global markets and shortage of raw milk supply in Ukraine. Within this context, Ukrproduct has continued to pursue its strategies of business development.

Branded Dairy Products

In terms of sales, the major branded dairy product groups have performed well resulting in an aggregated revenue increase of 13% year-on-year. The profitability however was negatively affected by the escalation of raw milk prices rising approximately 24% compared to the previous year average price. The reason behind the price increase were the shortage of raw milk and consequently stricter competition for supply caused, among other factors, by the active exports to Russia from the hard cheese producers. During this time the competitive market environment did not allow to fully off-set the pressure of the rising costs on the margins by lifting the consumer prices.

The Company sustained its leading position in its core categories of packaged butter and processed cheese with the market shares of 20.8% and 23.2% respectively (Source: expert estimates based on the data from State Statistics Committee of Ukraine).

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 5% increase in revenues the gross profit has decreased by 55% year-on-year.

Processed cheese showed an encouraging increase in sales in both revenues and volumes due to securing new clients and increasing selling prices in line with the market trends. As result the revenues increased by 28% year-on-year. However the quickly rising input costs did not allow a similar increase in gross profit which made up only 3% compared to the previous year.

Hard cheese category benefitted from the further penetration into the profitable retail chains and has shown a 27% increase in revenues along with reaching a 13% gross profitability compared to the zero profitability in the previous year.

Skimmed Milk Powder

The segment of skimmed milk powder showed a strong recovery in profitability from the previous year benefitting from higher domestic and export demand together with higher prices. However the shortage of raw milk supply constrained the sales volumes. As result the sales have

declined by an average 10% year-on-year whilst the gross profit [margin] achieved was an average of 9% compared to the negative profitability in the previous year.

Beverages

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 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 revenue and gross profit declined by 12% and 14% respectively. Ukrproduct is currently holding the 5th position on the market of kvass with the market share of 4.9% (Source: expert estimates based on the data from State Statistics Committee of Ukraine).

Distribution Services

The Company continued to provide distribution services to third parties but with the focus on growing a quality-driven business with sustainable margins. Sales of products becoming commoditized and cash consuming have been reduced. As the issues with VAT refund on export persisted, the Company has concentrated on domestic operations.

Operational highlights

In 2013 the Group has received a further Euro 1.3 million loan from the European Bank of Reconstruction and Development (“EBRD”) for the second stage of modernization project at Starokostiantyniv Dairy Plant. This is focused on upgrading the production platform for butter and spreads improving both quality and costs. This part of the project is scheduled to be launched into operations with an effective start in mid 2014. Additionally the Company performed structural reorganizations of the Group aimed at increasing the operational efficiencies and reducing costs.

Financial overview

Financial results for the year reflect the sensitivity of dairy business margins to the ongoing high raw milk prices. The previously buoyant butter category was affected substantially with margins reduced by half. Effectively this alone pushed Ukrproduct Group into the overall loss.

Such margin pressure was mitigated by improving branded dairy sales, the resumption of profitability in the skimmed milk powder category and reduction in Group overheads. EBITDA margin fell a percentage point resulting in EBITDA of GBP 2.2 m (2012: GBP 3.2 m). The operational profit was negated by the increase in interest charges arising from the EBRD loan. This was compounded by an exchange difference charge of GBP 361,000 and a tax charge, net loss notwithstanding, imposed by the Ukrainian tax regime.

Operating cash flow was positive. The Group started to repay the EBRD loan on schedule making the first instalment of Euro 437,000 in December 2013. The Company believes that it will have further support from EBRD should any rescheduling of repayments be necessary. Other banking facilities remain in place for working capital requirements.

Ukrproduct Group is substantially a hryvna business and a sustained devaluation will affect translation in other currencies.

Outlook

The unstable political and economic situation, as to be expected, has had an adverse effect on businesses throughout Ukraine including Ukrproduct Group.

In the early year the Company revenues in hryvna were below expectations as consumer confidence fell, a range of open markets servicing mass and mid-market closed and a number of agents in other sales channels withdrew from the market not least for the reason of bad debt risk. Sales were also adversely affected as higher unit costs due to a currency devaluation of the hryvna and sustained high raw milk prices has necessitated the consumer price increases.

Trading has now improved. Sales are recovering across all product categories. At the same time hryvna devaluation is having a positive influence on the export revenues thus Ukrproduct will

aim to grow its export oriented sales. More positively margins are increasing with the declining milk prices. This follows on an increase in milk availability given the constraints on exports to Russia.

Plans internal to the Company are little affected as Ukrproduct has been engaged in restructuring - simplify and modernize – its operations to improve cost, quality and speed of its supply chain. This embraces site consolidation, outsourcing of distribution, boosting sales force efficiency and overheads elimination. This program is fundamental to the Company turnaround plans. Progress has been made and the benefits will be are expected to be evident throughout the year ahead.

In summary Ukraine has been facing political and economical challenges. Within the context of such headwinds, Ukrproduct has adjusted its business model to allow viable progress through the current turbulent environment so far as it can be assessed successfully.

Conference call information

Ukrproduct management will host a conference call today at 4.00 pm (London time) / 5.00 pm (CET) / 6.00 pm (Kiev Time) to present and discuss the audited FY2013 results.

The dial-in numbers for the conference call are:

+44 (0) 20 3003 2666
0808 109 0700
0 800 50 2059

Standard International Access
UK Toll Free
Ukraine Toll Free

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CONSOLIDATED INCOME STATEMENT

	year ended 31 December 2013 £ '000	year ended 31 December 2012 £ '000
Revenue	52 202	60 212
Cost of sales	(45 012)	(51 177)
GROSS PROFIT	7 190	9 035
Administrative expenses	(2 725)	(3 059)
Selling and distribution expenses	(3 240)	(3 473)
Other operating expenses	(408)	(494)
PROFIT FROM OPERATIONS	817	2 009
Net finance costs	(1 009)	(771)
Effect of foreign currency translation	(361)	(53)
PROFIT / (LOSS) BEFORE TAXATION	(553)	1 185
Income tax expenses	(151)	(333)
PROFIT / (LOSS) FOR THE YEAR	(704)	852
Attributable to:		
Owners of the Parent	(704)	852
Non-controlling interests	-	-
 Earnings per share:		
Basic	(1,77)	2,09
Diluted	(1,77)	2,09
 OTHER COMPREHENSIVE INCOME:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	(429)	(885)
Items that will not be reclassified to profit or loss		
Reduction of revaluation reserve	(32)	(57)
Income from changes in tax rates	38	83
OTHER COMPREHENSIVE INCOME, NET OF TAX	(423)	(859)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(1 127)	(7)
Attributable to:		
Owners of the Parent	(1 127)	(7)
Non-controlling interests	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2013 £ '000	As at 31 December 2012 £ '000
ASSETS		
Non-current assets		
Property, plant and equipment	18 185	18 447
Intangible assets	1 136	1 238
Available for sale investments	-	30
Deferred tax assets	66	46
	19 387	19 761
Current assets		
Inventories	3 010	3 415
Trade and other receivables	6 919	6 899
Current taxes	2 399	2 990
Other financial assets	176	196
Cash and cash equivalents	1 006	415
	13 510	13 915
TOTAL ASSETS	32 897	33 676
 EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	3 967	4 082
Other reserves	1 430	1 726
Retained earnings	12 672	13 496
	18 069	19 304
Non-controlling interests	-	-
	18 069	19 304
Non-Current Liabilities		
Bank loans and overdrafts	5 118	4 903
Deferred tax liabilities	636	670
	5 754	5 573
Current liabilities		
Bank loans and overdrafts	5 802	4 056
Trade and other payables	3 226	4 512
Current income tax liabilities	18	110
Other taxes payable	28	121
TOTAL LIABILITIES	9 074	8 799
TOTAL EQUITY AND LIABILITIES	32 897	33 676

CONSOLIDATED STATEMENT OF CASH FLOWS

	year ended 31 December 2013 £ '000	year ended 31 December 2012 £ '000
Cash flows from operating activities		
Profit before taxation	(553)	1 185
Adjustments for:		
Exchange difference	361	53
Depreciation and amortisation	1 417	1 164
(Profit)/loss on disposal of non-current assets	5	25
Write off of receivables/payables	(3)	120
Impairment of inventories	144	76
Impairment of available for sale investments	31	36
Income from disposal of subsidiaries	19	-
Interest income	(3)	(11)
Interest expense on bank loans	1 012	782
Operation cash flow before working capital changes	2 430	3 430
Decrease in inventories	202	908
Increase / (decrease) in trade and other receivables	290	(2 874)
(Decrease) / increase in trade and other payables	(1 358)	942
Changes in working capital	(866)	(1 024)
Cash generated from operations	1 564	2 406
Interest received	3	11
Income tax paid	(236)	(519)
Net cash generated by / (used in) operating activities	1 331	1 898
Cash flows from investing activities		
Payments for property, plant and equipment and intangible assets	(1 585)	(3 321)
Proceeds from sale of property, plant and equipment	41	50
Repayments of loans issued	17	(27)
Net cash used in investing activities	(1 527)	(3 298)
Cash flows from financing activities		
Acquiring of shares	(108)	-
Interest paid	(1 012)	(782)
(Decrease) / increase in short term borrowing	1 239	(118)
Increase in long term borrowing	1 145	2 182
Repayments of long term borrowing	(383)	-
Net cash generated by financing activities	881	1 282
Net decrease in cash and cash equivalents	685	(118)
Effect of exchange rate changes on cash and cash equivalents	(94)	21
Cash and cash equivalents at the beginning of the year	415	512
Cash and cash equivalents at the end of the year	1 006	415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						Total	Non-controlling interests	Total Equity
	Share capital	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '001			
As at 1 January 2012	4 082	4 555	(367)	4 134	12 367	(5 454)	19 317	-	19 317
Profit for the year	-	-	-	-	852	-	852	-	852
Other comprehensive income	-	-	-	-	-	-	-	-	-
Income from changes of tax rates	-	-	-	83	-	-	83	-	83
Currency translation differences	-	-	-	-	-	(885)	(885)	-	(885)
Total comprehensive income	-	-	-	83	852	(885)	50	-	50
Transactions with owners									
Dividends paid (Note 28)	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	-	(283)	283	-	-	-	-
Reduction of revaluation reserve	-	-	-	(57)	(6)	-	(63)	-	(63)
Exclusion from Group (Note 2.1 (c))	-	-	-	-	-	-	-	-	-
As at 31 December 2012	4 082	4 555	(367)	3 877	13 496	(6 339)	19 304	-	19 304
Loss for the year	-	-	-	-	(704)	-	(704)	-	(704)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Income from changes of tax rates	-	-	-	38	-	-	38	-	38
Currency translation differences	-	-	-	-	-	(429)	(429)	-	(429)
Total comprehensive income	-	-	-	38	(704)	(429)	(1 095)	-	(1 095)
Transactions with owners									
Dividends paid (Note 28)	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	-	(247)	247	-	-	-	-
Reduction of revaluation reserve	-	-	-	(32)	-	-	(32)	-	(32)
Group restructuring completion (Note 2.1 (c))	-	-	367	-	(367)	-	-	-	-
Acquiring of shares	(115)	7	-	-	-	-	(108)	-	(108)
As at 31 December 2013	3 967	4 562	-	3 636	12 672	(6 768)	18 069	-	18 069

These financial statements were approved and authorised for issue by the Board of Directors on 25 April 2014.