



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

August 1, 2014

## TRADING UPDATE

**Kyiv, Ukraine – August 1, 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.

As to be expected the unstable political and economic situation has provided a challenging business environment for all businesses in Ukraine. Consumer confidence has fallen and the population’s purchasing power has been reduced by rising costs including the very significant increase in fuel prices due to the deterioration of relations between Ukraine and Russia.

The significant hryvna devaluation has further accentuated the management challenge. It has increased the cost of imported materials but potentially affords export opportunities.

**In dairy** the lack exports to Russia led to an oversupply and some dumping on the domestic market. However and importantly it led to improved milk availability and more recently decline in raw milk prices.

**Branded dairy products** experienced lower sales given the market conditions and also not least as the result of consumer price increases necessitated earlier in the year by the pressure on unit cost. Thus butter and cheese segments will show a decrease in both volumes and revenues. The hard cheese sales have been the most affected by the restrictions on exports to Russia and dumping of product and as result will reduce year-on-year.

At the same time more raw milk availability and better pricing coupled with the consumer price increase ensured a good improvement in the profit margins of branded dairy category. Thus despite the revenues decline the gross profit in H1’2014 is expected to increase year-on-year.

**Skimmed Milk Powder (SMP)** segment showed a significant year-on-year growth in H1’2014 benefitting from higher domestic and export demand and better prices given the exchange rate. Moreover the Company continued to enhance 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.

With the hryvna devaluation vs US dollar of 47% in H1’2014 the Company aimed at increasing **export** revenues significantly improving its SMP export sales and exploring new export markets for its branded products.

The sales of **kvass** are expected to show a decrease in H1’2014 compared to the same period last year due to the summer weather colder than usual and current difficulties selling into Crimea. However the Company expects the second half of the season to improve on sales not least due to an extensive marketing support and further development of geographical coverage.

**Distribution services** - Given the commoditization in this business segment the Company now operates at a lower level with focus on growing quality business allowing good profitability. As result although the revenues in this segment are expected to decrease in H1’2014 compared to the last year, the gross margin is expected to show an improvement.

**Finances** - Overall the aforementioned factors are expected to result in the sizeable year-on-year increase in Company’s EBITDA and operating profit for the first half of 2014. Operating cash-flow was substantially improved during the period.

The significant hryvna devaluation as it is at present will offset such operating improvement via a negative exchange difference charge. The effect of exchange rate is that the Group estimates

that it will be loss making for H1 compared to being profitable for the same period in the last financial year.

As previously announced the banking confidence in Ukraine has fallen and this is limiting credit facilities. Ukrproduct Group however has successfully renewed its bank facilities for working capital. Ukrproduct also benefited from further support of the European Bank for Reconstruction and Development which has restructured the loan repayment taking into account significant hryvna devaluation.

The Group's cash levels are sufficient to meet current debt obligations in the short and medium term.

On the **operational** side the Company continued its progress implementing the second stage of modernization project with the European Bank for Reconstruction and Development which is expected to be fully commissioned by the end of summer 2014. Meanwhile the Company is continuing to see the positive effect of the first stage of the project which has become even more relevant given the rise in energy costs.

Additionally the Company has adjusted its business model including change of sales and logistics structure. This proved to be successful and resulted in better efficiency of operations and decrease of overheads. The financial outcomes of these initiatives are now being seen. 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 32.9 million as at December 31, 2013 and consolidated revenues of approximately GBP 52.2 million for the twelve months ended December 31, 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.*

