



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

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TRADING UPDATE

Kyiv, Ukraine – 23 December 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 a trading update as the 2014 trading period draws to a close. Full year financial results are expected to be released in April 2015.

The unstable political and economic environment in Ukraine provided ongoing challenges for Ukrproduct Group business. The most affecting macroeconomic factors were further hryvna devaluation, escalating inflation and struggling consumer consumption in the domestic market.

In the dairy market the ban on export to Russia led to the oversupply of hard cheese on the domestic market which resulted in the decrease in raw milk prices and increase in its availability in the summer period. On the annual basis however the average raw milk prices in 2014 increased by approximately 8% y-o-y that coupled with the increased cost of imported raw materials and supplied energy resources and further pressured the unit costs.

BRANDED DAIRY PRODUCTS sales were challenged by the market situation and the limited purchasing power of the local population as well as the consumer price increases necessitated by the rising input costs. Thus the sales in branded products are expected to drop compared to the previous year with the packaged butter and hard cheese categories being affected the most. On the positive side the consumer price increase resulted in the margins improvement thus the gross profit in this category is now expected to show the double-digit growth in hryvna.

In **butter** segment the Company saw the decrease in both volumes and revenues, however the margins improved substantially. The overall market of **spreads** in Ukraine showed an increase as a result of consumers switching their preferences from the traditional butter to more affordable substitutes. Thus Ukrproduct’s category of spreads is expected to show a y-o-y increase in sales, however the profitability will be reduced. **Processed cheese** showed a decrease in revenues but the improvement in contribution margin resulted in the gross profit slightly above the previous year. **The hard cheese** sales have been the most affected by the restrictions on exports to Russia and local dumping of product and as a result have reduced year-on-year.

The hryvna devaluation prompted the increased focus on **export** sales of both branded products and skimmed milk powder and leading to the export revenues significantly improving year-on-year. The advantageous trend in **Skimmed Milk Powder** segment which largely contributed to the Group’s profits in the first half year reversed towards the end of 2014 forcing the Group to search for new opportunities for protein utilization as well as to place third party orders on own upgraded spray drying facilities. On the annual basis however this segment is expected to show a robust 62% increase in sales and to more than triple in gross profit.

BEVERAGES - Kvass sales benefitted from the special focus of marketing and sales teams and showed a 12% increase to the previous year despite the difficulties in selling to Crimea that traditionally accounted for a substantial part of summer kvass sales. The gross profits are expected to be in-line with the previous year despite the increase in sales due to increased input costs especially sugar and energy.

THIRD PARTY (DISTRIBUTION AND PRODUCTION) SERVICES were developed with the focus on growing quality business with sustainable margins whereas the sales of products

becoming commoditized and cash consuming have been eliminated. Additionally the Company has increased the efficiency of its production capacities utilization via placement of the third party orders for skimmed milk. As a result the revenues of the third party distribution and production are expected to increase along with their gross profitability.

FINANCES - Overall the Company expects a sizeable year-on-year increase in EBITDA and operating profit for the full year 2014. Moreover, the operating cash-flow has been substantially improved during the year. Unfortunately, the significant hryvna devaluation has offset such operating improvement via a negative foreign exchange difference charge. The effect of exchange rate will lead to the Group reporting a loss for FY2014.

Ukrproduct Group has ensured sufficient bank facilities for working capital and benefited from further support of the European Bank for Reconstruction and Development (“EBRD”) who approved restructuring of the loan repayment taking into account significant hryvna devaluation. The Group’s cash levels and bank facilities are sufficient to meet current debt obligations in the short and medium term.

On the **operational** side the second stage of modernization project with the European Bank for Reconstruction and Development is now being finalized. Meanwhile the Company is continuing to see the positive effect of the first stage of the project that has become even more relevant given the rise in energy costs. Additionally, the Company has been adjusting its business model including optimisation of sales and logistics structure. This proved to be successful and resulted in the improved efficiency of operations. The financial outcomes of these initiatives are now being seen.

The Company has also strengthened its **management team** by appointing the new Strategy and Marketing Director Mr Maxim Kuchko in October 2014. Mr Kuchko has previously served at Danone (Ukraine) where he held senior marketing positions. Mr Kuchko applies his 15 years successful track record for redevelopment and implementation of the Company’s marketing strategy and overall promotion of Ukrproduct’s brand.

GOING FORWARD – Given the volatile environment in the part of the Eastern Ukraine and Crimea Ukrproduct has been looking to recover sales volumes via adjustment of its regional focus. To this end the Company invested in the comprehensive promotion program launched in Autumn 2014 for its flagship brand “Our Dairyman”. These initiatives reflected positively in sales trends for the last quarter and will be further pursued going forward. Additionally, the Group has been optimising its product offering to become more appropriate to the current market place. Finally, all these efforts are underpinned by the further improvement in productivity.

For further information, please visit www.ukrproduct.com or contact:

Ukrproduct Group Ltd.
Sergey Evlanchik
Chief Executive Officer
Tel: +380 44 232 9602
sergey.evlanchik@ukrproduct.com

Cantor Fitzgerald Europe
Nominated Adviser and Broker
Stewart Dickson / Jeremy Stephenson
Tel: +44 (0) 20 7894 7000

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 reported total assets of approximately GBP 21.1 million as at June 30, 2014 and consolidated revenues of approximately GBP 17.2 million for the six months ended June 30, 2014. 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.