



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

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## **UKRPRODUCT ANNOUNCES TRADING UPDATE FOR THE YEAR ENDING 31 DECEMBER 2010**

**Kyiv, Ukraine** – 14 December, 2010 – Ukrproduct Group Limited (“Ukrproduct”, the “Company” or, together with its subsidiaries, the “Group”) (AIM: UKR), one of the leading producers and distributors of branded dairy products in Ukraine, today provides the following trading update for the year ending 31 December, 2010 ahead of announcing its full year results in April 2011.

- The Group’s sales in the second half of 2010 are expected to be higher than in the first half of the year
- Full year sales are anticipated to be in line with the previous year
- Gross profit in the branded products segment is expected to nearly double in the second half, compared to the first half of 2010, largely as a result of growth in the profitability of packaged butter and spreads
- The Group’s profit before tax in the second half of 2010 is anticipated to nearly double, compared to the first half of the year
- The Group’s profit before tax for the full year is expected to show low double digit growth year on year, at the lower end of the range of current market expectations
- The Group’s net profit for the year may be affected by more stringent tax regulations.

The purchasing power of the Ukrainian population has deteriorated further in the second half of 2010 with information from food retailers suggesting that the value of an average retail food bill fell by 20% in the beginning of November, compared to October 2010. At the same time, the competitive situation in Ukraine remained challenging with restrictions on exports of dairy products to Russia resulting in overstocking by domestic producers.

In the second half of 2010, Ukrproduct maintained its leading position in the packaged butter segment, which continued to account for nearly half of total branded sales. The Group rolled out a number of marketing campaigns, enhanced its product offering to satisfy consumer demand in the middle market segment and initiated the launch of private labels with retailers. Furthermore, Ukrproduct was able to put through price increases on average above the inflationary level during the second half of 2010. The Group benefited from the upgrading of its spreads production line during the summer, and since then average monthly sales volumes have been recovering steadily.

As previously announced, Ukrproduct came under margin and volume pressure in the processed cheese segment following aggressive pricing by some local producers at the lower end of the market. The Group's market position has recently been recovering following the rollout of an adjusted product range and the introduction of competitively priced processed cheese products. However, the Group's sales of processed cheese in the second half of 2010 are expected to be below the first half of the year.

The Group's sales of hard cheese in the second half are expected to be above the first half of 2010, strengthened by the forward storage arrangements made during the summer months. However, full year sales of hard cheese are expected to be significantly below the 2009 level.

Ukrproduct benefited from a favourable pricing environment in skimmed milk powder ("SMP") in the first half of 2010, however the profitability of this segment has significantly deteriorated in the second half due to the correction in global prices of dairy commodities following the decrease in consumption of milk and the rise in exports of SMP by the US and EU producers. Additionally, the increase in domestic raw milk prices which peaked in September ahead of a seasonal rise has also impacted SMP prices. Furthermore, as previously announced, trading volumes of SMP were impacted by the Ukrainian government's decision to issue bonds in exchange for its VAT obligations to exporters, which undermined their confidence.

The Group continued to realign its product mix in all consumer niches with a particular focus on more affordable market segments to take advantage of the switch in consumer demand. In addition, Ukrproduct started to recover its position in the middle market segment by improving its offering and launching a number of marketing campaigns under the "Our Dairyman" brand for processed cheese in bricks, sausage cheese and spreadable cheese.

Ukrproduct made further progress in leveraging its distribution network to deliver complementary third party products. In addition to the launch of kvass during the summer, the Group started to distribute frozen fish products, produced in Russia and Lithuania, to leading Ukrainian retail chains.

The Group's gross profit for the full year 2010 is expected to be in line with 2009, reflecting a sharp decline in the profitability of its SMP segment in the second half of 2010. The future contribution from the SMP segment remains subject to the global pricing environment.

The Group continued to focus on cost saving measures in 2010, including converting its vehicle fleet to gas and developing new product recipes. The management expects capital expenditure for the full year to amount to GBP 0.4 million, well below its previous estimate of GBP 0.7 million. Capital expenditure for 2011 is expected to be GBP 0.7 million.

The Group's Administrative, Selling and Distribution ("AS&D") expenses increased in the second half compared to the first half of 2010 due to growth in other expenses,

primarily the provision for bad debts. AS&D expenses are expected to increase slightly for the full year 2010, compared to the previous year.

Overall, the Group expects full year profit before tax to show low double digit growth year on year, at the lower end of the range of current market expectations.

Despite current challenging conditions, Ukrproduct's financial position remains stable. The Group's cash levels are sufficient to meet current debt obligations in the short and medium term. In addition, the Group has access to additional banking facilities if required.

The Ukrainian government has adopted a new Tax Code. Effective April 1, 2011, expenses incurred by legal entities for the purchase of goods and services from private entrepreneurs, such as small wholesale customers of Ukrproduct, who pay a unified tax (a lump sum), will not be deductible for the purpose of calculating corporate profit tax. The Group believes that the level of bad debt in 2011 may increase, compared to 2010, as certain small wholesale customers of the Group may experience significant working capital constraints.

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**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 products. The Group's product portfolio includes processed and hard cheese, skimmed milk powder (SMP) and butter. 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 operational dairy plants in western and central regions of Ukraine (Molochnik, Starokonstantinovskiy Dairy Plant, Krasilovskiy Dairy Plant and Letichiv Dairy Plant) with a total annual integrated capacity of approximately 60,000 tonnes of dairy products. With its own fleet of more than 150 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 18.3 million as at December 31, 2009 and consolidated revenues of approximately GBP 43.2 million for the twelve months of 2009. 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 that actual events or results may differ materially. 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.*