



UKRPRODUCT GROUP

FOR IMMEDIATE RELEASE

June 29 2017

**FINAL RESULTS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016
NOTICE OF AGM**

Ukrproduct Group Limited (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass) today announces its audited results for the year ended 31 December 2016.

Copies of the Group's annual report and accounts, incorporating the 2016 Audited Financial Statements, will shortly be posted to shareholders and will be available on the Company's website at www.ukrproduct.com. Copies will also be available from the Company's head office, 10th Floor, 39-14 Shota Rustaveli St., Kiev 01033, Ukraine.

The Directors of UKR are also pleased to announce that the notice of Annual General Meeting ("AGM") will shortly be posted to shareholders. The AGM will be held at the offices of Ukrproduct Group Ltd, 10th Floor, 39-41 Shota Rustaveli Street, 01033 Kyiv, Ukraine at 6 pm (Kyiv time) on Thursday, 20 July 2017. Copies of the Notice of AGM and Proxy Form will be available for download on the Company website at www.ukrproduct.com.

A copy of the AGM Notice together with further information with regard to the AGM and other related issues will shortly be available on Ukproduct's website [here](#) and [here](#), as well as by request at the following address: Bedell Secretaries Limited, Secretary, 26 New Street St. Helier, Jersey JE2 3RA Channel Islands.

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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 reported total assets of approximately GBP 13.0 million as

at December 31, 2016 and consolidated revenues of approximately GBP 20.2 million for the twelve months ended December 31, 2016. 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.

Chairman and Chief Executive Statement

During 2016 Ukrproduct has continued to face the headwinds induced by the political situation and the Ukrainian economy. Currency weakness continued with a contracted geographic market place and intense competition. Consumers are low in spending power and confidence.

In this challenging context Ukrproduct's response is to focus on cash; ensure the product offering is competitive; focus on viable customers affording acceptable margins and thereby cash production. Ukrproduct seeks further to underpin the trading effort with cost/productivity improvements.

Trading

Overall revenues increased by only 3% in hryvna terms given product mix. Gross margins improved in most product lines apart from skimmed milk powder (SMP).

Branded products were given more focus with key categories butter and spreads showing improved volume and margins. Margins on processed cheese were maintained on slightly lower revenues. Private label made improved gross profits on significantly reduced volumes as marginal contracts were terminated. Those retained and developed reflected the quality demanded by the retailer and commensurate margins. The kvass beverage continued to make a strong gross profit contribution. This category offers opportunities and the product offering has been extended with white kvass and healthy rosehip drinks being test marketed.

The exchange rate depreciation has facilitated good overall development of the export business not least to CIS countries. Towards the end of the year, growth of domestic dairy prices in the Ukraine provided some constraint, however exports of branded products increased by one thousand tons in 2016.

Skimmed milk powder has been a negative in terms of available prices being historically low across the world, particularly in the first half of the year. Spare capacity at our Starokonstantyniv facility has however afforded opportunities for profitable contract processing. In this regard in 2016 Ukrproduct maintained its approved supplier status with Danone, a major international company, confirming that the company's products meet high international quality requirements.

Finances

Total revenues for year were stable at £20m. In local currency terms Hryvna revenues overall grew by 3% to UAH 693m.

In difficult markets gross margins generally showed some improvement subject to SMP which given global pricing showed a shortfall of £0.6m year on year. Note however that SMP is a by-product of butter production & the net profitability of butter/SMP together is healthy.

Given significant cost reductions EBITDA moved into positive territory at 1.9% (2015 minus 4%). The operating loss was sizeably reduced to £0.195m (2015 – operating loss £1.346m).

Interest charges fell by £145,000 given husbandry of cash & the restructuring of EBRD debt.

Though reduced, exchange differences continued to be negative at £0.743m (2015 - £1.733m). This, together with significantly reduced other operating expenses of £0.17m (2015 - £1.089m), resulted in a loss for the year of £1.484m (2015 - loss £3.906m).

Cash

The balance of cash at 31st December 2016 stood at £175,000 (2015 £93,000). In the challenging trading environment Ukrproduct group's business model gives a firm focus to cash management.

The Group's cash levels are currently expected to be sufficient to meet current debt levels in the short & medium term, given the deferral of the OTP Bank principal repayment announced in June.

Restructuring of the EBRD loan was finalised in 2016. The revised terms require the loan to be repaid over a longer period & at more favourable interest rates and the first two capital repayments were made as scheduled after the period end. Discussions however continue with EBRD, as discussed more fully in the Going Concern section, following financial loan ratio covenant breaches and subsequent waivers.

Outlook

Ukrproduct will continue to work towards profitability with cash flow remaining the priority. Plans as defined above will continue to be implemented with due emphasis on growth opportunities in Beverages & Export.

The new year has started encouragingly. Sales revenues & gross margins are ahead of last year at this stage and the first two tranches of capital repayments to EBRD have been made. A capital reorganisation to simplify the group structure is being implemented as required by EBRD.

Ukrproduct Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousand GBP, unless otherwise stated)

	Note	year ended 31 December 2016 £ '000	year ended 31 December 2015 £ '000
Revenue	8	20,190	20,158
Cost of sales	9	(18,071)	(17,844)
GROSS PROFIT		2,119	2,314
Administrative expenses	9	(930)	(1,109)
Selling and distribution expenses	9	(1,367)	(1,462)
Other operating expenses	9	(17)	(1,089)
LOSS FROM OPERATIONS		(195)	(1,346)
Net finance expenses	11	(623)	(768)
Foreign exchange loss, net	10	(743)	(1,733)
LOSS BEFORE TAXATION		(1,561)	(3,847)
Income tax expenses	13	77	(59)
LOSS FOR THE YEAR		(1,484)	(3,906)
Attributable to:			
Owners of the Parent		(1,484)	(3,906)
Non-controlling interests		-	-
Earnings per share (pence):	26		
Basic		(3.74)	9.85
Diluted		(3.74)	9.91
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		513	(1,526)
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment		-	1,113
Income tax in respect of revaluation reserve		-	(200)
OTHER COMPREHENSIVE INCOME, NET OF TAX		513	(613)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(971)	(4,519)
Attributable to:			
Owners of the Parent		(971)	(4,519)
Non-controlling interests		-	-

Ukrproduct Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2016
(in thousand GBP, unless otherwise stated)

	Note	As at 31 December 2016 £ '000	As at 31 December 2015 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	14	7,511	7,417
Intangible assets	15	656	596
Deferred tax assets	16	-	46
		8,167	8,059
Current assets			
Inventories	17	1,855	1,496
Trade and other receivables	18	2,507	1,486
Current taxes	19	230	348
Other financial assets	20	18	11
Cash and cash equivalents	21	175	93
		4,785	3,434
TOTAL ASSETS		12,952	11,493
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	22	3,967	3,967
Share premium	23	4,562	4,562
Translation reserve	23	(14,781)	(15,294)
Revaluation reserve	23	3,935	4,192
Retained earnings		4,427	5,655
		2,110	3,082
Non-controlling interests		-	-
TOTAL EQUITY		2,110	3,082
Non-Current Liabilities			
Bank loans	24	-	3,206
Long-term payables		441	-
Deferred tax liabilities	16	363	466
		804	3,672
Current liabilities			
Bank loans	24	7,162	3,121
Trade and other payables	25	2,854	1,586
Current income tax liabilities		10	18
Other taxes payable		12	14
		10,038	4,739
TOTAL LIABILITIES		10,842	8,411
TOTAL EQUITY AND LIABILITIES		12,952	11,493

Ukrproduct Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 December 2016
(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent					Total	Non-controlling interests	Total Equity
	Share capital	Share premium	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '001			
As At 1 January 2015	3,967	4,562	3,453	9,358	(13,768)	7,572	-	7,572
Loss for the year	-	-	-	(3,906)	-	(3,906)	-	(3,906)
Other comprehensive income								
Gain on revaluation of property, plant and equipment	-	-	913	-	-	913	-	913
Currency translation differences	-	-	-	-	(1,526)	(1,526)	-	(1,526)
Total comprehensive income	-	-	913	(3,906)	(1,526)	(4,519)	-	(4,519)
Depreciation on revaluation of property, plant and equipment	-	-	(86)	86	-	-	-	-
Reduction of revaluation reserve	-	-	(88)	116	-	28	-	28
As At 31 December 2015	3,967	4,562	4,192	5,654	(15,294)	3,081	-	3,081
Loss for the year	-	-	-	(1,484)	-	(1,484)	-	(1,484)
Other comprehensive income								
Currency translation differences	-	-	-	-	513	513	-	513
Total comprehensive income	-	-	-	(1,484)	513	(971)	-	(971)
Depreciation on revaluation of property, plant and equipment	-	-	(248)	248	-	-	-	-
Reduction of revaluation reserve	-	-	(9)	9	-	-	-	-
As At 31 December 2016	3,967	4,562	3,935	4,427	(14,781)	2,110	-	2,110

Ukrproduct Group
CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 31 December 2016
(in thousand GBP, unless otherwise stated)

	Note	year ended 31 December 2016 £ '000	year ended 31 December 2015 £ '000
Cash flows from operating activities			
Loss before taxation		(1,561)	(3,847)
Adjustments for:			
Exchange difference	10	743	1,733
Depreciation and amortisation	9	589	537
Loss/(Profit) on disposal of non-current assets	9	25	(4)
Write off of receivables/payables		32	857
Impairment of inventories	9	120	78
Loss from disposal of subsidiaries		(3)	(3)
Interest income	11	(1)	(1)
Interest expense on bank loans	11	624	769
Operation cash flow before working capital changes		568	119
(Increase) in inventories		(472)	(127)
(Increase) / decrease in trade and other receivables		(933)	890
Increase / (decrease) in trade and other payables		1,122	(404)
Changes in working capital		(283)	359
Cash generated from operations		285	478
Interest received		1	1
Income tax paid		(32)	169
Net cash generated by / (used in) operating activities		254	648
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(217)	(259)
Proceeds from sale of property, plant and equipment		17	18
Repayments of loans issued		(11)	66
Net cash used in investing activities		(211)	(175)
Cash flows from financing activities			
Interest paid		(372)	(607)
(Decrease) / increase in short term borrowing		(63)	(76)
Net cash generated by financing activities		(435)	(683)
Net decrease in cash and cash equivalents		(392)	(210)
Effect of exchange rate changes on cash and cash equivalents		474	88
Cash and cash equivalents at the beginning of the year		93	215
Cash and cash equivalents at the end of the year	21	175	93

These consolidated financial statements were approved and authorised for issue by the Board of Directors on June 29, 2017 and were signed on its behalf by Alexander Slipchuk.

Nature of Financial Information

The financial information contained in this announcement does not constitute statutory accounts as defined under section 113 of the Companies (Jersey) Law 1991 but has been extracted from the Group's 2016 statutory financial statements. The auditors have reported on the 2016 financial statements: their report was unqualified but did contain an emphasis of matter paragraph in respect of going concern and non-observance of the terms of the loan agreement with the European Bank of Reconstruction and Development (EBRD) as well as the maturity of external financing arrangements with OTP Bank on 9 September 2017. It contained no statement under section 113B of the Companies (Jersey) Law 2011. The financial statements for 2016 will be delivered to the Registrar of Companies after adoption at the Company's Annual General Meeting.

EXTRACTS FROM NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment which have been measured at fair value. The consolidated financial statements are presented in British Pounds Sterling (GBP) and all values are rounded to the nearest thousand (£000) except where otherwise indicated

2. Going concern, Bank loans and overdrafts

The Group incurred a loss of GBP 1,484 thousand for the year ended 31 December 2016, decreasing retained earnings at that date to GBP 4,427 thousand. In addition, due to significant devaluation of Ukrainian Hryvnia the principal amounts of loans denominated in foreign currencies has increased. As at 31 December 2016 loans, denominated in foreign currency, had the following amount outstanding: GBP 969 thousand owing to OTP Bank and GBP 6,193 thousand owing to EBRD (Note 24). Interest under these loan agreements is paid according to a fixed schedule annexed to the relevant loan agreement.

An amended Loan Agreement and Restatement Deed with the EBRD was signed in June 2016 and details announced on 30 June 2016 with the new terms becoming effective on 24 October 2016. As per the new terms, the principal amount is divided into two parts - Tranche A in the amount of 4,000 thousand EUR with a maturity date of 01 December 2022 and Tranche B in the amount of 3,259 thousand EUR with a maturity date of 30 November 2024.

The Group gained a capital repayment holiday until 01 March 2017 with quarterly capital repayments on Tranche A commencing on that date and increasing in amount on an annual basis until 1 December 2022. The first two payments have been made in full as scheduled. Tranche B is ordinarily due for repayment in a single bullet payment on 1 December 2024 assuming no early repayment of Tranche A or events of default.

Despite the repayments being made as scheduled, the Group breached financial covenants as at 31 December 2016 and 31 March 2017. The Board notified EBRD in advance of covenant breaches of the Loan and EBRD provided waivers in respect of the breached covenants dated 08 May 2017 and 24

May 2017 respectively. Due to the fact that the date of the waivers receipt was later than the reporting date, under IAS 1 Presentation of Financial Statements the Group was required to classify the EBRD loan in full as a current liability. In the consolidated statement of financial position the current liabilities exceed current assets due to the EBRD loan reclassification.

The Board believes that EBRD will not demand accelerated repayment of the loan due to the breach of the covenants as at 31 December 2016 and as at 31 March 2017. Going forward if the Group anticipates a breach of the financial ratio covenants under the amended EBRD loan agreement it is expected that EBRD would grant a waiver in advance of the reporting period deadline.

The Group has entered into a variation of the loan agreement with OTP Bank under which the principal loan repayment date has been extended from 9 June 2017 to 9 September 2017. The principal amount outstanding under this agreement is Ukrainian Hryvnia UAH 32,300 thousand (approximately GBP 969 thousand).

The consolidated financial statements have been prepared on a going concern basis, because management believes that it has employed sufficient and appropriate measures to underpin its cost cutting strategy including but not limited to: reconstruction of manufacturing facilities in Starokonstantinov operation, reducing the number of subsidiaries and streamlining business processes to minimise non-value adding activities and related costs, and by development of its export capacity.

The political and economic situation has become less volatile than in 2015. The government of Ukraine is aiming at rapprochement with the European Union with many reforms being carried out in various fields.

The Group's strategic goal is the development of export sales in world markets, in particular Asia and Africa. CIS markets also remain strategically important markets for the Group to develop and sales into Kazakhstan have commenced.

The Group is also looking to expand our domestic sales in Ukraine driven in part by the introduction of new products and the renewal of the existing product portfolio. The Group continues to increase volumes throughput in its dairies through close cooperation with farmers and cooperatives, thereby increasing the capacity utilization.

As at 31 December 2016 the Group has two loans: a loan from OTP Bank in the amount of 969 thousand GBP with a maturity date of 09 September 2017 and EBRD in the amount of 6,193 thousand GBP (in EUR 7,259 thousand) . As at 31 December 2016, the Group has restructured the loan with the European Bank for Reconstruction and Development (EBRD) for the financing of a project to increase energy efficiency and productivity of the Starokonstantinovskiy Molochniy Zavod SC plant.

Guarantees, corporate rights in pledge under EBRD facility agreement are the enterprises of the Group that are jointly and severally responsible together with the borrower: Molochnik LLC; Milk Investments Private Enterprise SC; Starkon-Moloko LLC; Ukrproduct Group CJSC; Zhiviy Kvas LLC.

Guarantees under OTP bank facility agreement are the enterprises of the Group that are jointly and severally responsible together with the borrower: Avtopark Starokonstantinov LLS; Favorit-Konsulting Private Enterprise; Invest Garantiya Private Enterprise; Krasilovsky Molochny Zavod Private Enterprise SC; ATP Centr LLC; Ukrproduct Group CJSC

