

UKRPRODUCT UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

CEO's REPORT

The business environment in Ukraine continues to recover, with the economy growing by 2.5% in 2017. Sectors such as manufacturing and domestic trade grew by over 5% in 2017. Economic growth could improve to 3.5% in 2018 and 4% in 2019*. Consumer demand has improved due to an increase in the minimum wage. As a result, whilst the operating environment remains competitive, the Group's trading opportunities have improved domestically.

Trading

Revenue growth for the six months to 30 June 2018 (the "Period") came predominantly from Beverages, Services and Supplementary products. The Board estimates that Ukrproduct's butter market share in the Ukraine has increased by approximately 1% to 6.5%, whilst market share in processed cheese and processed cheese products has increased by approximately 0.5% to 9%. Consumer demand for processed cheese and processed cheese products is growing, as the price of hard cheese rises. Competition in processed cheese and processed cheese products' market is growing and includes more than 10 key players: 5 of them are making significant investments to product promotion. The Period also saw improved kvass beverage sales, helped by a new cider product: Lemon and Ginger.

During the Period, revenue from export sales increased due to bulk butter shipments, however, export sales of packaged butter and spreads decreased. Skimmed milk products continue to decline given low prices worldwide.

The Group has expanded export sales into non-dairy products – other food commodities (supplementary products). The Company has sufficient experience and opportunities in the export market and has seen profitable operations. These operations make use of third party logistics services and are financed by deferring payment for purchased products.

Finances

The Group earned profit after tax of £408,000 for the Period.

On 7 February 2018, Ukrproduct announced that on 05 February 2018 it entered into an agreement for a new loan facility with Creditwest Bank Ukraine (the "New Loan Agreement"). Under the terms of the New Loan Agreement, UAH 65 million was made available for refinancing purposes and for working capital.

On 9 February 2018, Ukrproduct announced that it had drawn down UAH 32.3 million under the terms of the New Loan Agreement with Creditwest Bank Ukraine in order to fully repay all amounts outstanding to OTP Bank. Accordingly, the Company has no outstanding liabilities to OTP Bank. As at today's date, the Company has fully drawn down the loan available under the New Loan Agreement, which is due for repayment on 5 February 2021, as announced by the Company on 7 February 2018.

As at 30 June 2018, the Group had total liabilities of UAH 522,9 million (approx. £15.1 million) and net assets of UAH 38,8 million (approx. £1.1 million) with cash balances of UAH 4,0 million (approx. £0.1 million). The Group's financial position was improved following the New Loan Agreement. In September 2018 Ukrproduct made a scheduled repayment of €175.809 to EBRD. However, in relation to the Period, The Board notified EBRD in advance of covenant breaches of the Loan and EBRD provided waivers in respect of the breached covenants dated 30 June 2018.

Outlook

In FY2018, it is expected that the Ukrainian economy will continue its recovery from the fall in 2014-2015, but downside risks, largely stemming from mounting domestic political tensions and geopolitical uncertainties, remain significant.

As part of a continuing process, Ukrproduct is evaluating its business in light of the competitive marketplace. Ukrproduct will seek to sustain operational improvement via a strategy focused on cash production, operating efficiency and building profitable sales with a competitive product/service offering.

** Source: The World Bank*

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2018 AND 2017
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£ '000	£ '000
Revenue	14 827	14 910
<i>including branded and SMP products</i>	<i>11 837</i>	<i>13 637</i>
<i>including Supplementary products</i>	<i>563</i>	-
Cost of sales	(13 583)	(13 216)
<i>including Supplementary products</i>	<i>(557)</i>	-
Gross profit	1 244	1 694
Administrative expenses	(534)	(482)
Selling and distribution expenses	(842)	(716)
Other operating income/ expenses, net	(55)	(88)
(Loss)/profit from operations	(187)	408
Finance expense, net	(231)	(220)
Effect of foreign currency translation	793	(230)
Profit/(loss) before taxation	375	(42)
Income tax expense	33	46
Profit for the six months	408	4
Attributable to:		
Equity holders of the Parent	408	4
Non-controlling interest	-	-
	408	4
Earnings per share:		
Basic	1,03	0,01
Diluted	1,03	0,01

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2018 AND 2017
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£ '000	£ '000
Profit for the six months	408	4
Other comprehensive income		
Exchange differences on translation to the presentation currency	(170)	(226)
Other comprehensive income for the six months, net of tax	(170)	(226)
Total comprehensive income for the six months, net of tax	238	(222)
Attributable to:		
Equity holders of the Parent	238	(222)
Non-controlling interests	-	-
	238	(222)

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018 AND 31 DECEMBER 2017 AND 30 JUNE 2017
(in thousand GBP, unless otherwise stated)

	As at 30 June 2018 £ '000	As at 31 December 2017 £ '000	As at 30 June 2017 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	6 701	6 288	7 166
Intangible assets	523	543	592
Deferred tax assets	2	-	1
Total non-current assets	7 226	6 831	7 759
Current assets			
Inventories	4 953	2 426	2 375
<i>including supplementary products</i>	<i>1 388</i>	-	-
Trade and other receivables	3 602	2 171	2 779
<i>including Receivables for sold supplementary products</i>	<i>570</i>	-	-
Current taxes	279	271	473
Other financial assets	26	30	32
Cash and cash equivalents	116	496	237
Total current assets	8 976	5 394	5 896
TOTAL ASSETS	16 202	12 225	13 655
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	3 967	3 967	3 967
Share premium	4 562	4 562	4 562
Translation reserve	(15 064)	(14 894)	(15 007)
Other reserves	3 683	3 769	3 845
Retained earnings	3 972	3 478	4 521
Total equity attributable to equity holders of the parent	1 120	882	1 888
Non-controlling interest	-	-	-
TOTAL EQUITY	1 120	882	1 888
LIABILITIES			
Non-Current Liabilities			
Bank borrowings	5 381	5 716	5 815
Long-term payables	456	459	476
Deferred tax liabilities	234	262	308
Total Non Current Liabilities	6 071	6 437	6 599
Current Liabilities			
Bank borrowings	1 998	1 318	1 350
Trade and other payables	6 960	3 565	3 774
<i>including Payables for supplementary products</i>	<i>2 218</i>	-	-
Current income tax liabilities	16	-	16
Other taxes payable	37	23	28
Total Current Liabilities	9 011	4 906	5 168
TOTAL LIABILITIES AND EQUITY	16 202	12 225	13 655

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2018 AND 2017
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£ '000	£ '000
Cash flows from operating activities		
Profit/(Loss) before taxation for the six months	375	(42)
Adjustments for:		
Exchange difference	(793)	230
Depreciation and amortisation	258	288
Impairment of trade receivables	25	5
Impairment of inventories	102	79
Interest income	(2)	-
Interest expense	233	220
Increase of inventories	(2 629)	(599)
<i>including supplementary products</i>	<i>(1 388)</i>	-
Increase in trade and other receivables	(1 471)	(523)
<i>including Receivables for sold supplementary products</i>	<i>(570)</i>	-
Increase in trade and other payables	3 629	1 015
<i>including Payables for supplementary products</i>	<i>2 218</i>	-
Cash generated from operations	(273)	673
Interest received	2	-
Income tax paid	5	(6)
Net cash (used in)/generated by operating activities	(266)	667
Cash flows from investing activities		
Payments for property, plant and equipment	(140)	(41)
Proceeds from sale of property, plant and equipment	-	1
Repayments / (proceeds) from loans issued	5	(15)
Net cash used in investing activities	(135)	(55)
Cash flows from financing activities		
Interest paid	(182)	(185)
Net proceeds from short term borrowing	510	-
Repayments of investment borrowing	(223)	(176)
Net cash used in financing activities	105	(361)
Net (decrease) / increase in cash and cash equivalents	(296)	251
Effect of exchange rate changes on cash and cash equivalents	(84)	(189)
Cash and cash equivalents at the beginning of the six months	496	175
Cash and cash equivalents at the end of the six months	116	237

UKRPRODUCT GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2018 AND 2017
(in thousand GBP, unless otherwise stated)

	Attributable to equity holders					Total attributable to equity holders of the parent £ '000	Non- controlling interest £ '000	Total Equity £ '000
	Share capital	Share premium	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000			
As at 1 January 2017	3 967	4 562	3 935	4 427	(14 781)	2 110	-	2 110
Loss for the six months	-	-	-	4	-	4	-	4
Other comprehensive income	-	-	-	-	(226)	(226)	-	(226)
Total comprehensive income	-	-	-	4	(226)	(222)	-	(222)
Depreciation on revaluation of non current assets	-	-	(90)	90	-	-	-	-
Reduction of revaluation reserve	-	-	-	-	-	-	-	-
As at 30 June 2017	3 967	4 562	3 845	4 521	(15 007)	1 888	-	1 888
Profit for the six months	-	-	-	(1 119)	-	(1 119)	-	(1 119)
Other comprehensive income	-	-	-	-	113	113	-	113
Total comprehensive income	-	-	-	(1 119)	113	(1 006)	-	(1 006)
Depreciation on revaluation of non current assets	-	-	(76)	76	-	-	-	-
Reduction of revaluation reserve	-	-	-	-	-	-	-	-
As at 31 December 2017	3 967	4 562	3 769	3 478	(14 894)	882	-	882
Profit for the six months	-	-	-	408	-	408	-	408
Other comprehensive income	-	-	-	-	(170)	(170)	-	(170)
Total comprehensive income	-	-	-	408	(170)	238	-	238
Depreciation on revaluation of non current assets	-	-	(86)	86	-	-	-	-
As at 30 June 2018	3 967	4 562	3 683	3 972	(15 064)	1 120	-	1 120

UKRPRODUCT GROUP LIMITED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The interim financial statements are unaudited but have been reviewed by the auditors.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties.

The same accounting policies, presentation and methods of computation have been followed in these unaudited condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017.

The preparation of the unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates.

The comparatives for the six months ended 30 June 2017 are extracted from the Group's consolidated financial statements for the year ended 31 December 2017. The auditor's report for those accounts was unqualified, but did include a paragraph on material uncertainty related to going concern, in respect of the losses incurred by the Group during the year ended 31 December 2017 and surrounding the breach of the loan agreement with the European Bank for Reconstruction and Development (the "EBRD").

Going concern

The unaudited condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due, for the foreseeable future.

The Group earned a profit of 408 thousand GBP for the six months ended 30 June 2018. Nevertheless, for the six months ended 30 June 2018, the Group generated a negative cash flow from operating activities totaling 266 thousand GBP and the Group has a net current liabilities position of 35 thousand GBP as at the period end date. The Board notified EBRD in advance of covenant breaches of the Loan and EBRD provided waivers in respect of the breached covenants as at 30 June 2018.

These conditions represent a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, in such case, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

It is worth noting that Group held goods for sale and products that was partly prepaid as at 30 June 2018. The profit from the sale of goods on prepayments that were received at the reporting date or after is 418 thousand GBP.

The loan with EBRD is divided into 2 tranches. Tranche A has a maturity date of 01 December 2022 and interest is payable at a margin of 5% over EURIBOR per annum. Tranche B has a maturity date of 01 December 2024 and is subject to interest at the higher of EURIBOR or 1% per annum before 01 December 2022 after which date interest is charged at a margin of 5% over EURIBOR per annum. Following the restructuring of the loan in 2016 the Group has complied with the new repayment terms.

On 7 February 2018, Ukrproduct announced that a new loan facility with Creditwest Bank Ukraine (the "New Loan Agreement") had been entered into on 5 February 2018. Under the terms of the New Loan Agreement, UAH 65 million was made available for refinancing purposes and for working capital. The interest rate under the New Loan Agreement is fixed at 18% per annum.

On 8 February 2018, Ukrproduct announced that it had drawn down UAH 32.3 million under the terms of the New Loan Agreement with Creditwest Bank Ukraine in order to fully repay all amounts outstanding to OTP Bank. Accordingly, the Group has no outstanding liabilities to OTP Bank. As at today's date, the Group has fully drawn down the loan available under the New Loan Agreement, which is due for repayment on 5 February 2021, as announced by the Group on 7 February 2018.

Based on the existence of these conditions, the condensed 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 increasing volume of export sales and full production capacity.

2. Write-off of inventories to net realizable value

In accordance with requirements of IAS 2, "The value of inventories must be recorded at the lower of cost or net realisable value. Where net realisable value drops to below the cost of inventory the loss is to be recognised as an expense in the period in which the drop of value occurs." The Group conducted an evaluation of inventories as at 30 June 2018 and 30 June 2017. The loss from impairment of inventories amounted to:

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£ '000	£ '000
Impairment of finished goods	(279)	(79)

UKRPRODUCT GROUP LIMITED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018

3. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and balances between the Group companies and other related parties are set out below.

Sales of goods and services to related parties and purchases from related parties are summarised below. All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Group.

	Six months ended 30 June 2018 £ '000	Six months ended 30 June 2017 £ '000
Sales	-	-
Purchases	42	7
Administrative expenses	7	7
Other operational incomes	-	-
Other operational expenses	-	-

Balances due from/(to) related parties at each period end are shown below.

	As at 30 June 2018 £ '000	As at 30 June 2017 £ '000
Receivables and prepayments	26	39
(Allowance for trade debtors)	-	(14)
Other financial assets	-	12
Trade and other payables	(11)	(2)

In the first half of 2018, the Group's commercial relationships with the related parties comprised of sales and purchases. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given by the Group to related parties and vice versa.

The ultimate controlling owners and beneficiaries of the related parties were Messrs Alexander Slipchuk and Sergey Evlanchik, directors of the Company.

4. Segment information

At 30 June 2018, the Group was organised internationally into five main business segments:

- 1) Branded products – processed cheese, hard cheese, packaged butter and spreads
- 2) Beverages – kvass, other beverages
- 3) Non-branded products – skimmed milk powder, other skimmed milk products
- 4) Distribution services and other – resale of third-party goods and processing services.
- 5) Supplementary products - export trading activities with non-dairy products. The Group has expanded export sales into non-dairy products such as corn. The group has sufficient experience and opportunities in the export market and has seen profitable operations. These operations make use of third party logistics services and are financed by deferring payment for purchased products.

The segment results for the six months ended 30 June 2018 are as follows:

	Branded products £ '000	Beverages £ '000	Non-branded products £ '000	Distribution services and other £ '000	Supplementary products £ '000	Total £ '000
Sales	10 016	611	1 822	1 815	563	14 827
Gross profit	1 265	346	(829)	456	6	1 244

The segment results for the six months ended 30 June 2017 were as follows:

	Branded products £ '000	Beverages £ '000	Non-branded products £ '000	Distribution services and other £ '000	Supplementary products £ '000	Total £ '000
Sales	9 575	488	4 062	785	0	14 910
Gross profit	1 720	254	(579)	299	0	1 694

UKRPRODUCT GROUP LIMITED
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018

5. Earnings per share

Basic earnings per share have been calculated by dividing net profit attributable to the ordinary shareholders (profit for the period) by the weighted average number of shares in issue.

	Six months ended	Six months ended
	30 June 2018	30 June 2017
Net profit attributable to ordinary shareholders, £'000	408	4
Weighted number of ordinary shares in issue	39 673 050	39 673 050
Basic earnings per share, pence	1,03	0,01
Diluted average number of shares	39 673 050	39 673 050
Diluted earnings per share, pence	1,03	0,01

6. Approval of interim financial statements

The unaudited condensed consolidated financial statements were approved by the board of directors on 26 September 2018.