



29 June 2020

UKRPRODUCT GROUP LIMITED
(“Ukrproduct”, the “Company” or, together with its subsidiaries, the
“Group”)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019.

Copies of the 2019 Annual Report and Accounts, will shortly be posted to shareholders and will be available on the Company’s website at www.ukrproduct.com. In addition, a Notice of Annual General Meeting (“AGM”), along with a Proxy Form, will shortly be posted to shareholders and will be available at the Company’s website at www.ukrproduct.com.

The AGM will be held at 39-41 Shota Rustaveli Street, 01033 Kyiv, Ukraine at 6.00 pm (Kyiv time) / 4.00 pm (London time) on 30 July 2020.

For further information contact:

Ukrproduct Group Ltd
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The information contained within this announcement is deemed by the Company to constitute inside information as set out in the Market Abuse Regulations (EU) No.596/2014 (“MAR”)

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 current 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. Ukrproduct’s securities are traded under the symbol “UKR” on AIM, a market operated by the London Stock Exchange.

Chairman and Chief Executive Statement

Trading

Ukrproduct Group Ltd (“Ukrproduct”, the “Company” or, together with its subsidiaries, the “Group”) is one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass).

The Ukrainian economy performed robustly during the year ended 31 December 2019 (“FY 2019”), reporting GDP growth of over 2% for the year, which included growth in excess of 4% in Q4. Whilst the strengthening of the hryvnia (UAH) during 2019 had a noticeable negative impact on Ukrainian exports, it increased the purchasing power of the population. Due to the growth of consumer incomes, retail sales increased significantly, with Q3 and Q4 showing greater than 10% year on year growth. As a result, the Group’s operating performance exceeded expectations, as announced on 19 March 2020.

In FY 2019, the Group reports improved revenues by 35% up to approximately £50.0 million (approximately UAH 1.6 billion) compared with revenues of £36.9 million (approximately UAH 1.3 billion) in FY 2018. Gross profit increased by 50% up to £4.73 million (approximately UAH 156 million) compared with gross profit of £3.18 million (approximately UAH 105 million) in FY 2018, with dairy products and beverages showing strong performances in particular.

Operating profit increased by 684% to approximately £1.49 million (approximately UAH 49 million) in FY 2019, compared with an operating profit of approximately £0.19 million (approximately UAH 6.2 million) in FY 2018.

Overall, for FY 2019, the Company reports net profit of approximately £2.0 million (approximately UAH 66.9 million) compared to a net profit of approximately £0.1 million (approximately UAH 2.7 million) in FY 2018, which includes a net foreign exchange gain of £1.08 million (approximately UAH 37 million), compared to £0.4 million (approximately UAH 15.1 million) in FY 2018.

Gross margins improved as a result of higher prices for skimmed milk powder and the Group’s ongoing pursuit of cost efficiencies. Such cost efficiencies helped offset inflationary wage pressures.

Financial Position

As at 31 December 2019, Ukrproduct reports net assets of approximately £3.2 million (approximately UAH 10 million) compared to approximately £1.0 million (approximately UAH 35.13 million) as at 31 December 2018, including cash balances of approximately £0.23 million (approximately UAH 8 million) compared to £0.2 million (approximately UAH 6.4 million).

During FY 2019, the Group continued to breach a loan covenant in relation to the EBRD debt. However, the Company continued to settle certain amounts to EBRD according to an agreed schedule. The Directors are confident that EBRD will not demand accelerated repayment of the loan due to breach of covenants.

Outlook

Whilst the Company plans to consolidate and build on the progress achieved in FY 2019 with regard to profitability, with trading in Q1 2020 in line with the Board's expectations, the negative impact that COVID-19 is likely to have on consumer spending and the Group's performance is difficult to quantify and predict at this stage. The Company will provide any necessary updates via regulatory announcements as and when appropriate.



Jack Rowell

Non-Executive Chairman



Alexander Slipchuk

Chief Executive
Officer

Ukrproduct Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousand GBP, unless otherwise stated)

	Note	Year ended 31 December 2019 £ '000	Year ended 31 December 2018 £ '000
Revenue	8	49 961	36 928
Cost of sales	9	(45 233)	(33 751)
GROSS PROFIT		4 728	3 177
Administrative expenses	9	(1 137)	(1 061)
Selling and distribution expenses	9	(2 175)	(1 799)
Other operating expenses	9	74	(131)
PROFIT FROM OPERATIONS		1 490	186
Net finance expenses	11	(578)	(494)
Net foreign exchange gain (loss)	10	1 081	398
PROFIT / (LOSS) BEFORE TAXATION		1 993	90
Income tax expense	13	38	-
PROFIT / (LOSS) FOR THE YEAR		2 031	90
Attributable to:			
Owners of the Parent		2 031	90
Non-controlling interests		-	-
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		165	(8)
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment		-	-
Income tax in respect of revaluation reserve		-	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		165	(8)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2 196	82
Attributable to:			
Owners of the Parent		2 196	82
Non-controlling interests		-	-
Earnings per share from continuing and total operations:			
Basic (pence)		5,12	0,23
Diluted (pence)		5,12	0,23

Ukrproduct Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in thousand GBP, unless otherwise stated)

	Note	As at 31 December 2019 £ '000	As at 31 December 2018 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	14	6 994	6 420
Intangible assets	15	493	524
		7 487	6 944
Current assets			
Inventories	17	5 071	3 735
Trade and other receivables	18	7 257	3 156
Current taxes	19	310	349
Other financial assets	20	31	24
Cash and cash equivalents	21	231	181
		12 900	7 445
TOTAL ASSETS		20 387	14 389
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	(14 737)	(14 902)
Revaluation reserve	23	3 437	3 619
Retained earnings		5 931	3 718
		3 160	964
Non-controlling interests		-	-
TOTAL EQUITY		3 160	964
Non-Current Liabilities			
Bank loans	24	-	5 208
Long-term payables		-	467
Liabilities of rent assets		68	-
Deferred tax liabilities	16	242	274
		310	5 949
Current liabilities			
Bank loans	24	7 213	2 455
Short-term payables		441	-
Trade and other payables	25	9 245	5 008
Other taxes payable		18	13
		16 917	7 476
TOTAL LIABILITIES		17 227	13 425
TOTAL EQUITY AND LIABILITIES		20 387	14 389

Ukrproduct Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent					Total £ '000	Non- con- trolling interests £ '000	Total Equity £ '000
	Share capital	Share premium	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000			
As At 1 January 2018	3 967	4 562	3 769	3 478	(14 894)	882	-	882
Profit for the year	-	-	-	90	-	90	-	90
Other comprehensive income								
Currency translation differences	-	-	-	-	(8)	(8)	-	(8)
Total comprehensive income	-	-	-	90	(8)	82	-	82
Depreciation on revaluation of property, plant and equipment	-	-	(150)	150	-	-	-	-
As At 31 December 2018	3 967	4 562	3 619	3 718	(14 902)	964	-	964
Profit for the year	-	-	-	2 031	-	2 031	-	2 031
Other comprehensive income								
Currency translation differences	-	-	-	-	165	165	-	165
Total comprehensive income	-	-	-	2 031	165	2 196	-	2 196
Depreciation on revaluation of property, plant and equipment	-	-	(182)	182	-	-	-	-
As At 31 December 2019	3 967	4 562	3 437	5 931	(14 737)	3 160	-	3 160

Ukrproduct Group
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousand GBP, unless otherwise stated)

	Year ended 31 December 2019 £ '000	Year ended 31 December 2018 £ '000
Cash flows from operating activities		
Gain before taxation	1 993	90
Adjustments for:		
Exchange difference	(1 081)	(398)
Depreciation and amortisation	636	523
Loss on disposal of non-current assets	7	4
Write off of receivables/payables	(118)	21
Impairment of inventories	(28)	72
Interest income	(1)	-
Interest expense on bank loans	579	494
Operation cash flow before working capital changes	1 987	806
Increase in inventories	(1 309)	(1 380)
Increase in trade and other receivables	(3 973)	(1 096)
Increase in trade and other payables	4 210	1 437
Changes in working capital	(1 072)	(1 039)
Cash generated from/(used in) operating activities	915	(233)
Interest received	1	2
Income tax paid	2	1
Net cash generated from/(used in) operating activities	918	(230)
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(297)	(181)
Proceeds from sale of property, plant and equipment	28	-
Repayments of loans issued	(3)	7
Net cash used in investing activities	(272)	(174)
Cash flows from financing activities		
Interest paid	(530)	(421)
Decrease in short term borrowing	(21)	901
Repayments of long term borrowing	(347)	(459)
Net cash generated from/(used in) financing activities	(898)	21
Decrease in cash and cash equivalents	(252)	(383)
Effect of exchange rate changes on cash and cash equivalents	302	68
Cash and cash equivalents at the beginning of the year	181	496
Cash and cash equivalents at the end of the year	231	181

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 June 2020 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 2019 statutory financial statements. It contained no statement under section 113B of the Companies (Jersey) Law 2011. The financial statements for 2019 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 significant items of property, plant and equipment which have been measured using revaluation model. 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

These consolidated financial statements have been prepared on the assumption that the Group is able to continue its operations on a going concern basis for the foreseeable future.

For the year ended 31 December 2019, net profit amounted to approximately £2.0 million (year ended 31 December 2018 net profit of approximately £0.1 million). As at 31 December 2019, the Group continued to breach certain loan covenant terms of its loan with European Bank for Reconstruction and Development (“EBRD”). The bank has not issued a waiver for the breach. As a consequence, the loan is reclassified as a Current Liability (for the impact of such reclassification on the financial statements, please see page 84). There has been no demand for repayment of the loan. The Company continues to communicate with EBRD and loan repayments are being met as they fall due. Should the Group be required to raise additional working capital, the Directors expect this would be raised from local banks. Ukrproduct is also looking to expand domestic sales driven in part by the introduction of new products and rebranding. The Group continues to boost its dairy processing volumes via close cooperation with local farmers and cooperatives, thereby increasing its capacity utilisation. The Group’s current strategy is to further expand its export sales worldwide with a focus on Asia and Africa. CIS markets also remain strategically important for the Group not least Kazakhstan where the Company increased its export volumes by signing new agreements.

3. Bank Loans and Overdrafts

As at 31 December 2019 the Group has two loans: the loan from Creditwest Bank in the amount of 2 073 thousand GBP (UAH 65,0 million) and the loan from EBRD in the amount of 5 140 thousand GBP (EUR 6,036 thousand).

During the year to 31 December 2019, the Group continued to breach certain loan covenants in relation to the EBRD debt. The bank has not issued a waiver for the breach. As a consequence the loan is reclassified as a Current Liability. However, the Company continued to settle certain amounts to EBRD according to an agreed schedule. The Group completed installments of payments and in accordance with an agreement between all parties, the payment of the tranche in December was postponed to subsequent periods.

Impact of reclassification on balance sheet

	Before reclassification	Impact of reclassification	Adjusted
	000,GBP	000,GBP	000,GBP
Bank loans	4 913	(4 913)	-
Long-term payables	441	(441)	-
Liabilities of rent assets	68	-	68
Deferred tax liabilities	242	-	242
Current liabilities			
Bank loans	2 300	4 913	7213
Short-term payables	0	441	441
Trade and other payables	9 245	-	9 245
Other taxes payable	18	-	18
TOTAL LIABILITIES	17 227	-	17 227

Impact of reclassification on P&L

	Before reclassification	Impact of reclassification	Adjusted
	000,GBP	000,GBP	000,GBP
Profit from operations	1 599	(109)	1 490
Profit before taxation	2 102	(109)	1 993
Profit for the year	2 140	(109)	2 031

Impact of reclassification on Cash flow

	Before reclassification	Impact of reclassification	Adjusted
	000,GBP	000,GBP	000,GBP
Cash generated from operating activities	1 033	(115)	918
Cash used in investing activities	(272)	-	(272)
Cash generated from financing activities	(898)	-	(898)
Effect of exchange rate changes on cash and cash equivalents	187	115	302
Cash and cash equivalents at the beginning of the year	181	-	181
Cash at the end of the year	231	-	231

Fixed assets with a net book value of GBP 3,177 thousand at 31 December 2019 (2018: GBP 4,872 thousand) were pledged as collateral. Assets pledged as security for the EBRD loan include property and land in Starokonstantinov, equipment for dairy production and production of hard cheese, as well as trademarks.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit £ '000	As At 31 December 2019 £ '000	As at 31 December 2018 £ '000
EBRD	EUR	Loan	31.03.2011	30.11.2024	5-7%	7 070	5 140	5 813
Creditwest Bank Ukraine	UAH	Credit line	05.02.2018	05.02.2021	15,89%	2 095	2 073	1 850
Total							7 213	7 663

The average interest rate as at 31 December 2019 was 11% (2018: 6,15%).

SUBSEQUENT EVENTS

(a) EBRD – breach of loan covenants

As at 31 December 2019, the Group was in breach of the Debt Service Coverage ratio covenant in the loan facility in place with European Bank for Reconstruction and Development (“EBRD”). The Group remained in breach of this covenant as at 31 March 2020 and EBRD has not issued a waiver in respect of this breach. There has been no demand for repayment of the loan. The Company continues to communicate with EBRD and the agreed loan repayments are being met as they fall due.

(b) Installment

In Q1 2020, the Company, under the terms of its agreement with EBRD, agreed to defer payment of 200 000 EUR, resulting in a payment of 14 752.75 EUR plus an interest payment of 37 906 EUR. In Q2 2020, the Company, under the terms of its agreement with EBRD, agreed to defer payment of 200 000 EUR, resulting in a payment of 32 934,57 EUR plus an interest payment of 38 671,92 EUR.

(c) Foreign exchange rates

Post year end, the Ukrainian Hryvnia continued to depreciate against the EUR, GBP. However, the Ukrainian Hryvnia strengthened against the US dollar. In particular, according to the National Bank of Ukraine the following are key exchange rates:

Currency	26 June 2020
UAH/GBP	33.18
UAH/USD	26.70
UAH/EUR	29.91

(d) Impact of COVID-19 pandemic

The outbreak of COVID-19 has had an unprecedented global impact on economic activities in most countries, including Ukraine. Nevertheless, Ukrproduct has taken all of the steps it can in order to safeguard the wellbeing of its employees and ensure continued stable operations.

Prior to the lockdown period commencing in Ukraine in March 2020, Ukrproduct began implementing a number of measures aimed at preventing the spread of COVID-19 amongst the Group’s employees and their families.

The Company is pleased to report that, as at the date of this report, these measures have resulted in relatively few employees, in the context of the Group's workforce of over 800 personnel, showing symptoms of the virus. As such, so far, the impact on the Group's operations has been limited. Looking ahead, whilst COVID-19 creates significant economic uncertainty, the Group expects to utilise the experience gained during the pandemic, most notably from remote working, to streamline and optimise certain administrative and operational processes.

As would be expected in the context of a global pandemic, the onset of COVID-19 has had a number of connotations for the Group's business:

Exports

Since the implementation of the lockdown in Ukraine, whilst the sales price achieved by the Group for SMP has been higher than the Company had expected given the lockdown, largely driven by the sale of SMP to CIS countries, such as Kazakhstan and Moldova, unfortunately, such prices are lower than budgeted at the beginning of the year.

However, with regard to the export of other products (butter and spreads), pleasingly the lockdown experienced in the Group's target markets has not had a significant impact on sales prices. In addition, Ukproduct has managed to sign contracts for butter with new customers with significant sales volumes, which the Company expects should positively impact profitability in H2 2020.

Imports

The imposition of the lockdown in the Ukraine has had a negative impact on the imports of butter and other products, with such imports reducing significantly as a result of, firstly, an initial depreciation in the Hryvnia against the dollar, and, secondly, lockdown-related logistical issues in relation to customs activities.

The Board is of the view that the situation is improving as a result of lockdown restrictions easing from 11 May 2020 combined with the recent appreciation of the Hryvnia against the dollar.

Domestic market

The impact of the lockdown period in Ukraine has not, overall, had a significant impact on sales, as a result of the strong brand recognition and market share of the Group's products. In addition, the Group sells its products in supermarkets and other stores that have remained open during the lockdown, thereby providing a stable retail channel.

Moreover, the sale of the Group's products via outlets that have remained open has offered a competitive advantage, such that the Group has been able reduce milk prices in order to maintain volumes (with many competitors experiencing vastly reduced volumes) and increase the profitability of milk processing via access to cheaper raw materials and the ability source raw materials directly.

However, sales of kvass and other beverages (both bottled and in kegs) have suffered significantly as a result of the lockdown period. For bottled kvass and other beverages, the season started later than expected notwithstanding lockdown, however, the lockdown has predictably negatively impacted kvass sales, particularly keg sales, given it is primarily sold from retail street vendors. As a result, the Board is considering opportunities to increase bottled kvass sales in light of the challenging environment for keg sales. Nevertheless, the Board is hopeful that the Group can meet the annual budget expectations for bottled

kvass and other beverages and expects keg sales to start picking up again in H2 2020.

As stated above, as of 11 May 2020, lockdown restrictions in Ukraine have started to ease and the Board will continue to monitor the changing conditions on an ongoing basis.

We continue to maximize sales efforts across the Group and implement measures to drive profitability in order to generate value for shareholders.