



UKRPRODUCT GROUP

25 June 2021

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020
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 2020.

The 2020 Annual Report and Accounts, together with the Notice of Annual General Meeting ("AGM") and Proxy Form will be posted to shareholders today and are available on the Company's website at www.ukrproduct.com.

The AGM will be held at the 4th floor, office 22, 8 Sikorsky Street, Kyiv, Ukraine, 01033 at 6.00 pm (Kyiv time) / 4.00 pm (London time) on 22 July 2021.

For further information contact:

Ukrproduct Group Ltd
Jack Rowell, Non-Executive Chairman
Alexander Slipchuk, Chief Executive Officer

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This announcement contains inside information for the purposes of Article 7 of EU Regulation No. 596/2014, which forms part of United Kingdom domestic law by virtue of the European (Withdrawal) Act 2018.

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

The outbreak of COVID-19 had an unprecedented global impact on economic activities in most countries, including Ukraine. Due to the COVID-19 pandemic, the Ukrainian economy contracted by 4.4 percent in 2020 compared to the previous year according to the National Bank of Ukraine. Until February 2020, the Ukrainian economy was still in a robust macroeconomic state with declining public debt, falling inflation and optimistic growth forecasts, but the outbreak of the pandemic turned it around. However, the dairy industry withstood the blow of the pandemic and a number of lockdowns in 2020, largely due to the products being considered necessities by the consumer. Nevertheless, Ukrproduct has taken all measures to safeguard the wellbeing of its employees and managed to steer through this volatile environment, maintaining its performance without interruptions and adapting to the changing market requirements.

The introduction of lockdown in Ukraine had a negative impact on the imports of butter and other products, with such imports reducing significantly as a result of, firstly, the initial devaluation of the hryvnia against the dollar, and, secondly, the lockdown-related logistical issues in respect of customs requirements. Overall, the launch of the lockdown measures in Ukraine did not materially impact the Group's sales due to the strong brands' recognition and substantial market shares for its products.

Moreover, unlike smaller competitors, as the Group delivers most of its products to consumers through food retailers, which remained open during lockdown, Ukrproduct was able to utilize this competitive advantage and adapt its procurement processes and supply chains to the shift in how demand is met so maintaining volumes, whereas many competing dairy processors had to reduce their business.

Though the bottled sales of kvass grew in 2020 the overall sales revenues for beverages were at the levels of 2019 - at £1.7 million, which was due to the quarantine measures that suspended distribution over all food channels with the exception of the food and drink retailers. The sales of kvass produced a strong recovery in the second half of the year that helped partial catch up on the annual budget targets.

For FY 2020, the Group reports an improvement in revenue by 11.1% up to £55.5 million (UAH 1.9 billion) compared with £50 million (UAH 1.6 billion) in FY 2019. The growth was delivered via revision of the Company's sales strategy, with spreads and processed cheese sales demonstrating the most pronounced increases of 132.8% and 79.9% respectively. However, the gross profit remained at a similar level to 2019, amounting to £4.7 million (UAH 165 million), whilst the annual operating profit declined by 43.7% to £0.84 million (UAH 29.3 million), compared with £1.5 million (UAH 49.1 million) in FY 2019. Despite an increase in sales, the Company recorded a net loss of £1.16 million (UAH 40.5 million), compared to the profit of £2.031 million (UAH 66.9 million) in 2019. This decline was mainly attributed to the negative foreign exchange differences of £1.5 million.

Financial Position

As of 31 December 2020, Ukrproduct reports net assets of £5.3 million (UAH 202 million) compared to £3.2 million (UAH 104 million) as of 31 December 2019 including cash balances of £0.16 million (UAH 6.0 million) compared to £0.23 million (UAH 7.1 million) respectively.

For the year ended 31 December 2020, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”) and the bank has not issued a waiver for the breaches. Though to 31 May 2021 the Group serviced its debt on time in accordance with the loan agreements with its lenders, on 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group’s management continues to have discussions with the EBRD and at present the EBRD has taken no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties.

Outlook

Looking ahead, whilst COVID-19 creates significant economic uncertainty, Ukrproduct expects to utilize its experience gained during the pandemic, most notably from remote working, to streamline and optimize certain administrative and operational processes. Ukrproduct plans to pursue stronger margins and to further increase sales of processed cheese and spreads, as well as to improve margins of packaged butter by a continuous upgrade into the premium market segment. However, the raw milk price trends in Ukraine will be fundamental for the dairy processing industry overall. The Group is looking into the most efficient ways of procuring raw milk, which is subject to local competition that has been strengthening and thus increasing prices.



Jack Rowell

Non-Executive Chairman



Alexander Slipchuk

Chief Executive
Officer

Ukrproduct Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Revenue	55 508	49 961
Cost of sales	(50 778)	(45 233)
GROSS PROFIT	4 730	4 728
Administrative expenses	(1 205)	(1 137)
Selling and distribution expenses	(2 464)	(2 175)
Other operating (expenses) /income	(223)	74
PROFIT FROM OPERATIONS	838	1 490
Net finance expenses	(486)	(578)
Net foreign exchange gain (loss)	(1 547)	1 081
(LOSS) / PROFIT BEFORE TAXATION	(1 195)	1 993
Income tax credit	35	38
(LOSS) / PROFIT FOR THE YEAR	(1 160)	2 031
Attributable to:		
Owners of the Parent	(1 160)	2 031
Earnings per share:		
Basic (pence)	(2.92)	5.12
Diluted (pence)	(2.92)	5.12
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	(494)	165
Items that will not be reclassified to profit or loss		
Gain on revaluation of property, plant and equipment	3 758	-
OTHER COMPREHENSIVE INCOME, NET OF TAX	2 104	165
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2 104	2 196
Attributable to:		
Owners of the Parent	2 104	2 196
Non-controlling interests	-	-

Ukrproduct Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
ASSETS		
Non-current assets		
Property, plant and equipment	9 934	6 994
Intangible assets	598	493
	10 532	7 487
Current assets		
Inventories	7 317	5 071
Trade and other receivables	6 115	7 257
Current taxes	214	310
Other financial assets	27	31
Cash and cash equivalents	156	231
	13 829	12 900
TOTAL ASSETS	24 361	20 387
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	3 967	3 967
Share premium	4 562	4 562
Translation reserve	(15 231)	(14 737)
Revaluation reserve	7 031	3 437
Retained earnings	4 935	5 931
	5 264	3 160
TOTAL EQUITY	5 264	3 160
Non-Current Liabilities		
Liabilities for right-of-use assets	13	68
Deferred tax liabilities	1 029	242
	1 042	310
Current liabilities		
Bank loans	6 628	7 213
Short-term payables	467	441
Trade and other payables	10 947	9 245
Other taxes payable	13	18
	18 055	16 917
TOTAL LIABILITIES	19 097	17 227
TOTAL EQUITY AND LIABILITIES	24 361	20 387

Ukrproduct Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent					Total	Non- con- trolling interests	Total Equity
	Share capital	Share premium	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '000			
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
Profit for the year	-	-	-	(1 160)	-	(1 160)	-	(1 160)
Other comprehensive income								
Currency translation differences	-	-	-	-	(494)	(494)	-	(494)
Total comprehensive income	-	-	-	(1 160)	(494)	(1 654)	-	(1 654)
Reduction of revaluation reserve	-	-	(98)	-	-	(98)	-	(98)
Gain on revaluation of property, plant and equipment	-	-	3 856	-	-	3 856	-	3 856
Depreciation on revaluation of property, plant and equipment	-	-	(164)	164	-	-	-	-
As At 31 December 2020	3 967	4 562	7 031	4 935	(15 231)	5 264	-	5 264

Ukrproduct Group
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Cash flows from operating activities		
(Loss) / Profit before taxation	(1 195)	1 993
Adjustments for:		
Exchange difference	1 547	(1 081)
Depreciation and amortization	618	636
(Loss)/Profit on disposal of non-current assets	(4)	7
(Loss)/ Profit on revaluation	225	-
Write off of receivables/payables	(53)	(118)
Impairment of inventories	(42)	(28)
Interest income	(2)	(1)
Interest expense on bank loans	488	579
Operation cash flow before working capital changes	1 582	1 987
Increase in inventories	(2 246)	(1 309)
Decrease / (Increase) in trade and other receivables	1 232	(3 973)
Increase in trade and other payables	1 662	4 210
Changes in working capital	648	(1 072)
Cash / generated from operations	2 230	915
Interest received	2	1
Income tax paid	(2)	2
Net cash / generated from operating activities	2 230	918
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(688)	(297)
Proceeds from sale of property, plant and equipment	13	28
Repayments of loans issued	(3)	(3)
Net cash used in investing activities	(678)	(272)
Cash flows from financing activities		
Interest paid	(494)	(530)
Decrease in short term borrowing	-	(21)
Repayments of long term borrowing	(525)	(347)
Net cash used in financing activities	(1 019)	(898)
Net Increase / (decrease) in cash and cash equivalents	533	(252)
Effect of exchange rate changes on cash and cash equivalents	(608)	302
Cash and cash equivalents at the beginning of the year	231	181
Cash and cash equivalents at the end of the year	156	231

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 June 2021 and were signed on its behalf by Mr. 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 2020 statutory financial statements. It contained no statement under section 113B of the Companies (Jersey) Law 2011. The financial statements for 2020 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

For the year ended 31 December 2020, net loss amounted to £1.16 million, including the exchange difference loss of £1.5 million (2019: net profit of £2.031 million after the exchange difference gain of £1.081 million).

For the year ended 31 December 2020, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”) and the bank has not issued a waiver for the breaches. Though to 31 May 2021 the Group serviced its debt on time in accordance with the loan agreements with its lenders, on 01 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group’s management continues to have discussions with the EBRD and at present the EBRD has taken no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties, the management is seeking to secure sufficient additional funding from the local banks to refinance the existing loan on more competitive terms. To the best of their knowledge the Board has a reasonable expectation that the Group has sufficient liquidity to continue its operations going forward and to apply the going concern basis in preparation of the financial statements.

Overall, the Company’s management has been implementing a number of steps focused on margin improvement and working capital replenishment that include, but are not limited to, the actions described below. Ukrproduct undertakes ongoing optimisation of the raw milk supply and its settlement scheme that is complemented with optimisation of the products’ portfolio aimed at increasing the overall margin and turnover. Additionally, the Group’s management is introducing new cost efficiency initiatives in procurement, processing, distribution, marketing and logistics as well as carefully reducing overhead.

The Company has launched new B2B partnerships (as well as developing existing ones) in dairy processing, logistics and distribution to capitalise on economy of scale. Moreover, Ukrproduct continues to introduce new dairy products and beverages appealing to shifting consumer demand, which is complemented by focused marketing and promotion efforts, while export trading is being developed with new packaging to adapt to international consumer requirements. On a daily basis the management team is engaged in proactive negotiation with retailers and other trading partners in order to reflect input costs volatility in the current pricing of its end products on shelves, however, this process is challenging and takes time.

The Board acknowledges that COVID-19 had a modest impact on the balance sheet and overall performance of the Group in FY2020 and Ukrproduct has already taken a set of the relevant measures to adapt to the changing marketplace. As a part of the going concern assessment the Company performed a broad analysis of the future cash flows and budgets, applying to them multiple scenarios and stress tests including but not limited to the potential impact of COVID-19 on the future trading performance. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as stable flow of revenues in due course. Finally, to the best of their knowledge the management does not believe that COVID-19 has a direct negative financial impact on its operations and closely monitors the pandemic evolution and its potential pressure on the markets, consumers etc.

3. Bank Loans and Short-Term Payables

As at 31 December 2020 the Group has two loans: the loan from Creditwest Bank in the amount of 1.673 thousand GBP (in UAH 65.0 million) and the loan from the EBRD in the amount of 4.955 thousand GBP (in EUR 5.482 thousand).

During 2020, the Group fulfilled its obligations under the EBRD loan in accordance with the agreement. 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.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit £ '000	As At 31 December 2020 £ '000	As at 31 December 2019 £ '000
EBRD	EUR	Loan	31.03.2011	30.11.2024	5-7%	7 070	4 956	5 140
Creditwest Bank Ukraine	UAH	Credit line	05.02.2018	05.02.2021	15,89%	2 095	1 673	2 073
Total							6 628	7 213

The average interest rate as at 31 December 2020 was 11% (2019: 11%).

SUBSEQUENT EVENTS

(a) EBRD – breach of loan covenants

As at 31 December 2020 the Group had been in breach of one of covenants regarding the loan with EBRD- debt service coverage ratio. The Group was still in breach of this covenant as at 31 March 2021, however the Board believes that the EBRD will not demand accelerated payments in respect of this breach, therefore no further commitments or contingencies have arisen.

(b) Installments

The Group agreed to defer the principal amount payment of EUR 200 000.00 due on 1 March 2021 under the terms of the loan agreement with the EBRD, resulting in a principal payment at the amount of EUR 65 434.57 and an interest payment of EUR 32 240.41.

On 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Accordingly, Ukrproduct also notified the EBRD that on 1 June 2021 the Company had settled the due interest amount without repayment of the next loan tranche at the amount of EUR 294 0066.00 that was due under the loan agreement. However, the Company settled the respective interest payment of EUR 33 089.98 in full and on time.

(c) Foreign exchange rates

Post year end, the Ukrainian Hryvnia has strengthened against the USD, EUR and GBP. According to the information provided by the National Bank of Ukraine, the main exchange rates are set at the following rates:

Currency	24 June 2021
UAH/GBP	38.15
UAH/USD	27.27
UAH/EUR	32.60

(d) Increase in the statutory capital of a Group company

On 24 March 2021, there was an increase in the authorized capital of the Starokonstantinovskiy Molochniy Zavod SC in the amount of 4.222 k GBP. 100% of Starokonstantinovskiy Molochniy Zavod SC belongs to MCNVIF “Alternative Investments”.