



UKRPRODUCT GROUP

27 September 2021

UKRPRODUCT GROUP LTD

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

**UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX
MONTHS ENDED 30 JUNE 2021**

Ukrproduct Group Ltd (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), today announces its unaudited interim financial results for the six months ended 30 June 2021.

The full unaudited interim financial results for the six months ended 30 June 2021 are available on the Company’s website at www.ukrproduct.com.

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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

Ukrproduct, one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), is pleased to announce its interim results for the half year ended 30 June 2021 (“1H 2021”) and outlook for 2021.

2021 Half-Year Highlights:

- Consolidated revenue of the Group in local currency increased by 7.3%, however owing to devaluation of UAH to GBP it decreased by 7.2% to £25.5 million on a like-for-like basis (1H 2020: £27.5 million). Growth in volume stood at 8.1%.
- The Group significantly changed the product portfolio and sales structure compared to the prior half a year in order to support the product margins: a significant rise in revenue of 71.1% was provided by processed cheese and associated product (with its market share increasing from 22% to 41%), while the revenue from butter decreased by 42.6% as the Group reoriented from the mass towards the premium market (with its market share decreasing from 33% to 21%).
- Despite the increase in sales, pressure on the input costs owing to higher prices for raw milk on a comparable basis and energy related expenses triggered the decline of the gross profit by 9.8% to £2.0 million (1H 2020: £2.2 million).
- Higher material costs had a negative impact on the operating result, as EBITDA amounted to £0.49 million (1H 2020: £0.78 million) corresponding to EBITDA margin of 1.9% (1H 2020: 2.8%).
- Net profit for the period amounted to £0.15 million compared to the loss in the prior period (1H 2020: £0.42 million) owing to the positive exchange difference of £0.36 million.

2021 Half-Year Trading Update

According to the State Statistics Service of Ukraine, in the first half of 2021 the total milk production in Ukraine declined by 5.6%, or 255 thousand tons compared to the same period last year, to 4.3 million tons. Though this decrease was offset by imports, primarily from the European Union, it resulted in local raw milk prices increasing. It is noteworthy to highlight that in the first half of 2021, there was no seasonal decline in raw milk prices. In May-June 2021, prices excluding VAT were generally in line with the prices in January-February and sometimes even exceeded them. The average purchase prices of milk (of all categories) by agricultural enterprises increased in the first half of 2021 by more than 24% against the corresponding level in 2020 owing to the general rally of food commodities worldwide. While the average extra grade raw milk (produced by the farmers) price increased by around 20%, the average first grade raw milk (supplied by the villagers) price rose by almost 30%. Additionally, the prices of another important raw material - palm oil - skyrocketed by circa 30% during the first half of 2021.

Consequently, the Group experienced the material financial impact of raw materials inflation, while the products’ profit margins were limited following challenging negotiations with the local retailers. However, Ukrproduct partially offset such financial impacts through improved productivity and its optimised product portfolio, as well as by a number of further measures focused on margin improvement, including but not limited to the regular cost-efficiency exercises and ongoing optimisation of the raw milk supply.

Financial position

As of 30 June 2021, Ukrproduct had net assets of £5.7 million compared to £2.6 million as of 30 June 2020.

In the first half of 2021, 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. On 1 June 2021, the Group had settled the interest amount due on 1 June 2021, however it did not repay the quarterly loan tranche due on that date. On 3 September 2021, with reference to the loan agreement, the Group settled the payment of overdue principal in the amount of EUR 106,200.

In June 2021, Ukrproduct 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 owing to increased raw materials costs and growing working capital requirements as the Group significantly increased its sales via retailers as a result of the COVID-19 related restrictions imposed on the other distribution channels during a number of consequential lockdowns.

Outlook for 2021

The development of the business in the second half of 2021 remains highly uncertain due to ongoing COVID-19 pandemic and further inflation in prices of agriculture commodities worldwide in the second half of the year. Though Ukrproduct’s team continues implementing further efficiencies in procurement, processing, distribution and sales of its products with a major focus on pricing on shelves reflecting raw materials costs increase, the Group expects its margins to experience further pressure until the end of this year.



Jack Rowell

Non-Executive Chairman



Chief Executive Officer

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2021	Six months ended 30 June 2020
	£ '000	£ '000
Revenue	25 532	27 523
Cost of sales	(23 534)	(25 308)
GROSS PROFIT	1 998	2 215
Administrative expenses	(631)	(576)
Selling and distribution expenses	(1 250)	(1 158)
Other operating (expenses)/income	(170)	5
PROFIT/(LOSS) FROM OPERATIONS	(53)	486
Net finance expenses	(232)	(253)
Net foreign exchange gain/(loss)	366	(673)
PROFIT/(LOSS) BEFORE TAXATION	81	(440)
Income tax credit	70	19
PROFIT/ (LOSS) FOR THE SIX MONTHS	151	(421)
Attributable to:		
Owners of the Parent	151	(421)
Earnings per share:		
Basic (in pence)	0.38	(1.06)
Diluted (in pence)	0.38	(1.06)
OTHER COMPREHENSIVE INCOME:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	269	(167)
OTHER COMPREHENSIVE INCOME, NET OF TAX	269	(167)
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS	420	(588)
Attributable to:		
Owners of the Parent	420	(588)
Non-controlling interests	-	-

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021
(in thousand GBP, unless otherwise stated)

	As at 30 June 2021 £ '000	As at 31 December 2020 £ '000	As at 30 June 2020 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	9 909	9 934	6 538
Intangible assets	765	598	546
Deferred tax assets	-	-	-
	10 674	10 532	7 084
Current assets			
Inventories	5 919	7 317	6 386
Trade and other receivables	6 976	6 155	7 292
Current taxes	305	214	427
Other financial assets	41	27	32
Cash and cash equivalents	147	156	389
	13 388	13 829	14 526
TOTAL ASSETS	24 062	24 361	21 610
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	3 967	3 967	3 967
Share premium	4 562	4 562	4 562
Translation reserve	(14 962)	(15 231)	(14 904)
Revaluation reserve	6 715	7 031	3 348
Retained earnings	5 403	4 935	5 599
	5 685	5 264	2 572
Non-controlling interests	-	-	-
TOTAL EQUITY	5 685	5 264	2 572
Non-current Liabilities			
Liabilities of rent assets (LT)	-	13	50
Liabilities of rent assets (ST)	-	-	-
Deferred tax liabilities	937	1 029	215
	937	1 042	265
Current liabilities			
Bank loans	6 812	6 628	7 834
Short-term payables	-	467	-
Trade and other payables	10 610	10 947	10 907
Current income tax liabilities	-	-	-
Other taxes payable	18	13	32
	17 440	18 055	18 773
TOTAL LIABILITIES	18 377	19 097	19 038
TOTAL EQUITY AND LIABILITIES	24 062	24 361	21 610

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(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 2019	3 967	4 562	3 437	5 931	(14 737)	3 160	-	3 160
Loss for the six months	-	-	-	(421)	-	(421)	-	(421)
Currency translation differences	-	-	-	-	(167)	(167)	-	(167)
Total comprehensive income	-	-	-	(421)	(167)	(588)	-	(588)
Depreciation on revaluation of property, plant and equipment	-	-	(89)	89	-	-	-	-
As at 30 June 2020	3 967	4 562	3 348	5 599	(14 904)	2 572	-	2 572
Profit for the six months	-	-	-	(739)	-	(739)	-	(739)
Currency translation differences	-	-	-	-	(327)	(327)	-	(327)
Total comprehensive loss	-	-	-	(739)	(327)	(1 066)	-	(1 066)
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	-	-	(75)	75	-	-	-	-
As at 31 December 2020	3 967	4 562	7 031	4 935	(15 231)	5 264	-	5 264
Profit for the six months	-	-	-	152	-	152	-	152
Currency translation differences	-	-	-	-	269	269	-	269
Total comprehensive income	-	-	-	152	269	421	-	421
Depreciation on revaluation of property, plant and equipment	-	-	(316)	316	-	-	-	-
As at 30 June 2021	3 967	4 562	6 715	5 403	(14 962)	5 685	-	5 685

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2021	Six months ended 30 June 2020
	£ '000	£ '000
Cash flows from operating activities		
Profit/(loss) before taxation	81	(440)
Adjustments for:		
Exchange difference	(366)	673
Depreciation and amortization	537	297
Loss on disposal of non-current assets	5	5
Write off of receivables/payables	166	1
Impairment of inventories	9	82
Interest income	-	(1)
Interest expense on bank loans	232	254
Operating cash flow before working capital changes	664	871
Increase in inventories	1 390	(1 389)
Increase in trade and other receivables	(1 128)	(143)
Increase in trade and other payables	(366)	1 682
Changes in working capital	(104)	150
Cash generated from operations	560	1 021
Interest received	-	1
Income tax paid	9	5
Net cash generated from operating activities	569	1 027
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(519)	(334)
Proceeds from sale of property, plant and equipment	-	11
Repayments of loans issued	(13)	(3)
Net cash used in investing activities	(532)	(326)
Cash flows from financing activities		
Interest paid	(188)	(270)
Repayments of long term borrowing	(57)	(42)
Net cash used in from financing activities	(245)	(312)
Net (decrease)/increase in cash and cash equivalents	(208)	389
Effect of exchange rate changes on cash and cash equivalents	199	(231)
Cash and cash equivalents at the beginning of the six months	156	231
Cash and cash equivalents at the end of the six months	147	389

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(in thousand GBP, unless otherwise stated)

EXTRACTS FROM NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The condensed consolidated financial information in this half yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), as adopted by the EU, and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

2. Going concern

These condensed consolidated interim financial statements have been prepared on a going concern basis, which envisages the disposal of assets and the settlement of liabilities in the normal course of business. The recoverability of Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment.

EBRD

In the first half of 2021, the Group continued to be 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. On 1 June 2021, Ukrproduct 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. The Group also notified EBRD that although Ukrproduct had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. In September, with reference to the loan agreement dated 31 March 2011, as amended on 24 June 2016, the Company made the repayment of the overdue (by 1 June 2021) principal in the amount of EUR 106 200 and settled the due interest amount of EUR 28 582, however, the Group informed EBRD that it could not undertake the next repayment at the amount of EUR 294 006 that was due on 1 September 2021.

Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group's management continues to have discussions with EBRD and, at present, 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 its 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.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021
(in thousand GBP, unless otherwise stated)

2. Going concern (continued)

Overall, the Group'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 development of the products' portfolio aimed at increasing the Company's 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 economies 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.

Impact of COVID-19 pandemic

As part of the going concern assessment, the Directors performed an analysis on future cash flows and budgets. The analysis has shown that the Group will continue to maintain relevant cash resources and uninterrupted flow of revenues for the foreseeable future. The Group closely monitors the evolution of the COVID-19 pandemic, including how it may affect the markets, the general population and the financial impact of these events.

3. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). For the companies operating in Cyprus and BVI the functional currency is United States Dollars ("USD"). For the Parent company, which is located in Jersey, the functional currency is Pound Sterling ("GBP"). For the companies operating in Ukraine the functional currency is Ukrainian Hryvnia ("UAH").

These condensed consolidated interim financial statements are presented in the thousands of Pound Sterling ("GBP"), unless otherwise indicated.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The principal exchange rates used in the preparation of these condensed consolidated interim financial statements are as follows:

Currency	30 June 2021 (spot rate)	Average for the six months ended 30 June 2021	31 December 2020 (spot rate)	30 June 2020 (spot rate)	Average for the six months ended 30 June 2020
UAH/GBP	37.58	38.55	38.44	33.08	33.47
UAH/USD	27.18	27.77	28.27	26.69	26.72
UAH/EUR	32.30	33.46	34.74	29.95	30.05

4. Subsequent events

Ukrproduct has a significant number of financial obligations to EBRD. The Group's management has been in negotiations with EBRD to restructure the current repayment schedule, focusing on, amongst other things, financial viability assessment and business projections and financial model covering long-term financial forecasts. At present, EBRD has taken no action to accelerate repayment of the loan.

In September 2021, with reference to the loan agreement dated 31 March 2011, as amended on 24 June 2016 the Group made the repayment of the overdue (by 1 June 2021) principal in the amount of EUR 106 200 and settled the due interest amount of EUR 28 582, however the Group informed EBRD that it could not undertake the next repayment at the amount of EUR 294 006 that was due on 1 September 2021.

There were no other material events after the end of the reporting date, which have a bearing on the understanding of the financial statement.

5. Approval of interim statements

The unaudited condensed consolidated financial statements were approved by the board of directors on 23 September 2021.