



UKRPRODUCT GROUP

30 September 2022

UKRPRODUCT GROUP LIMITED

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

**UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX
MONTHS ENDED 30 JUNE 2022**

Ukrproduct Group Limited (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 2022.

The unaudited interim financial results for the six months ended 30 June 2022 are available on the Company’s website at www.ukrproduct.com.

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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 2022 (“1H 2022”) and outlook for the remainder of 2022.

2022 Half-Year Trading Update

Trading in 2022 was severely affected by the Russian invasion of Ukraine and the ongoing war. Ukrainian regions experienced a loss of production capacity in the occupied territory and in the war zone. Moreover, damaged infrastructure and increases in fuel prices together with fuel shortages, have impacted transportation and adversely affected logistics costs, both on the supply and distribution side. As the Ukrainian sea ports have been blockaded by the Russian Navy, there is increased pressure on the remaining routes for export.

In 2022, dairy processing enterprises throughout Ukraine did not have the opportunity to fully utilize production capacities as a result of difficulties in sourcing raw material. In the first half of 2022 the total milk production in Ukraine declined by 13.2% down to 3.7 million tons compared to the same period last year. Decreases in milk production, increases in fuel price and the effect of the occupation of part of the territories of Ukraine has, of course, led to an increase in the purchase price of milk.

As a result, management took steps to secure the supply chain vital for operational continuity. The Group concluded contracts with new alternative suppliers, where necessary, and developed new logistics routes. The central warehouse was moved to the one of Group’s main plants at Zhytomyr, away from the line of active hostilities.

2022 Half-Year Highlights

Consolidated revenue of the Group for the 1H 2022 decreased by 28.4% to £18.3 million while Gross profit increased by 63.6% to £3.3 million. The Group raised prices for products several times and decreased trade marketing activities, which made it possible to compensate for the increase in prices for raw materials, fuel and energy and to increase gross profit margins.

Selling, general and administrative expenses, as well as CAPEX, have been reduced to the minimum required to meet the primary needs of the Group’s core business.

Major customers have not been affected by the hostilities and continue to cooperate and fulfil their contractual obligations with the Group. Nevertheless, the Group recognized additional provision for trade receivables of £1.2 million, which is a part of Other operating expenses.

Trading headwinds were significant and meant the Group’s EBITDA in 1H 2022 reduced by 7.7% to £0.4 million compared with 1H 2021, with the EBITDA margin increasing from 1.9% in 1H 2021 to 2.4% in 1H 2022. The Group’s EBITDA in 1H 2022, if adjusted and stated before expenses relating to the war (including additional bad debt provision for receivables from customers which have been affected by the hostilities) would amount to £1.6 million.

The consolidated net loss of Ukrproduct for 1H 2022 amounted to £0.2 million compared with a net profit of £0.2 million in 1H 2021.

Financial position

As at 30 June 2022, Ukrproduct had net assets of £6.3 million compared to £5.7 million as at 30 June 2021.

For the six months ended 30 June 2022, the Group continued to be in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”), missed some interest payments and repayments and the EBRD has not issued a waiver for the breaches. The Company has been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has been slowed owing to the ongoing war in Ukraine. At present, the EBRD has taken no action to accelerate repayment of the loan.

Outlook for 2022

The development of the business in the second half of 2022 remains highly uncertain due to the ongoing war and further local currency devaluation and inflation in Ukraine. Ukrproduct continues to implement further efficiencies in procurement, processing, distribution and sales of its products, with a major focus on diversifying risks, maintaining profitability and Group assets.

Jack Rowell

Non-Executive Chairman

Alexander Slipchuk

Chief Executive Officer

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Note	Six months ended 30 June 2022 £ '000	Six months ended 30 June 2021 £ '000
Revenue	9	18 278	25 532
Cost of sales		(15 009)	(23 534)
GROSS PROFIT		3 269	1 998
Administrative expenses		(554)	(631)
Selling and distribution expenses		(1 113)	(1 250)
Other operating expenses		(1 543)	(170)
PROFIT/(LOSS) FROM OPERATIONS		59	(53)
Net finance expenses		(231)	(232)
Net foreign exchange gain		20	366
(LOSS)/PROFIT BEFORE TAXATION		(152)	81
Income tax (expense) / credit		(45)	70
(LOSS)/PROFIT FOR THE SIX MONTHS		(197)	151
Attributable to:			
Owners of the Parent		(197)	151
Non-controlling interests		-	-
Earnings per share from continuing and total operations:			
Basic (in pence)	10	(0.50)	0.38
Diluted (in pence)	10	(0.50)	0.38
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		506	269
OTHER COMPREHENSIVE INCOME, NET OF TAX		506	269
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS		309	420
Attributable to:			
Owners of the Parent		309	420
Non-controlling interests		-	-

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Note	As at 30 June 2022 £ '000	As at 31 December 2021 £ '000	As at 30 June 2021 £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		9 926	9 795	9 909
Intangible assets		842	809	765
		10 768	10 604	10 674
Current assets				
Inventories	6	4 556	4 655	5 919
Trade and other receivables		5 528	6 763	6 976
Current taxes		120	920	305
Other financial assets		43	40	41
Cash and cash equivalents		293	312	147
		10 540	12 690	13 388
TOTAL ASSETS		21 308	23 294	24 062
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		4 282	4 282	4 282
Treasury shares		(315)	(315)	(315)
Share premium		4 562	4 562	4 562
Translation reserve		(14 481)	(14 987)	(14 962)
Revaluation reserve		6 182	6 348	6 715
Retained earnings		6 026	6 057	5 403
		6 256	5 947	5 685
TOTAL EQUITY		6 256	5 947	5 685
Non-current Liabilities				
Deferred tax liabilities		748	796	937
		748	796	937
Current liabilities				
Bank loans		6 394	6 039	6 812
Short-term payables		448	587	-
Trade and other payables		7 032	9 829	10 610
Current income tax liabilities		154	41	-
Other taxes payable		276	55	18
		14 304	16 551	17 440
TOTAL LIABILITIES		15 052	17 347	18 377
TOTAL EQUITY AND LIABILITIES		21 308	23 294	24 062

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent						Total	Total Equity
	Share capital	Share treasury	Share premium	Revaluation reserve	Retained earnings	Translation reserve		
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000		
As At 31 December 2020	4 282	(315)	4 562	7 031	4 935	(15 231)	5 264	5 264
Loss for the six months	-	-	-	-	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	4 282	(315)	4 562	6 715	5 403	(14 962)	5 685	5 685
Profit for the six months	-	-	-	-	287	-	287	287
Currency translation differences	-	-	-	-	-	(25)	(25)	(25)
Total comprehensive loss	-	-	-	-	287	(25)	262	262
Depreciation on revaluation of property, plant and equipment	-	-	-	(367)	367	-	-	-
As At 31 December 2021	4 282	(315)	4 562	6 348	6 057	(14 987)	5 947	5 947
Loss for the six months	-	-	-	-	(197)	-	(197)	(197)
Currency translation differences	-	-	-	-	-	506	506	506
Total comprehensive income	-	-	-	-	(197)	506	309	309
Depreciation on revaluation of property, plant and equipment	-	-	-	(166)	166	-	-	-
As At 30 June 2022	4 282	(315)	45 262	6 182	6 026	(14 481)	6 256	6 256

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£ '000	£ '000
Cash flows from operating activities		
Profit before taxation	(152)	81
Adjustments for:		
Exchange difference	(20)	(366)
Depreciation and amortization	387	537
Loss on disposal of non-current assets	-	5
Provision for bad debt	1 435	166
Impairment of inventories	18	9
Interest expense on bank loans	232	232
Operating cash flow before working capital changes	1 900	664
Increase in inventories	85	1 390
Increase/Decrease in trade and other receivables	596	(1 128)
Increase in trade and other payables	(2 653)	(366)
Changes in working capital	(1 972)	(104)
Cash generated from operations	(72)	560
Interest received	1	-
Income tax paid	33	9
Net cash generated from operating activities	(38)	569
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(194)	(519)
Issuance of loans	(2)	(13)
Net cash used in investing activities	(196)	(532)
Cash flows from financing activities		
Interest paid	(149)	(188)
Repayments of long term borrowing	-	(57)
Net cash used in from financing activities	(149)	(245)
Net decrease in cash and cash equivalents	(383)	(208)
Effect of exchange rate changes on cash and cash equivalents	364	199
Cash and cash equivalents at the beginning of the six months	312	156
Cash and cash equivalents at the end of the six months	293	147

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(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

On 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine. Having examined the existing and potential implications of the war for the Ukraine located businesses, the management of the Group have identified several points of specific concern that require careful analysis and assessment. They include, but are not limited to, the following:

- risks related to safety of personnel;
- risk of physical destruction of the production assets;
- risks of disruption of the supply and distribution chains;
- risk of liquidity and limited access to financing.

In preparing these financial statements, the Directors have assessed the Group's ability to continue as a going concern. The Company performed an analysis of the future cash flows and budgets for the next 12 months based on the known facts and events applying to them, including multiple scenarios as a result of the ongoing war with the Russian Federation. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as a stable flow of revenues in due course. The Group fully complies with all sanctions rules and regulations regarding Russia and Belarus.

Management is taking steps to secure the supply chain which is vital for operational continuity. The Group concluded contracts with new alternative suppliers where necessary and developed new logistics routes. The central warehouse was moved to the one of Group's main plants at Zhytomyr, away from the line of active hostilities. Major customers have not been affected by the hostilities and continue to cooperate and fulfil their contractual obligations with the Group. The military action has had no critical impact on the local distribution. The share of sales in the most affected regions does not exceed 15%.

Selling, general and administrative and other operating expenses, as well as CAPEX, has been reduced to the minimum required to meet the primary needs of the Group's core business.

The Group's management is exploring various opportunities to attract additional financing to support the Group's the liquidity under different state aid programs.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

2. Going concern (continued)

For the six months ended 30 June 2022, the Group continued to be in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”), missed some interest payments and repayments and the EBRD has not issued a waiver for the breaches. The Company has been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has been slowed owing to the ongoing war in Ukraine. At present, the EBRD has taken no action to accelerate repayment of the loan.

These financial statements are prepared using the going concern basis assumption.

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 British Virgin Islands, 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.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

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

Currency	30 June 2022 (spot rate)	Average for the six months ended 30 June 2022	31 December 2021 (spot rate)	30 June 2021 (spot rate)	Average for the six months ended 30 June 2021
UAH/GBP	35,55	37,72	36,84	37,58	38,55
UAH/USD	29,25	28,91	27,28	27,18	27,77
UAH/EUR	30,77	31,74	30,92	32,30	33,46

4. Subsequent events

As of the date of this report, the Group continues to operate. The management of the Group controls all of its operations. Office staff mostly work remotely, while production staff perform their duties at their sites. As of the date of this report, the war in Ukraine continues.

The duration and consequences of the war in Ukraine are currently unclear. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group in future periods.

Subsequent to 31 December 2021 and up to the date of these consolidated financial statements, the Group has not settled the principal and interest payment with reference to the loan agreement schedule with the EBRD. The Company have been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has slowed owing to the ongoing war in Ukraine. At present the EBRD has taken no action to accelerate repayment of the loan.

On 22 July 2022 the National Bank of Ukraine increased the official exchange rate of EUR to UAH up to 37.27 UAH from 29.81 as at 21 July 2022. As a result, the Group expect significant foreign exchange losses related to EBRD loan liabilities in the second half of 2022.

There were no other events after the end of the reporting date, which would have a material impact on the financial statements.

5. Approval of interim statements

The unaudited condensed consolidated financial statements were approved by the board of directors on 29 September 2022