



UKRPRODUCT GROUP

**FOR IMMEDIATE RELEASE**

**June 24, 2015**

**FINAL RESULTS FOR THE FINANCIAL YEAR  
ENDING 31 DECEMBER 2014**

**Kyiv, Ukraine** – June 24, 2015 – Ukrproduct Group Limited (“Ukrproduct” or the “Group”) (AIM: UKR), one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), today announces its audited consolidated IFRS final results for the twelve months ending 31 December, 2014.

The full text of the 2014 Annual Report, incorporating the 2014 Audited Financial Statements, is available on the Company's website [www.ukrproduct.com](http://www.ukrproduct.com) and from the Company's head office, 14th Floor, 39-14 Shota Rustaveli St., Kiev 01033, Ukraine. Copies of the annual report are being posted to shareholders on June 30, 2015.

A summary of the Audited Financial Statements follows in this announcement. Shareholders are advised to read the full text of the 2014 Annual Report in its entirety.

**Chairman and Chief Executive Officer's Report**

Over the year 2014 the highly unstable political and economic environment in Ukraine provided ongoing challenges for Ukrproduct Group. The most important macroeconomic factors affecting us were the very significant volatility and devaluation of the Hryvnia, escalating inflation and struggling consumption in the domestic market. Furthermore, the tensions in the Eastern part of Ukraine and Crimea caused unstable supplies to these areas leading to a reduction of the actual market capacity. The Company has been addressing these issues by strengthening its sales strategy in the rest of Ukraine.

In the dairy market, whilst Ukrproduct has not itself supplied Russia, the ban on export of dairy products to Russia led to an oversupply of hard cheese in the domestic market whilst at the same time resulted in lower raw milk prices due to increased availability in the summer period. However, on an annual basis average raw milk prices in 2014 increased by approximately 8% y-o-y that coupled with the increased cost of imported raw materials and higher energy costs placed further pressure on unit costs.

**BRANDED DAIRY PRODUCTS** sales were challenged by the market situation and the limited purchasing power of the local population. However, profitability improved as consumer price increases compensated for rising input costs. Overall sales of branded products in local currency decreased by 5% in Hryvnia terms compared to the previous year with packaged butter and hard cheese categories being affected the most. On the positive side consumer price increases resulted in margins improvement thus gross profit in the branded products category grew by 21% in Hryvnia terms.

In respect of its market share Ukrproduct Group has remained among the market leaders in its core categories of processed cheese and butter. The Company is also among top-five producers

of kvass in Ukraine with 6.2% market share and is the only mass manufacturer of “fresh” Kvass in Ukraine.

In the **butter** segment, the Company experienced a decrease in both volumes and revenues by 39% and 27% respectively, however margins improved substantially resulting in a gross profit increase of 67% in Hryvnia terms. In the second half of 2014, the Company launched a comprehensive advertising and promotion campaign for its flagship “Our Dairyman” brand. This initiative proved to be effective resulting in positive sales trends towards the end of the year.

The overall market of **spreads** in Ukraine grew as a result of consumers switching from traditional butter to more affordable substitutes. Thus Ukrproduct’s category of spreads showed a 17% y-o-y increase in sales, however profitability was reduced as result of increased input costs leading to an 83% fall in gross profit in Hryvnia terms.

**Processed cheese** showed a 5% decrease in revenues but as the contribution margin improved compared with the previous year this resulted in a 16% gross profit increase y-o-y in Hryvnia terms.

**Hard cheese** sales have been the most affected by the restrictions on exports to Russia with local dumping of product by our competitors. As a result year-on-year sales fell by 36% and the segment hardly broke-even on the gross profit level.

The Hryvnia devaluation prompted the increased focus on **export** sales of both branded products and skimmed milk powder and led to the significant improvement of the export revenues by 34% year-on-year. The advantageous trend in the **Skimmed Milk Powder** segment which largely contributed to the Group’s profits in the first half year reversed towards the end of 2014. Consequently, the Group actively sought third party orders in order to capitalise on the Company’s efficient milk protein processing facilities which were upgraded with funds provided by the EBRD. This initiative was successful with orders being received from multinationals such as Pepsico and Danone and increasing utilisation rates of the facility. On an annual basis this segment showed a robust 71% increase in sales and a more than 4 times increase in gross profit in Hryvna terms.

**BEVERAGES - Kvass** sales benefitted from the special focus of marketing and sales teams and showed a healthy 10% increase to the previous year, a good result particularly due to the challenging supply situation in Crimea that has accounted for a substantial part of summer kvass sales. Gross profits declined by 4% compared to the previous year despite the increase in sales due to increased sugar and energy costs.

**THIRD PARTY (DISTRIBUTION AND PRODUCTION) SERVICES** were developed with the focus on growing quality business with sustainable margins. The Company has increased the efficiency of its production capacities utilization via placement of the third party orders for skimmed milk. As a result the revenues of the third party distribution and production increased by 35% y-o-y and their gross profitability increased by 52%.

**FINANCES** - Overall the Company saw a 43% year-on-year increase in EBITDA and a more than doubled operating profit for the full year 2014 in Hryvnia terms. Moreover, the operating cash-flow has been substantially improved during the year. However, the significant Hryvnia devaluation has offset such operating improvement via a negative foreign exchange difference charge. The effect of exchange rate led to the Group reporting a loss for FY2014. Ukrproduct Group is substantially a Hryvnia business and a sustained devaluation affects the translation of its financial performance in other currencies.

Ukrproduct Group has ensured sufficient bank facilities for working capital. As at the date of this announcement the Group is engaged in negotiations with the European Bank for Reconstruction and Development (“EBRD”) to restructure the loan repayment schedule taking into account significant Hryvnia devaluation which we anticipate completing in the second half of 2015.

On the **operational** side the second stage of modernization project with the European Bank for Reconstruction and Development is now being finalized. Meanwhile the Company is continuing to see the positive effect of the completed phases that has become even more relevant given the rise in energy costs. Additionally, the Company has been adjusting its business model including optimisation of sales and logistics structure. This has proved to be successful and has resulted in improved efficiency of operations. The financial outcomes of these initiatives are now being seen.

**TRADING OUTLOOK** – Given the volatile environment in parts of Eastern Ukraine and Crimea, Ukrproduct has been looking to recover sales volumes by adjusting its regional focus. To this end the Company invested in a comprehensive marketing program launched in Autumn 2014 for its flagship brand “Our Dairyman”. These initiatives resulted in positive sales trends for the last quarter of the financial year and have continued subsequently. Additionally, the Group has been optimising its product offering to become more relevant to the current market environment. Finally, all these efforts are underpinned by the further improvement in productivity.

The negotiations with EBRD with regards to restructuring of the loan repayment are constructive and we look forward to the approval of new terms adjusted to the current environment in the second half of 2015.

### **Conference call information**

Ukrproduct management will host a conference call today at 10.00 am (London time) / 11.00 am (CET) / 12.00 am (Kiev Time) to present and discuss the audited FY2014 results.

The dial-in numbers for the conference call are:

+44 (0) 20 3003 2666	Standard International Access
0808 109 0700	UK Toll Free
0 800 50 2059	Ukraine Toll Free
UKR	Password

The play-back will be available for 30 days on the Company’s web-site [www.ukrproduct.com](http://www.ukrproduct.com).

### **For further information, please contact:**

Ukrproduct Group Ltd	
Jack Rowell, Non-Executive Chairman	Tel: +380 44 232 9602
Sergey Evlanchik, Chief Executive Officer	<a href="http://www.ukrproduct.com">www.ukrproduct.com</a>

ZAI Corporate Finance Ltd.	
Nominated Adviser and Broker	Tel: +44 20 7060 2220
Richard Morrison, Irina Lomova	<a href="http://www.zaicf.com">www.zaicf.com</a>

**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 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. The Group reported total assets of approximately GBP 17.7 million as at December 31, 2014 and consolidated revenues of approximately GBP 31.9 million for the twelve months ended December 31, 2014. Ukrproduct’s securities are traded under the symbol “UKR” on AIM, a market operated by the London Stock Exchange.**

*Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward looking statements by terms such as “expect,” “believe,” “anticipate,” “estimate,” “intend,” “will,” “could,” “may” or “might” the negative of such terms or other similar expressions. These statements are only predictions and they may differ materially from the actual events or results. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in such projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Ukraine, rapid technological and market change in our industry, as well as many other risks specifically related to the Group and its operations.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 December 2014**  
*(in thousand GBP, unless otherwise stated)*

	year ended 31 December 2014 £ '000	year ended 31 December 2013 £ '000
Revenue	31 876	52 202
Cost of sales	(25 423)	(45 012)
<b>GROSS PROFIT</b>	<b>6 453</b>	<b>7 190</b>
Administrative expenses	(1 963)	(2 725)
Selling and distribution expenses	(2 797)	(3 240)
Other operating expenses	(508)	(408)
<b>PROFIT FROM OPERATIONS</b>	<b>1 185</b>	<b>817</b>
Net finance expenses	(761)	(1 009)
Effect of foreign currency translation	(3 857)	(361)
<b>LOSS BEFORE TAXATION</b>	<b>(3 433)</b>	<b>(553)</b>
Income tax expenses	(45)	(151)
<b>LOSS FOR THE YEAR</b>	<b>(3 478)</b>	<b>(704)</b>
<b>Attributable to:</b>		
Owners of the Parent	(3 478)	(704)
Non-controlling interests	-	-
 Earnings per share:		
Basic	(8,77)	(1,77)
Diluted	(8,78)	(1,77)
 <b>OTHER COMPREHENSIVE INCOME:</b>		
<b>Items that may be subsequently reclassified to profit or loss</b>		
Currency translation differences	(7 000)	(429)
<b>Items that will not be reclassified to profit or loss</b>		
Reduction of revaluation reserve	(21)	(32)
Income from changes in tax rates	-	38
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	<b>(7 021)</b>	<b>(423)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(10 499)</b>	<b>(1 127)</b>
<b>Attributable to:</b>		
Owners of the Parent	(10 499)	(1 127)
Non-controlling interests	-	-

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 December 2014**  
*(in thousand GBP, unless otherwise stated)*

	As at 31 December 2014 £ '000	As at 31 December 2013 £ '000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	9 592	18 185
Intangible assets	829	1 136
Deferred tax assets	2	66
	<b>10 423</b>	<b>19 387</b>
<b>Current assets</b>		
Inventories	2 085	3 010
Trade and other receivables	3 674	6 919
Current taxes	1 177	2 399
Other financial assets	108	176
Cash and cash equivalents	215	1 006
	<b>7 259</b>	<b>13 510</b>
<b>TOTAL ASSETS</b>	<b>17 682</b>	<b>32 897</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	3 967	3 967
Other reserves	(5 753)	1 430
Retained earnings	9 358	12 672
	<b>7 572</b>	<b>18 069</b>
Non-controlling interests	-	-
<b>TOTAL EQUITY</b>	<b>7 572</b>	<b>18 069</b>
<b>Non-Current Liabilities</b>		
Bank loans and overdrafts	4 728	5 118
Deferred tax liabilities	302	636
	<b>5 030</b>	<b>5 754</b>
<b>Current liabilities</b>		
Bank loans and overdrafts	2 454	5 802
Trade and other payables	2 583	3 226
Current income tax liabilities	14	18
Other taxes payable	29	28
	<b>5 080</b>	<b>9 074</b>
<b>TOTAL LIABILITIES</b>	<b>10 110</b>	<b>14 828</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17 682</b>	<b>32 897</b>

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**AS AT 31 December 2014**  
*(in thousand GBP, unless otherwise stated)*

	Attributable to owners of the parent					Total £ '000	Non- controlling interests £ '000	Total Equity £ '000
	Share capital £ '000	Share premiu m £ '000	Revalu ation reserve £ '000	Retained earnings £ '000	Translati on reserve £ '001			
<b>As at 1 January 2013</b>	<b>4 082</b>	<b>4 555</b>	<b>3 877</b>	<b>13 496</b>	<b>(6 339)</b>	<b>19 304</b>	-	<b>19 304</b>
Profit for the year	-	-	-	(704)	-	(704)	-	(704)
<b>Other comprehensive income</b>								
Income from changes of tax rates	-	-	38	-	-	38	-	38
Currency translation differences	-	-	-	-	(429)	(429)	-	(429)
<b>Total comprehensive income</b>	-	-	38	(704)	(429)	(1 095)	-	(1 095)
<b>Transactions with owners</b>								
Dividends paid (Note 27)	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	(247)	247	-	-	-	-
Reduction of revaluation reserve	-	-	(32)	-	-	(32)	-	(32)
Group restructuring completion	-	-	-	(367)	-	-	-	-
Acquiring of shares	(115)	7	-	-	-	(108)	-	(108)
<b>As at 31 December 2013</b>	<b>3 967</b>	<b>4 562</b>	<b>3 636</b>	<b>12 672</b>	<b>(6 768)</b>	<b>18 069</b>	-	<b>18 069</b>
Loss for the year	-	-	-	(3 478)	-	(3 478)	-	(3 478)
<b>Other comprehensive income</b>								
Income from changes of tax rates	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	(7 000)	(7 000)	-	(7 000)
<b>Total comprehensive income</b>	-	-	-	(3 478)	(7 000)	(10 478)	-	(10 478)
<b>Transactions with owners</b>								
Dividends paid (Note 27)	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	(162)	162	-	-	-	-
Reduction of revaluation reserve	-	-	(21)	2	-	(19)	-	(19)
Acquiring of shares	-	-	-	-	-	-	-	-
<b>As at 31 December 2014</b>	<b>3 967</b>	<b>4 562</b>	<b>3 453</b>	<b>9 358</b>	<b>(13 768)</b>	<b>7 572</b>	-	<b>7 572</b>

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**AS AT 31 December 2014**  
*(in thousand GBP, unless otherwise stated)*

	year ended 31 December 2014 £ '000	year ended 31 December 2013 £ '000
<b>Cash flows from operating activities</b>		
Profit before taxation	(3 433)	(553)
Adjustments for:		
Exchange difference	3 857	361
Depreciation and amortisation	866	1 417
(Profit)/loss on disposal of non-current assets	74	5
Write off of receivables/payables	279	(3)
Impairment of inventories	76	144
Impairment of available for sale investments	-	31
Loss from disposal of subsidiaries	6	19
Interest income	(4)	(3)
Interest expense on bank loans	765	1 012
<b>Operation cash flow before working capital changes</b>	<b>2 486</b>	<b>2 430</b>
(Increase) / decrease in inventories	(661)	202
Decrease in trade and other receivables	195	290
Increase / (decrease) in trade and other payables	979	(1 358)
<b>Changes in working capital</b>	<b>513</b>	<b>(866)</b>
<b>Cash generated from operations</b>	<b>2 999</b>	<b>1 564</b>
Interest received	4	3
Income tax paid	(45)	(236)
<b>Net cash generated by / (used in) operating activities</b>	<b>2 958</b>	<b>1 331</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment property, plant and equipment and intangible assets	(486)	(1 585)
Proceeds from sale of property, plant and equipment	19	41
Repayments of loans issued	(15)	17
<b>Net cash used in investing activities</b>	<b>(482)</b>	<b>(1 527)</b>
<b>Cash flows from financing activities</b>		
Acquiring of shares		



	-	(108)
Interest paid	(765)	(1 012)
(Decrease) / increase in short term borrowing	(1 575)	1 239
Increase in long term borrowing	-	1 145
Repayments of long term borrowing	(541)	(383)
<b>Net cash generated by financing activities</b>	<b>(2 881)</b>	<b>881</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(405)</b>	<b>685</b>
Effect of exchange rate changes on cash and cash equivalents	(386)	(94)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1 006</b>	<b>415</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>215</b>	<b>1 006</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on June 23, 2015 and were signed on its behalf by Sergey Evlanchik.

## EXTRACTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment and an intangible asset (customer list) which have been measured at fair value. 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

The Group incurred a loss of GBP 3,478 thousand for the year ended 31 December 2014, decreasing the retained earnings at that date to GBP 9,358 thousand. In addition, due to significant devaluation of Ukrainian Hryvnia the burden of loans denominated in foreign currencies has increased. As at 31 December 2014 the loans, denominated in foreign currency, was the following: UAH 1,345 thousand, EUR 5,693 thousand and USD 144 thousand (Note 24). Interest under these loan agreements is paid according to a fixed schedule annexed to the Treaty. Moreover, the Group did not make the principal amount payment of EUR 300 thousand due in March 2015 and of EUR 300 thousand due in June 2015 under the terms of its Loan Agreement with the European Bank for Reconstruction and Development (the "EBRD") dated March 31, 2011. Such breach of the provisions relating to the loan repayment gives the bank a formal right to demand early repayment of loans. The Board notified the EBRD in advance about all breaches of terms of the Loan Agreement and expected to obtain a waiver on the date of signing these consolidated financial statements. However, the EBRD did not provide waiver in respect of breach of the repayment schedule in 2015. The representatives of EBRD provided a letter on 12 June 2015 to the Group's Board stating that: 1) EBRD is aware of the breach of the repayment schedule for the period ended 31 March 2015; 2) EBRD is currently considering a restructuring of the terms of the Loan Agreement, including extension of the maturity date under the Loan Agreement and; 3) as of the

date of signing of the letter did not exercise any of its rights in accordance with the Agreement. The Board believes that the EBRD will not demand accelerated repayment of the loans due to the breach of the repayment schedule in 2015. Based on the existence of these conditions, the 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: reconstruction of manufacturing facilities in Starokonstantinov location, decrease in the number of subsidiaries and streamlining its business processes aimed to minimise non-value adding activities and related costs etc.