



UKRPRODUCT GROUP

**FOR IMMEDIATE RELEASE**

**June 30, 2016**

**FINAL RESULTS  
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 AND 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 2015.

Copies of the Group's annual report and accounts, incorporating the 2015 Audited Financial Statements, are being posted to shareholders today and will shortly be available on the Company's website at [www.ukrproduct.com](http://www.ukrproduct.com). Copies are also available from the Company's head office, 10th Floor, 39-14 Shota Rustaveli St., Kiev 01033, Ukraine.

The Directors of UKR are also pleased to announce that the notice of Annual General Meeting ("AGM") is today being posted to shareholders. The AGM will be held at the offices of Ukrproduct Group Ltd, 10th Floor, 39-41 Shota Rustaveli Street, 01033 Kyiv, Ukraine at 6 pm (Kyiv time) on Monday, 25 July 2016. Copies of the Notice of AGM and Proxy Form will be available for download on the Company website at [www.ukrproduct.com](http://www.ukrproduct.com).

A copy of the AGM Notice together with further information with regard to the AGM and other related issues is available on Ukproduct's website [www.ukrproduct.com](http://www.ukrproduct.com), as well as by request at the following address: Bedell Secretaries Limited, Secretary, 26 New Street St. Helier, Jersey JE2 3RA Channel Islands.

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**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 11.5 million as at December 31, 2015 and consolidated revenues of approximately GBP 20.2 million for the**

**twelve months ended December 31, 2015. 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.*

## **Chairman and Chief Executive Statement**

During 2015 Ukrproduct faced significant headwinds. The Ukrainian economy was under pressure accentuated by the smoking conflict in the East of the country and the weakening of the Ukrainian economy overall. This is reflected in the devaluation of the local currency - hryvna, deterioration of consumer confidence and geographic contraction of the available market. Furthermore the complete closure of the Russian market caused the oversupply of dairy products on the Ukrainian market and further intensified local competition.

The Company sought to defy the increasing challenges of the business environment by revising the regional sales focus, enhancing its sales and operating efficiency as well as adjusting the sales mix in view of changing consumer preferences. This programme was designed to resist pressure on profit margins and overall to create cash. It has been implemented in consultation with the European Bank of Reconstruction and Development.

In dairy domestic market demand shrunk across the Company's key product categories leading to fierce competition. At the same time, average raw milk prices showed a year-on-year increase of circa 16 % prompted by stronger competition for supply on the back of even higher price increases for imported dairy ingredients.

### **Branded dairy products.**

Volumes fell overall given focus on reliable customers only, lack of business in the East and desperate competition. Turnover reduced by 1% compared with 2014. Butter gained marginally as consumers moved from Spreads that contracted. Processed cheese in particular suffered a decline given the competition, as did hard cheese which was impacted by the ban on Ukrainian exports to Russia.

On a positive note the devaluing hryvnia provided Ukrproduct group with an opportunity to increase its export volumes across the range of its dairy products. This helped to mitigate the pressures of the domestic market

However, overall gross profits faced a significant decline. Wages in real terms fell making it difficult to increase consumer prices in order to fully offset the sharp rise in input costs namely energy and dairy ingredients, not least raw milk. As a result, gross profit of branded dairy products decreased by 41% in hryvna terms mostly owing to the packaged butter and processed cheese categories.

### **Beverages. Kvass.**

The sales of kvass showed only a 1% decrease in 2015 in sales denominated in Ukrainian Hryvna compared to the same period last year due to the strict control over debtors.

### **Finances.**

Total revenues for the year decreased by 36.8% to £20.158m (2014: £31.876m). In local currency terms, Hryvna revenues overall grew by 8%.

Gross profit margins fell to 11.48% (2014: 20.24%) and despite a significant 30.5% reduction in operating expenses to £3.66m, we are reporting an operating loss of £1.345m (2014: operating profit £1.185m). This was accentuated by negative exchange rate differences amounting to £1.733m (2014: charge £3.857m) resulting in a loss before taxation for the year of £3.746m (2014: £3.433m).

Exports at £ 3.872m accounted for approximately 19.2% (2014: 17.5%) of sales, with domestic sales broken down between regional distributors, national retail chains and wholesale suppliers to other producers (such as Danone and Mondelez).

### **Cash.**

Balances of cash at 31 December 2015 stood at £0.093m (2014: £0.215m). There has been a focus to reduce overdue receivables in order to improve cash generation and to decrease financial costs. New operating procedures and incentives have been introduced across the sales and marketing and finance function resulting in average cash collection period falling from 45 to 39 days, thus releasing cash for operations. The Group's cash levels are sufficient to meet current debt interest obligations in the short and medium term.

As the cost of EBRD euro denominated loan was inflated by the devaluation of hryvnya, the bank undertook a thorough business review as a part of the loan restructuring negotiations. That resulted in the agreement with EBRD to restructure the terms including extension of the maturity date of the loan from 2018 to 2024 and an additional grace period for 2016. The Board believes that these terms provide confidence and are favourable for the Group discharging immediate pressure on cash flows whilst ensuring that the loan will be repaid in full over a longer period of time. The Group has finalised documentation on restructuring of the loan with EBRD and signed the revised Loan Agreement.

The revaluation of assets added £0.9m to the Balance Sheet as at 31st December 2015.

### **Trading Outlook**

The Company is adapting to this most challenging business environment and is working to restore profitability according to its improvement programme. Sales and marketing activities are concentrated on the non-occupied regions of Ukraine and ex-Soviet countries with a major focus on cash generation instead of revenue. Productivity improvements and cost efficiencies were introduced in warehousing and marketing as well as delivery of material optimization of Zhitomir subsidiary overheads with more to come. In this volatile trading environment working capital is subject to everyday close control to generate more cash as a result of all these initiatives.

In 2015 the Company introduced new beverages - a rosehip-based product and Uzvar - Ukrainian traditional drink brewed from dried fruits. Like kvass new products are positioned as natural drinks for active people practicing a healthy lifestyle. Natural-based beverages are traditionally popular in Ukraine and the Company expects growth in new beverage sales.

Ukrproduct Group  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 December 2015**  
*(in thousand GBP, unless otherwise stated)*

	Note	year ended 31 December 2015 £ '000	year ended 31 December 2014 £ '000
Revenue	8	20 158	31 876
Cost of sales	9	(17 844)	(25 423)
<b>GROSS PROFIT</b>		<b>2 314</b>	<b>6 453</b>
Administrative expenses	9	(1 109)	(1 963)
Selling and distribution expenses	9	(1 462)	(2 797)
Other operating expenses	9	(1 089)	(508)
<b>PROFIT FROM OPERATIONS</b>		<b>(1 346)</b>	<b>1 185</b>
Net finance expenses	10	(768)	(761)
Effect of foreign currency translation		(1 733)	(3 857)
<b>LOSS BEFORE TAXATION</b>		<b>(3 847)</b>	<b>(3 433)</b>
Income tax expenses	13	(59)	(45)
<b>LOSS FOR THE YEAR</b>		<b>(3 906)</b>	<b>(3 478)</b>
<b>Attributable to:</b>			
Owners of the Parent		(3 906)	(3 478)
Non-controlling interests		-	-
 Earnings/Loss per share:	 26		
Basic		(9,85)	(8,77)
Diluted		(9,91)	(8,78)
 <b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences		(1 524)	(7 000)
<b>Items that will not be reclassified to profit or loss</b>			
Reduction of revaluation reserve		-	(21)
Gain on revaluation of property, plant and equipment		1 113	-
Income tax in respect of revaluation reserve		(200)	-
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>(611)</b>	<b>(7 021)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(4 517)</b>	<b>(10 499)</b>
<b>Attributable to:</b>			
Owners of the Parent		(4 517)	(10 499)
Non-controlling interests		-	-

Ukrproduct Group  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 December 2015**  
*(in thousand GBP, unless otherwise stated)*

	Note	As at 31 December 2015 £ '000	As at 31 December 2014 £ '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	7 416	9 592
Intangible assets	15	596	829
Long-term receivables		-	-
Deferred tax assets	16	46	2
		<b>8 058</b>	<b>10 423</b>
<b>Current assets</b>			
Inventories	17	1 496	2 085
Trade and other receivables	18	1 486	3 674
Current taxes	19	348	1 177
Other financial assets	20	11	108
Cash and cash equivalents	21	93	215
		<b>3 434</b>	<b>7 259</b>
<b>TOTAL ASSETS</b>		<b>11 492</b>	<b>17 682</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	22	3 967	3 967
Other reserves	23	(6 540)	(5 753)
Retained earnings		5 654	9 358
		<b>3 081</b>	<b>7 572</b>
Non-controlling interests		-	-
<b>TOTAL EQUITY</b>		<b>3 081</b>	<b>7 572</b>
<b>Non-Current Liabilities</b>			
Bank loans and overdrafts	24	3 206	4 728
Deferred tax liabilities	16	466	302
		<b>3 672</b>	<b>5 030</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	24	3 121	2 454
Trade and other payables	25	1 586	2 583
Current income tax liabilities		18	14
Other taxes payable		14	29
		<b>4 739</b>	<b>5 080</b>
<b>TOTAL LIABILITIES</b>		<b>8 411</b>	<b>10 110</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11 492</b>	<b>17 682</b>

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**AS AT 31 December 2015**  
*(in thousand GBP, unless otherwise stated)*

	Attributable to owners of the parent					Total	Non-controlling interests	Total Equity
	Share capital	Share premium	Revaluation reserve	Retained earnings	Translation reserve			
	£ '000	£ '000	£ '000	£ '000	£ '001			
<b>As At 1 January 2014</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>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3 478)</b>	<b>(7 000)</b>	<b>(10 478)</b>	<b>-</b>	<b>(10 478)</b>
<b>Transactions with owners</b>								
Dividends paid (Note 27)	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation on revaluation of property, plant and equipment	-	-	(162)	162	-	-	-	-
Reduction of revaluation reserve	-	-	(21)	2	-	(19)	-	(19)
<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>
Loss for the year	-	-	-	(3 906)	-	(3 906)	-	(3 906)
<b>Other comprehensive income</b>								
Gain on revaluation of property, plant and equipment	-	-	913	-	-	913	-	913
Currency translation differences	-	-	-	-	(1 525)	(1 525)	-	(1 525)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>913</b>	<b>(3 906)</b>	<b>(1 525)</b>	<b>(4 518)</b>	<b>-</b>	<b>(4 518)</b>
<b>Transactions with owners</b>								
Dividends paid (Note 27)	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation on revaluation of property, plant and equipment	-	-	(86)	86	-	-	-	-
Reduction of revaluation reserve	-	-	(88)	115	-	27	-	27
Acquiring of shares	-	-	-	-	-	-	-	-
<b>As At 31 December 2015</b>	<b>3 967</b>	<b>4 562</b>	<b>4 192</b>	<b>5 653</b>	<b>(15 293)</b>	<b>3 081</b>	-	<b>3 081</b>

Ukrproduct Group  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**AS AT 31 December 2015**  
*(in thousand GBP, unless otherwise stated)*

	Note	year ended 31 December 2015 £ '000	year ended 31 December 2014 £ '000
<b>Cash flows from operating activities</b>			
Profit before taxation		(3 846)	(3 433)
Adjustments for:			
Exchange difference		1 733	3 857
Depreciation and amortisation	11	537	866
(Profit)/loss on disposal of non-current assets		(4)	74
Write off of receivables/payables		857	279
Impairment of inventories		78	76
Loss from disposal of subsidiaries		(4)	6
Interest income	10	(1)	(4)
Interest expense on bank loans	10	769	765
<b>Operation cash flow before working capital changes</b>		<b>119</b>	<b>2 486</b>
(Increase) / decrease in inventories		(127)	(661)
Decrease in trade and other receivables		890	195
Increase / (decrease) in trade and other payables		(404)	979
<b>Changes in working capital</b>		<b>359</b>	<b>513</b>
<b>Cash generated from operations</b>		<b>478</b>	<b>2 999</b>
Interest received		1	4
Income tax paid		169	(45)
<b>Net cash generated by / (used in) operating activities</b>		<b>648</b>	<b>2 958</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment property, plant and equipment and intangible assets		(259)	(486)
Proceeds from sale of property, plant and equipment		18	19
Repayments of loans issued		66	(15)
<b>Net cash used in investing activities</b>		<b>(175)</b>	<b>(482)</b>
<b>Cash flows from financing activities</b>			
Acquiring of shares		-	-
Interest paid		(607)	(765)
(Decrease) / increase in short term borrowing		(76)	(1 575)
Increase in long term borrowing		-	-
Repayments of long term borrowing		-	(541)
<b>Net cash generated by financing activities</b>		<b>(683)</b>	<b>(2 881)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(210)</b>	<b>(405)</b>
Effect of exchange rate changes on cash and cash equivalents		88	(386)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>215</b>	<b>1 006</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>21</b>	<b>93</b>	<b>215</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on June 30, 2016 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 2015 statutory financial statements. The auditors have reported on the 2015 financial statements; their report was unqualified but did contain an emphasis of matter paragraph in respect of going concern. It contained no statement under section 113B of the Companies (Jersey) Law 2011. The financial statements for 2015 will be delivered to the Registrar of Companies after adoption at the Company's Annual General Meeting.

## **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 3,905 thousand for the year ended 31 December 2015, decreasing the retained earnings at that date to GBP 5,712 thousand. In addition, due to significant devaluation of Ukrainian Hryvnia the burden of loans denominated in foreign currencies has increased. As at 31 December 2015 the loans, denominated in foreign currency, was the following: UAH 970 thousand, EUR 5,357 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 1 230 thousand during 2015 and EUR 762 thousand during 2016 (363 thousand GBP on 10 March 2016 and 399 thousand GBP on 10 June 2016) 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 as new Loan Agreement was signed 23 June 2016. This new Loan Agreement was discussed during 2015 and first half of the 2016 in respect of new terms of its Loan Agreement. Terms suggest new repayment schedule up to 1 December 2024. Company gained grace period till 01/03/2017. Beginning with 01/03/2017 Company will pay tranches according to the new 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, export capacity development. In 2015 Company obtained a license for export to China, in 2016 Company obtained a license for export to Kazakhstan. This license is used for sales of hard cheese and cheese product. In processed cheese category Company plans to gain market share in Ukraine by launching new branded products. In beverages category Company plans development and gain in sales of keg kvass. Also in beverages category launch and sales development of new products are planned. Company works on energy usage reducing as well.