

UKRPRODUCT UNAUDITED INTERIM FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

CEO's REPORT

The business environment improved overall in the Ukraine as GDP increased by several points. Consumers became somewhat more positive as minimum wages were increased. The dairy market place continues to be competitive.

Trading

Volumes & revenues increased substantially over the same period in 2016. Branded sales improved overall, with the main categories of packaged butter improving and processed cheese sales leading the way. Hard cheese & spreads sales have remained consistent. Gross margins have more than doubled given the volumes & seasonal falling milk prices. Private label sales fell as low margin business was reduced. The kvass beverage sales improved, helped by a new cider product. Export sales were even more buoyant given impetus by the exchange rate. Butter sales improved tenfold in volume & gross margin. SMP continues to be a negative given low prices worldwide. The spray drying facility has been utilised for contract processing. Sales have improved & delivered a very strong profit contribution of £250k.

Finances

In the half year to June 2017 as stated, sales revenues increased substantially over last year. Gross margins advanced by over 2%. EBITDA improved to 4.8% from negative. This led to profit from operations of £408k (£220k loss). After finance charges & tax, profit stood at £234k. A negative exchange difference of £230k leaves a net profit of £4k (£1,098k loss).

The move into profit was accompanied by a net increase in cash of £240k. Repayments of the EBRD loan have commenced on schedule.

Outlook

The turnaround to a profit & related positive cash flow is encouraging. UPG has needed to reset its business in a competitive market place. This is a continuing process. UPG will seek to sustain operational improvement via a strategy of focusing on cash production, operating efficiency & building profitable sales with a competitive product/service offering.

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2017 AND 2016

(in thousand GBP, unless otherwise stated)

	Six months ended	Six months ended
	30 June 2017	30 June 2016
	£ '000	£ '000
Revenue	14 910	8 192
<i>including of branded and SMP products</i>	13 637	7 642
Cost of sales	(13 216)	(7 436)
Gross profit	1 694	756
Administrative expenses	(482)	(388)
Selling and distribution expenses	(716)	(554)
Other operating income/ expenses, net	(88)	(34)
Profit from operations	408	(220)
Finance expense, net	(220)	(512)
Effect of foreign currency translation	(230)	(346)
Profit before taxation	(42)	(1 078)
Income tax expense	46	(20)
Profit for the Six months	4	(1 098)
Attributable to:		
Equity holders of the Parent	4	(1 098)
Non-controlling interest	-	-
	4	(1 098)
Earnings per share:		
Basic	0,01	(2,77)
Diluted	0,01	(2,77)

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2017 AND 2016

(in thousand GBP, unless otherwise stated)

	Six months ended	Six months ended
	30 June 2017	30 June 2016
	£ '000	£ '000
Profit for the Six months	4	(1 098)
Other comprehensive income		
Exchange differences on translation to the presentation currency	(226)	233
Other comprehensive income for the Six months, net of tax	(226)	233
Total comprehensive income for the Six months, net of tax	(222)	(865)
Attributable to:		
Equity holders of the Parent	(222)	(865)
Non-controlling interests	-	-
	(222)	(865)

UKRPRODUCT GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017 AND 31 DECEMBER 2016 AND 30 JUNE 2016

(in thousand GBP, unless otherwise stated)

	As at 30 June 2017 £ '000	As at 31 December 2016 £ '000
ASSETS		
Non-current assets		
Property, plant and equipment	7 166	7 511
Intangible assets	592	656
Deferred tax assets	1	-
Total non-current assets	7 759	8 167
Current assets		
Inventories	2 375	1 855
Trade and other receivables	2 779	2 507
Current taxes	473	230
Other financial assets	32	18
Cash and cash equivalents	237	175
Total current assets	5 896	4 785
TOTAL ASSETS	13 655	12 952
Equity and liabilities		
Equity attributable to equity holders		
Share capital	3 967	3 967
Other reserves	(6 600)	(6 284)
Retained earnings	4 521	4 427
Total equity attributable to equity holders of the parent	1 888	2 110
Non-controlling interest	-	-
Total equity	1 888	2 110
Liabilities		
Non-Current Liabilities		
Bank borrowings	5 815	-
Long-term payables	476	441
Deferred tax liabilities	308	363
Total Non Current Liabilities	6 599	804
Current Liabilities		
Bank borrowings	1 350	7 162
Trade and other payables	3 774	2 854
Current income tax liabilities	16	10
Other taxes payable	28	12
Total Current Liabilities	5 168	10 038
TOTAL LIABILITIES AND EQUITY	13 655	12 952

UKRPRODUCT GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2017 AND 2016

(in thousand GBP, unless otherwise stated)

	Six months ended	Six months ended
	30 June 2017	30 June 2016
	£ '000	£ '000
Cash flows from operating activities		
Profit/(Loss) before taxation for the six months	(42)	(1 078)
Adjustments for:		
Exchange difference	230	346
Depreciation and amortisation	288	206
Loss of disposal of non-current assets	-	5
Impairment of trade receivables	5	31
Disposal of subsidiaries	-	(3)
Impairment of inventories	79	54
Interest income	-	-
Interest expense	220	512
Increase of inventories	(441)	(941)
Increase in trade and other receivables	(520)	(956)
Increase in trade and other payables	1 012	2 143
Cash generated from operations	831	319
Interest received	-	-
Income tax paid	(6)	(8)
Net cash generated by operating activities	825	311
Cash flows from investing activities		
Payments for property, plant and equipment	(41)	(77)
Proceeds from sale of property, plant and equipment	1	9
Repayments / (proceeds) from loans issued	(15)	(8)
Net cash used in investing activities	(55)	(76)
Cash flows from financing activities		
Interest paid	(185)	(182)
Net proceeds / (repayments) from short term borrowing	-	(59)
Repayments of investment borrowing	(176)	-
Net cash used in financing activities	(361)	(241)
Net (decrease) / increase in cash and cash equivalents	409	(6)
Effect of exchange rate changes on cash and cash equivalents	(348)	190
Cash and cash equivalents at the beginning of the six months	175	93
Cash and cash equivalents at the end of the six months	237	277

UKRPRODUCT GROUP LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2017 AND 2016**

(in thousand GBP, unless otherwise stated)

	Attributable to equity holders					
	Share capital	Share premium	Merger reserve	Revaluation reserve	Retained earnings	Translation reserve
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
As at 1 January 2016	3 967	4 562	-	4 192	5 654	(15 294)
Loss for the six months					(1 098)	
Other comprehensive income		(2)				235
Total comprehensive income	-	(2)	-	-	(1 098)	235
Depreciation on revaluation of non current assets				(83)	83	
Reduction of revaluation reserve				(7)	7	
As at 30 June 2016	3 967	4 560	-	4 102	4 646	(15 059)
Profit for the six months					(386)	
Other comprehensive income		2				278
Total comprehensive income	-	2	-	-	(386)	278
Depreciation on revaluation of non current assets				(165)	165	
Reduction of revaluation reserve				(2)	2	
As at 31 December 2016	3 967	4 562	-	3 935	4 427	(14 781)
Profit for the six months					4	
Other comprehensive income		1			-	(227)
Total comprehensive income	-	1	-	-	4	(227)
Depreciation on revaluation of non current assets				(90)	90	
Reduction of revaluation reserve				-	-	
Reclassified equity items					-	-
As at 30 June 2017	3 967	4 563	-	3 845	4 521	(15 008)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

The interim financial statements are unaudited but have been reviewed by the auditors.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties.

The same accounting policies, presentation and methods of computation have been followed in this unaudited condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2016.

The preparation of the unaudited condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates.

The comparatives for the six months ended 30 June 2016 are extracted from the Group's consolidated financial statements for the year ended 31 December 2016. The auditor's report for those accounts was unqualified, but did include references to an emphasis of matter in respect of going concern due to the Group incurring a loss during the year as well as the uncertainty surrounding the breach of loan agreement covenants with the European Bank for Reconstruction and Development (the "EBRD") and the maturity of the external financing arrangements with OTP Bank falling due on 9 September 2017.

Going concern

The unaudited condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due, for the foreseeable future.

The Group earned profit of 4 thousand GBP for the six months ended 30 June 2017. This is primarily due to increasing world prices for butter and increases in the volume of milk produced.

Despite the negative economic conditions in Ukraine the Group signed new terms in respect of the loan with EBRD with the loan being divided into Tranche A, with a maturity date 1 December 2022 and interest being payable at a margin of 5% over EURIBOR per annum, and Tranche B, with a maturity date 1 December 2024 and interest being payable at the higher of EURIBOR or 1% per annum upto 1 December 2022 and at a margin of 5% over EURIBOR per annum thereafter. Despite loan repayments being made as scheduled, the Group breached financial covenants as at 30 June 2017. The Board notified EBRD in advance of covenant breaches of the Loan and EBRD provided waivers in respect of the breached covenants dated 30 June 2017. The Group has also agreed an extension to the loan agreement with OTP bank for a further three months with the maturity date being 8 December 2017. It is management's intention to revise the terms of this loan prior to this date.

Based on the existence of these conditions, the condensed 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: increasing volume of export sales and full production capacity.

2. Inventory write off to net realisable value

In accordance with the requirements of IAS 2 inventories must be recorded at the lower of cost or net realisable value. Where net realisable value is considered to be lower than that of cost then the write off should be recognised as an expense in the period in which the diminution of value occurs. The Group conducted an evaluation of inventories as at 30 June 2017 and 30 June 2016 with the write off from the impairment of inventories amounting to:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Impairment of finished goods	£ '000 (79)	£ '000 (54)

3. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and balances between the Group companies and other related parties are set out below.

Sales of goods and services to related parties and purchases from related parties are summarised below. All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Company.

Six months	Six months
------------	------------

	ended 30 June 2017	ended 30 June 2016
	£ '000	£ '000
Sales	0	0
Cost of sales	7	1
Administrative expenses	7	7
Other operational incomes	-	-
Other operational expenses	-	-

Balances due from/(to) related parties at each period end are shown below.

	As at 30 June 2017	As at 30 June 2016
	£ '000	£ '000
Receivables and prepayments	39	79
(Allowance for trade debtors)	(14)	(15)
Other financial assets	12	-
Trade and other payables	2	38

In the 1st half of 2017, the Group's commercial relationships with the related parties comprised sales, purchases and provisions. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given to or provided by the Group to related parties and vice versa.

The ultimate controlling parties and beneficial owners of the related parties were Messrs Alexander Slipchuk and Sergey Evlanchik.

4. Segment information

As at the 30 June 2017, the Group was organised internationally into four main business segments:

- 1) Branded products – processed cheese, hard cheese, packaged butter and spreads
- 2) Beverages – kvass, other beverages
- 3) Non-branded products – skimmed milk powder, other skimmed milk products
- 4) Distribution services and other – resale of third-party goods and processing services.

The segment results for the six months ended 30 June 2017 are as follows:

	Branded products	Beverages	Non-branded products	Distribution services and other
	£ '000	£ '000	£ '000	£ '000
Sales	9 575	488	4 062	785
Gross profit	1 719	254	-579	300

The segment results for the six months ended 30 June 2016 are as follows:

	Branded products	Beverages	Non-branded products	Distribution services and other
	£ '000	£ '000	£ '000	£ '000
Sales	5 855	359	1 788	190
Gross profit	643	181	-116	48

5. Earnings per share

Basic earnings per share have been calculated by dividing net loss/profit attributable to the ordinary shareholders (loss/profit for the year) by the weighted average number of shares in issue.

	Six months ended	Six months ended
	30 June 2017	30 June 2016
Net (loss) / profit attributable to ordinary shareholders, £'000	4	(1 098)
Weighted number of ordinary shares in issue	39 673 050	39 673 050
Basic earnings per share, pence	0,01	(2,77)
Diluted average number of shares	39 673 050	39 629 619
Diluted earnings per share, pence	0,01	(2,77)

6. Approval of interim financial statements

The unaudited condensed consolidated financial statements were approved by the board of directors on 29 September 2017.