



**Ukrproduct Group**

**Condensed consolidated interim financial statements**

**For the six months ended 30 June 2020**

## Table of Contents

Chairman and Chief Executive Statement .....	3
Statement of Management's Responsibilities .....	5
Management Statements .....	6
Single Management Report .....	7
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME.....	11
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION .....	12
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY.....	13
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS .....	14
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS .....	15

## 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 2020 (“1H 2020”) and outlook for 2020.

### 1H 2020 financial highlights

- Revenue increased by 24% to £27.5 million (1H 2019: £22.2 million)
- Gross profit increased by 15% to £2.2 million (1H 2019: £1.9 million)
- Operating profit increased by 23% to £0.49 million (1H 2019: 0.4 million)
- EBITDA margin decreased to 2.8 % (1H 2019: 3%)
- Net foreign exchange loss of £0.67 million (1H2019: gain £0.59 million)
- Loss after tax of £0.42 million (1H 2019: Profit £0.74 million)

### 1H 2020 Trading Update

Overall, the Ukrainian economy, in the first half of 2020, faced decline caused by COVID-19 related quarantine measures. The restrictions had an impact on services in general, resulted in a significant fall in investment, deepened the decline in consumer spending. This was primarily due to the difficult fiscal situation and weaker growth in private consumption and exports amid weakening external demand. According to National Bank of Ukraine, the economy will contract by 6% in 2020. Despite the coronavirus crisis, consumer spending has continued to rise, including on essential goods. However, consumer behavior has changed on the back of the prevailing economic uncertainty, which has caused an increase in the consumption of cheaper products rather than premium ones.

Nevertheless, in this challenging operating environment, for 1H 2020, the Group is pleased to report improved revenue of approximately £27.5 million, which is an increase of 24% compared with the 6 months to 30 June 2019 (“1H 2019”). Overall for 2020, the Group plans to report improved revenue when compared to 2019.

Operating profit increased by 23% to approximately £0.49 million. The Group’s ongoing pursuit to deliver cost efficiencies helped to improve 1H 2020 gross profit by 15% against 1H 2019, however these results are below the Company’s pre-COVID quarantine expectations at the beginning of the year.

### Financial position

Ukrproduct reported net assets of £2.6 million as at 30 June 2020, including cash balances of £0.39 million.

During 2020, the Group continued to breach certain loan covenants in relation to the EBRD debt. However, the Company continued to settle certain amounts to EBRD according to an agreed schedule. The Directors are confident that EBRD will not demand accelerated repayment of the loan due to breach of covenants.

## Outlook for 2020

Overall, the business environment in Ukraine in general and in the food industry in particular has been recovering since quarantine restrictions were eased. The Group's management is seeking further improvements and efficiencies in order to improve the Group results in 2H 2020. The financial result is negatively affected by the decline of protein prices in the world market, however, the Group compensates these losses by increasing sales and market share for processed cheese, butter, spreads and implementing cost cutting projects. Though the Group expects to report improved operating results and profit from operations for 2020, the net profitability performance is still difficult to predict due to the volatile local currency (UAH) exchange rate.



Jack Rowell

Non-Executive Chairman



Alexander Slipchuk

Chief Executive Officer

**Statement of Management's Responsibilities  
for preparation and approval of condensed consolidated interim financial statements for the six  
months ended 30 June 2020**

The directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with applicable Jersey law and other regulations and enactments in force at the time. The Companies (Jersey) Law 1991 as amended requires the directors to prepare financial statements for each year in accordance with Generally Accepted Accounting Principles.

The directors of the Group are responsible for preparing the condensed consolidated interim financial statements which reflect in all material aspects the financial position of the Group as at 30 June 2020, as well as the results of its activities, cash flows and changes in equity for the six months then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In preparing condensed consolidated interim financial statements the Group's Management is responsible for:

- selecting appropriate accounting policies and their consistent application;
- making reasonable measurement and calculation;
- following principles of IFRS as adopted by the European Union or disclosing all considerable deviations from IFRS in the notes to condensed consolidated interim financial statements;
- preparing condensed consolidated interim financial statements of the Group on the going concern basis, except for the cases when such assumption is not appropriate.

The board of directors confirms that the Group has complied with the abovementioned requirements in preparing its condensed consolidated interim financial statements.

The directors are also responsible for:

- implementing and maintaining an efficient and reliable system of internal controls in the Group;
- keeping accounting records in compliance with the legislation and accounting standards of the respective country of the Group's registration;
- taking reasonable steps within its cognizance to safeguard the assets of the Group;
- detecting and preventing from fraud and other irregularities.

These condensed consolidated interim financial statements as at 30 June 2020 prepared in compliance with IFRS as approved by the European Union are approved on behalf of the Group's Directors on 29 September 2020.

A handwritten signature in black ink, appearing to be a stylized name, located below the text of the directors' approval.

On behalf of the Directors:

29 September 2020

## Management Statements

This statement is provided to confirm that, to the best of our knowledge, the condensed consolidated interim financial statements for the six months ended 30 June 2020, and the comparable information, have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union and give a true, fair and clear view of Group's assets, financial standing and net results.

A handwritten signature in black ink, appearing to be "J. R. ...", written over a faint horizontal line.

On behalf of the Directors:

29 September 2020

## Single Management Report

### 1. Operational and Financial Results

The following table sets forth the Group's results of operations derived from the condensed consolidated interim financial statements:

	Six months ended 30 June 2020	Six months ended 30 June 2019	Changes in
	£ '000	£ '000	%
Revenue	27 523	22 236	24%
Cost of sales	(25 308)	(20 310)	25%
<b>GROSS PROFIT</b>	<b>2 215</b>	<b>1 926</b>	<b>15%</b>
Administrative expenses	(576)	(534)	8%
Selling and distribution expenses	(1 158)	(943)	23%
Other operating incomes/(expenses)	5	(53)	-109%
<b>PROFIT FROM OPERATIONS</b>	<b>486</b>	<b>396</b>	<b>23%</b>
Net finance expenses	(253)	(265)	-4%
Net foreign exchange (loss) gain	(673)	592	-214%
<b>PROFIT BEFORE TAXATION</b>	<b>(440)</b>	<b>723</b>	<b>-161%</b>
Income tax (expense) / credit	19	17	12%
<b>(LOSS)/PROFIT FOR THE SIX MONTHS</b>	<b>(421)</b>	<b>740</b>	<b>-157%</b>
<b>Attributable to:</b>			
Owners of the Parent	(421)	740	-157%
Non-controlling interests	-	-	
 Earnings per share:			
Basic (pence)	(1,06)	1,86	
Diluted (pence)	(1,06)	1,86	
 <b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences	(167)	(332)	-50%
<b>Items that will not be reclassified to profit or loss</b>			
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	<b>(167)</b>	<b>(332)</b>	<b>-50%</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS</b>	<b>(588)</b>	<b>408</b>	<b>-244%</b>
<b>Attributable to:</b>			
Owners of the Parent	(588)	408	-244%
Non-controlling interests	-	-	

## Non-IFRS financial information

The Group's results are reported under International Financial Reporting Standards (IFRS). However, the Group uses Non-IFRS measures including earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortisation (EBITDA) which are used to measure segment performance. Non-IFRS measures have not been subject to audit or review.

The Group uses EBIT and EBITDA as key measures of its performance.

EBIT is an indicator of a Group's profitability, calculated as revenue less expenses, the latter excluding tax and interest. To external users, EBIT provides information on the Group's ability to generate earnings directly from its operations, disregarding its cost of capital and the tax burden and thus making the Group's results comparable to similar companies across the industry where those companies may have varying capital structures or tax environments. To the management, EBIT provides a performance measure additionally adjusted for expenses that may be deemed fixed (i.e. stemming from the given capital structure) or externally imposed by the environment (i.e. the tax burden).

	Six months ended 30 June 2020	Six months ended 30 June 2019
	£ '000	£ '000
<b>CONTINUING OPERATIONS</b>		
Revenue for the period	27 523	22 236
Cost of sales	(25 308)	(20 310)
Operating expenses	(1729)	(1530)
<b>EBIT</b>	<b>486</b>	<b>396</b>

EBITDA is calculated as revenue less expenses, the latter excluding tax, interest, depreciation and amortisation. Being a proxy to the operating cash flow before working capital changes, EBITDA is widely used as an indicator of a company's ability to generate cash flows, as well as its ability to service debt. Consequently, to the management, EBITDA serves as a measure to estimate financial stability of the Group. Besides, excluding the effect of depreciation and amortisation, along with cost of capital and taxation, provides to external users another measure to compare to similar companies, regardless of varying tax environments, capital structures or depreciation accounting policies.

	Six months ended 30 June 2020	Six months ended 30 June 2019
	£ '000	£ '000
<b>CONTINUING OPERATIONS</b>		
EBIT	486	396
Depreciation and amortization	297	278
<b>EBITDA</b>	<b>783</b>	<b>674</b>



## Revenue

The Group's revenue from sales of finished products increased by 37% in 1H 2020 in comparison with previous period.

The most significant portion of the Group's revenue comes from selling packaged butter and supplementary products, which represented 51.9% in the first half of 2020 and 57.2% in first half of 2019 of total revenue for the relevant periods.

## Cost of sales

The Group's cost of sales increased to GBP 25.3 million in the current period from GBP 20.3 million in previous period. The following table sets forth the principal components of the Group's cost of sales for the periods indicated:

	Six months ended 30 June 2020	Six months ended 30 June 2019	Changes in
	£ '000	£ '000	%
Raw materials	15 293	11 787	30%
Supplementary products	5 590	5 951	-6%
Manufacturing overhead	2 117	1 016	108%
Wages and salaries	1 173	552	113%
Transport	670	532	26%
Fuel and energy supply	537	620	-13%
Depreciation and amortization	239	135	77%
Other expenses	29	84	-65%
Adjustments	(340)	(367)	-7%
	<b>25 308</b>	<b>20 310</b>	<b>25%</b>

**Gross profit/(loss)**

The Group's gross profit increased to GBP 2.2 million in 1H 2020 from GBP 1.9 million of gross profit in 1H 2019.

**Selling and distribution expenses**

Selling and distribution expenses increased year-on-year to GBP 1.2 million in the current period from GBP 0.9 million in 1H 2019, reflecting an increase in sales volume and delivery costs in 2020.

**Net foreign exchange loss**

In 1H 2020, the Group reports a net foreign exchange loss of GBP 0.7 million versus a net gain of GBP 0.6 million in the 1H 2019.

**Ukrproduct Group**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

	Note	Six months ended 30 June 2020 £ '000	Six months ended 30 June 2019 £ '000
Revenue	8	27 523	22 236
Cost of sales		(25 308)	(20 310)
<b>GROSS PROFIT</b>		<b>2 215</b>	<b>1 926</b>
Administrative expenses		(576)	(534)
Selling and distribution expenses		(1 158)	(943)
Other operating expenses		5	(53)
<b>PROFIT FROM OPERATIONS</b>		<b>486</b>	<b>396</b>
Net finance expenses		(253)	(265)
Net foreign exchange (loss)/gain		(673)	592
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(440)</b>	<b>723</b>
Income tax credit		19	17
<b>(LOSS)/PROFIT FOR THE SIX MONTHS</b>		<b>(421)</b>	<b>740</b>
<b>Attributable to:</b>			
Owners of the Parent		(421)	740
Non-controlling interests		-	-
 Earnings per share:			
Basic (in pence)	9	(1,06)	1,87
Diluted (in pence)	9	(1,06)	1,87
 <b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences		(167)	(332)
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>(167)</b>	<b>(332)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS</b>		<b>(588)</b>	<b>408</b>
<b>Attributable to:</b>			
Owners of the Parent		(588)	408
Non-controlling interests		-	-

**Ukrproduct Group**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

	Note	As at 30 June 2020 £ '000	As at 31 December 2019 £ '000	As at 30 June 2019 £ '000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		6 538	6 994	6 663
Intangible assets		546	493	504
Deferred tax assets		-	-	-
		<b>7 084</b>	<b>7 487</b>	<b>7 167</b>
<b>Current assets</b>				
Inventories	6	6 386	5 071	4 713
Trade and other receivables		7 292	7 257	5 555
Current taxes		427	310	484
Other financial assets		32	31	26
Cash and cash equivalents		389	231	227
		<b>14 526</b>	<b>12 900</b>	<b>11 005</b>
<b>TOTAL ASSETS</b>		<b>21 610</b>	<b>20 387</b>	<b>18 172</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital		3 967	3 967	3 967
Share premium		4 562	4 562	4 562
Translation reserve		(14 904)	(14 737)	(15 234)
Revaluation reserve		3 348	3 437	3 538
Retained earnings		5 599	5 932	4 540
		<b>2 572</b>	<b>3 160</b>	<b>1 372</b>
Non-controlling interests		-	-	-
<b>TOTAL EQUITY</b>		<b>2 572</b>	<b>3 160</b>	<b>1 372</b>
<b>Non-current Liabilities</b>				
Bank loans		-	-	5 170
Long-term payables		-	-	463
Liabilities of rent assets(LT)		50	69	-
Liabilities of rent assets(ST)		-	(1)	-
Deferred tax liabilities		215	242	244
		<b>265</b>	<b>310</b>	<b>5 877</b>
<b>Current liabilities</b>				
Bank loans		7 834	7 213	2 222
Short-term payables		-	441	-
Trade and other payables		10 907	9 245	8 673
Current income tax liabilities		-	-	-
Other taxes payable		32	18	28
		<b>18 773</b>	<b>16 917</b>	<b>10 923</b>
<b>TOTAL LIABILITIES</b>		<b>19 038</b>	<b>17 227</b>	<b>16 800</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21 610</b>	<b>20 387</b>	<b>18 172</b>

**Ukrproduct Group**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(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			
<b>As At 1 January 2019</b>	<b>3 967</b>	<b>4 562</b>	<b>3 619</b>	<b>3 718</b>	<b>(14 902)</b>	<b>964</b>	<b>-</b>	<b>964</b>
Profit for the six months	-	-	-	740	-	<b>740</b>	-	<b>740</b>
Currency translation differences	-	-	-	-	(332)	<b>(332)</b>	-	<b>(332)</b>
<b>Total comprehensive income</b>	-	-	-	<b>740</b>	<b>(332)</b>	<b>408</b>	-	<b>408</b>
Depreciation on revaluation of property, plant and equipment	-	-	(81)	81	-	-	-	-
<b>As At 30 June 2019</b>	<b>3 967</b>	<b>4 562</b>	<b>3 538</b>	<b>4 539</b>	<b>(15 234)</b>	<b>1 372</b>	<b>-</b>	<b>1 372</b>
Profit for the six months	-	-	-	1 291	-	<b>1 291</b>	-	<b>1 291</b>
Currency translation differences	-	-	-	-	497	<b>497</b>	-	<b>497</b>
<b>Total comprehensive loss</b>	-	-	-	<b>1 291</b>	<b>497</b>	<b>1 788</b>	-	<b>1 788</b>
Depreciation on revaluation of property, plant and equipment	-	-	(101)	101	-	-	-	-
<b>As At 31 December 2019</b>	<b>3 967</b>	<b>4 562</b>	<b>3 437</b>	<b>5 931</b>	<b>(14 737)</b>	<b>3 160</b>	<b>-</b>	<b>3 160</b>
Loss for the six months	-	-	-	(421)	-	<b>(421)</b>	-	<b>(421)</b>
Currency translation differences	-	-	-	-	(167)	<b>(167)</b>	-	<b>(167)</b>
<b>Total comprehensive income</b>	-	-	-	<b>(421)</b>	<b>(167)</b>	<b>(588)</b>	-	<b>(588)</b>
Depreciation on revaluation of property, plant and equipment	-	-	(89)	89	-	-	-	-
<b>As At 30 June 2020</b>	<b>3 967</b>	<b>4 562</b>	<b>3 348</b>	<b>5 599</b>	<b>(14 904)</b>	<b>2 572</b>	<b>-</b>	<b>2 572</b>

**Ukrproduct Group**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

	<b>Six months ended 30 June 2020 £ '000</b>	<b>Six months ended 30 June 2019 £ '000</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	(440)	723
Adjustments for:		
Exchange difference	673	(592)
Depreciation and amortization	297	278
Loss on disposal of non-current assets	5	4
Write off of receivables/payables	1	(1)
Impairment of inventories	82	78
Interest income	(1)	-
Interest expense on bank loans	254	265
<b>Operating cash flow before working capital changes</b>	<b>871</b>	<b>755</b>
Increase in inventories	(1 389)	(1 057)
Increase in trade and other receivables	(143)	(2 547)
Increase in trade and other payables	1 682	3 873
<b>Changes in working capital</b>	<b>150</b>	<b>269</b>
<b>Cash generated from operations</b>	<b>1 021</b>	<b>1 024</b>
Interest received	1	-
Income tax paid	5	(15)
<b>Net cash generated from operating activities</b>	<b>1 027</b>	<b>1 009</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment and intangible assets	(334)	(124)
Proceeds from sale of property, plant and equipment	11	5
Repayments of loans issued	(3)	-
<b>Net cash used in investing activities</b>	<b>(326)</b>	<b>(119)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(270)	(250)
Decrease in short term borrowing	-	(163)
Repayments of long term borrowing	(42)	(162)
<b>Net cash used in from financing activities</b>	<b>(312)</b>	<b>(575)</b>
<b>Net increase in cash and cash equivalents</b>	<b>389</b>	<b>315</b>
Effect of exchange rate changes on cash and cash equivalents	(231)	(269)
<b>Cash and cash equivalents at the beginning of the six months</b>	<b>231</b>	<b>181</b>
<b>Cash and cash equivalents at the end of the six months</b>	<b>389</b>	<b>227</b>

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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**BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

**1. REPORTING ENTITY**

Ukrproduct Group Limited ("the Company") is a public limited liability company registered in Jersey with a registered office at 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The Group's overall management and production facilities are based in Ukraine, with the HQ in Kyiv. The Group commands leading positions in the Ukrainian processed cheese and packaged butter markets and owns a range of widely recognisable trademarks in Ukraine, including "Nash Molochnik" (translated as Our Dairyman), "Narodniy Product" (People's Product) "Molendam" and "Vershkova Dolina" (Creamy Valley).

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The unaudited condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) 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.

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

The condensed consolidated financial statements have been prepared on a historical cost basis, except for significant items of property, plant and equipment which have been measured using revaluation model. 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.

The accounting policies used and the methods of computation is the same as those disclosed in the Group's recent annual consolidated financial statements except for the adoption of new and revised accounting standards as disclosed in Note 3.

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 Board has reviewed the Group's ongoing commitments for the next twelve months and beyond.

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(in thousand GBP, unless otherwise stated)*

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**2. BASIS OF PREPARATION (CONTINUED)**

**(a) Statement of compliance (continued)**

The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities. Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next twelve months, from both the date of the Condensed Consolidated Statement of Financial Position and the approval of the Condensed Consolidated Financial Statements.

**(b) 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 covenants*

The Board notified EBRD in advance on a breach of one of the covenants of the loan agreement with EBRD during the first half of 2020. At the same time, EBRD noted that there was significant progress in compliance with the covenants in general when compared to the previous period. As such, EBRD has not demanded accelerated repayment of the loan.

*Impact of COVID-19 pandemic*

The impact of COVID-2019 on the Group in 1H 2020 was not material and the Group largely continued to operate as usual. The management implemented a range of measures for preventing sickness and spread of infection within the Group premises (including but not limited to remote working, additional medical screenings, corporate transportation to and from the workplaces, obligatory use of protective masks etc.). Additionally the Group reorganised work in its production facilities in smaller shifts to increase social distance and to minimise potential spread of infection. So far, the COVID-19 and respective quarantine impact on the Group's operations has been limited. Looking ahead, whilst COVID-19 creates significant economic uncertainty, the Group will continue to apply acquired experience - most notably remote working - to streamline and optimise certain administrative and operational processes.

Finally, though the Group faced net foreign exchange loss of GBP 0.67 million, the overall financial results were solid and the Group generated positive cash flow from operating activities totaling GBP 1.03 million. Accordingly, the management believes that the Group has reliable access to finance capable to support growing sales and respective increase in working capital requirements.



**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(in thousand GBP, unless otherwise stated)*

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**2. BASIS OF PREPARATION (CONTINUED)**

**(c) Foreign currency translation**

*Functional and presentation currency*

The Ukrainian Hryvnia is the currency of the primary economic environment in which the majority of the Group companies operate.

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.

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**  
*(in thousand GBP, unless otherwise stated)*

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**2. BASIS OF PREPARATION (CONTINUED)**

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

Currency	30 June 2020 (spot rate)	Average for the six months ended 30 June 2020	31 December 2019 (spot rate)	30 June 2019 (spot rate)	Average for the six months ended 30 June 2019
UAH/GBP	33,08	33,47	31,02	33,18	34,87
UAH/USD	26,69	26,72	23,69	26,17	26,94
UAH/EUR	29,95	30,05	26,42	29,73	30,45

**(d) Reclassification**

Where applicable, comparatives have been adjusted to present them on the same basis as current period figures.

**(e) Rounding of amounts**

Amounts in this financial report have, unless otherwise indicated, been rounded to the nearest thousand pounds.

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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### **3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS**

#### **IFRS 16 ‘Leases’**

IFRS 16 replaced the existing standard IAS 17 ‘Leases’ with effect from 1 January 2019. Its objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represent lease transactions.

The Group elected to use the following practical expedients on transition:

- Use of single discount rates to reflecting similar lease terms and economic environments;
- Recognition exemptions for lease contracts that at the transition date have a remaining lease term of 12 months or less;
- Exclusion of initial direct costs from the measurement of the right of use asset;
- The use of hindsight in determining the lease term for contracts containing options to extend or terminate the lease;

#### **Recognition and measurement**

The lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised and the purchase option value if it is reasonably certain that it will be exercised.

Interest is accrued on the lease liability based on the discount rate at commencement of the lease and is accounted for in finance costs and subsequent payments are deducted from the lease liability.

The right of use asset is initially measured as the value of the lease liability, adjusted for any indirect costs incurred to obtain the lease, restoration provisions and any lease payments made before the commencement of the lease.

The right of use asset will be depreciated over the life of the contract on a straight line basis. Where the Group act as a lessor the lease will be classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership of the underlying asset, or otherwise as an operating lease.

#### **An amendment to IFRS 16**

The amendments with regard to COVID-19 are effective for annual reporting periods beginning on or after June 1, 2020.

#### **Nature and effect of amendment to IFRS 16**

There are no significant impact on the Group’s consolidated financial statements.

#### **4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

##### **IFRS 17 'Insurance Contracts'**

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning, at the latest, on or after 1 January 2021. The IASB tentatively decided to defer the effective date of IFRS 17 'Insurance Contracts' to annual periods beginning on or after January 1, 2022. In this connection, the IASB also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the date of the UK leaving the EU will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse IFRS for use in the UK. It is expected that this power will be delegated to a UK IFRS Endorsement Board. In the event that IFRS 17 has not been endorsed by the EU by the time the UK leaves the EU, including any transitional period or arrangements that may be agreed, then the UK IFRS Endorsement Board will have responsibility for its endorsement. This is being monitored closely.

##### **Other pronouncements**

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory during 2020 or in a subsequent accounting period. The Group has evaluated these changes and none have had, or are expected to have, a significant impact on the consolidated financial statements.

#### **5. ESTIMATES AND JUDGEMENTS**

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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**6. INVENTORY WRITE OFF TO NET REALISABLE VALUE**

Inventories are measured at the lower of cost or net realisable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of work in progress and finished goods includes costs of direct materials and labor and other direct production costs and related production overheads (based on normal operating capacity).

The cost of inventories is assigned by using the FIFO method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes an allowance for such inventories.

The loss from impairment of inventories amounted to:

	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2020</b>	<b>30 June 2019</b>
	<b>£ '000</b>	<b>£ '000</b>
<b>Impairment of finished goods</b>	<b>(82)</b>	<b>(78)</b>

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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**7. RELATED PARTY TRANSACTIONS**

A related party is a person or an entity that is related to the reporting entity:

1. A person or a close member of that person's family is related to a reporting entity if that person has control, joint control, or significant influence over the entity or is a member of its key management personnel.
2. An entity is related to a reporting entity if, among other circumstances, it is a parent subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a person who is a related party.

The Group enters into transactions with related parties in the ordinary course of business.

Related parties comprise the Group's shareholders and companies that are under control of the Group's shareholders.

All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Company.

	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2020</b>	<b>30 June 2019</b>
	<b>£ '000</b>	<b>£ '000</b>
Sales	-	-
Purchases	-	-
Administrative expenses	9	7
Other operational incomes	38	-
Other operational expenses	113	3

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

	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2020</b>	<b>30 June 2019</b>
	<b>£ '000</b>	<b>£ '000</b>
Trade debtors	4	15
Receivables and prepayments	-	25
Trade and other payables	(7)	(11)
Prepayments received	-	(60)

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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**8. SEGMENT INFORMATION**

IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources.

Segment information is presented in respect of the group's key operating segments. The operating segments are based on the group's management and internal reporting structure.

At 30 June 2020, the Group was organised internationally into five 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
- 5) Supplementary products – export trading activities with non-dairy products. The Group has expanded export sales into non-dairy products such as corn, protein meal and oil. These operations make use of third party logistics services and are financed by deferring payment for purchased products.

The segment results for the six months ended 30 June 2020 are as follows:

	<b>Branded products</b>	<b>Beverages</b>	<b>Non-branded products</b>	<b>Distribution services and other</b>	<b>Supplementary products</b>	<b>Total</b>
	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	
<b>Sales</b>	17 291	772	3 256	1 180	5 024	<b>27 523</b>
<b>Gross profit</b>	2 200	439	(879)	320	135	<b>2 215</b>

The segment results for the six months ended 30 June 2019 are as follows:

	<b>Branded products</b>	<b>Beverages</b>	<b>Non-branded products</b>	<b>Distribution services and other</b>	<b>Supplementary products</b>	<b>Total</b>
	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	
<b>Sales</b>	11 228	927	3 447	816	5 818	<b>22 236</b>
<b>Gross profit</b>	1 791	465	(690)	197	163	<b>1 926</b>

**Ukrproduct Group**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2020**  
*(in thousand GBP, unless otherwise stated)*

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**9. EARNINGS PER SHARE**

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the period.

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various employee share trusts and held as own shares.

Diluted earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the diluted weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various employee share trusts and held as own shares.

	<b>Six months ended 30 June 2020 £ '000</b>	<b>Six months ended 30 June 2019 £ '000</b>
Net profit attributable to ordinary shareholders	<b>(421)</b>	<b>740</b>
Weighted number of ordinary shares in issue	39 673 049	39 673 049
Basic earnings per share, pence	<b>(1,06)</b>	<b>1,87</b>
Diluted average number of shares	39 673 049	39 673 049
Diluted earnings per share, pence	<b>(1,06)</b>	<b>1,87</b>

**10. SUBSEQUENT EVENTS**

As at 30 June 2020, the Group was in breach of the Debt Service Coverage ratio covenant in the loan facility in place with European Bank for Reconstruction and Development (“EBRD”). The Group remained in breach of this covenant as of date of issue of the report and EBRD has not issued a waiver in respect of this breach. There has been no demand for repayment of the loan. The Company continues to communicate with EBRD and the agreed loan repayments are being met as they fall due.

**11. APPROVAL OF INTERIM STATEMENTS**

The unaudited condensed consolidated financial statements were approved by the board of directors on 29 September 2020.