Ukrproduct Group

Annual Report 2020

Table of Contents

Chairman and Chief Executive Statement

Trading

Ukrproduct Group Ltd ("Ukrproduct", the "Company" or, together with its subsidiaries, "the Group") is one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass).

The outbreak of COVID-19 had an unprecedented global impact on economic activities in most countries, including Ukraine. Due to the COVID-19 pandemic, the Ukrainian economy contracted by 4.4 percent in 2020 compared to the previous year according to the National Bank of Ukraine. Until February 2020, the Ukrainian economy was still in a robust macroeconomic state with declining public debt, falling inflation and optimistic growth forecasts, but the outbreak of the pandemic turned it around. However , the dairy industry withstood the blow of the pandemic and a number of lockdowns in 2020, largely due to the products being considered necessities by the consumer. Nevertheless, Ukrproduct has taken all measures to safeguard the wellbeing of its employees and managed to steer through this volatile environment, maintaining its performance without interruptions and adapting to the changing market requirements.

The introduction of lockdown in Ukraine had a negative impact on the imports of butter and other products, with such imports reducing significantly as a result of, firstly, the initial devaluation of the hryvnia against the dollar, and, secondly, the lockdown-related logistical issues in respect of customs requirements. Overall, the launch of the lockdown measures in Ukraine did not materially impact the Group's sales due to the strong brands' recognition and substantial market shares for its products.

Moreover, unlike smaller competitors, as the Group delivers most of its products to consumers through food retailers, which remained open during lockdown, Ukrproduct was able to utilize this competitive advantage and adapt its procurement processes and supply chains to the shift in how demand is met so maintaining volumes, whereas many competing dairy processors had to reduce their business.

Though the bottled sales of kvass grew in 2020 the overall sales revenues for beverages were at the levels of 2019 - at £1.7 million, which was due to the quarantine measures that suspended distribution over all food channels with the exception of the food and drink retailers. The sales of kvass produced a strong recovery in the second half of the year that helped partial catch up on the annual budget targets.

For FY 2020, the Group reports an improvement in revenue by 11.1% up to £55.5 million (UAH 1.9 billion) compared with £50 million (UAH 1.6 billion) in FY 2019. The growth was delivered via revision of the Company's sales strategy, with spreads and processed cheese sales demonstrating the most pronounced increases of 132.8% and 79.9% respectively. However, the gross profit remained at a similar level to 2019, amounting to £4.7 million (UAH 165 million), whilst the annual operating profit declined by 43.7% to £0.84 million (UAH 29.3 million), compared with £1.5 million (UAH 49.1 million) in FY 2019. Despite an increase in sales, the Company recorded a net loss of £1.16 million (UAH 40.5 million), compared to the profit of £2.031 million (UAH 66.9 million) in 2019. This decline was mainly attributed to the negative foreign exchange differences of £1.5 million.

Financial Position

As of 31 December 2020, Ukrproduct reports net assets of £5.3 million (UAH 202 million) compared to £3.2 million (UAH 104 million) as of 31 December 2019 including cash balances of £0.16 million (UAH 6.0 million) compared to £0.23 million (UAH 7.1 million) respectively.

For the year ended 31 December 2020, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development ("EBRD") and the bank has not issued a waiver for the breaches. Though to 31 May 2021 the Group serviced its debt on time in accordance with the loan agreements with its lenders, on 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group's management continues to have discussions with the EBRD and at present the EBRD has taken no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties.

Outlook

Looking ahead, whilst COVID-19 creates significant economic uncertainty, Ukrproduct expects to utilize its experience gained during the pandemic, most notably from remote working, to streamline and optimize certain administrative and operational processes. Ukrproduct plans to pursue stronger margins and to further increase sales of processed cheese and spreads, as well as to improve margins of packaged butter by a continuous upgrade into the premium market segment. However, the raw milk price trends in Ukraine will be fundamental for the dairy processing industry overall. The Group is looking into the most efficient ways of procuring raw milk, which is subject to local competition that has been strengthening and thus increasing prices.

Jack Rowell

Non-Executive Chairman

24 June 2021

Alexander Slipchuk

Chief Executive Officer

24 June 2021

The Board of Directors

As of the date of the approval of the 2020 Annual Report, the Board members are as follows:

Name	Position	Date appointed
Jack Rowell	Non-Executive Chairman	November 2004
Sergey Evlanchik	Executive Director	April 2008
Alexander Slipchuk	Chief Executive Officer	November 2004
Yuriy Hordiychuk	Chief Operational Officer	January 2013

All directors were re-elected at Annual General Meeting (AGM) on 30 July 2020.

Jack Rowell
Non-Executive Chairman

Jack Rowell has acted as Chairman of a number of companies in the public and private sector, mainly within the food production industry. He was previously an executive director on the board of Dalgety plc responsible for the consumer foods division. Jack also served as Chairman of Celsis plc. He has also been Manager of Bath Rugby, then the Champions of England and the English national team. Prior to this, Jack Rowell was CEO of Golden Wonder Ltd. and Lucas Food Ingredients (also part of the Dalgety Food Group). He was educated at Oxford University and is a Chartered Accountant.

Alexander Slipchuk
Chief Executive Officer

Alexander Slipchuk is responsible for the Group's overall performance and strategy implementation and is a founder of Ukrproduct. He studied at Far-Eastern High Engineering Marine School in Russia and graduated as a maritime navigator in 1989. Together with Sergey Evlanchik, Alexander established the securities house Alfa-Broker in 1994, developed the equity trading business in the far east of the Russian Federation, and acquired initial stakes in the companies that later became part of the Group. In 1998, Alexander took on the executive positions at the Molochnik and the Starokostyantynivskyi Dairy plants, Ukrproduct's two main operating assets.

Sergey Evlanchik
Executive Director
Sergey Evlanchik studied at Vladivostok State University of Economics & Service in the Russian Federation and at Oxford University in the UK, where he received his MBA degree. Together with Alexander Slipchuk, he established the equity-trading group, Alfa-Broker in 1994 in the Far East of the Russian Federation. After the recess of the Russian and Ukrainian equity markets in 1998, Mr Evlanchik refocused his activities on business development in the industrial sector of Ukraine, particularly within the dairy industry, where he joined the companies that would subsequently form the Ukrproduct group in 2004. Sergey then led the Group to its successful listing on the AIM market of the London Stock Exchange in 2005.

Yuriy Hordiychuk
Chief Operational Officer

Yuriy Hordiychuk has been with the Group since 2002. Firstly, he was Director of the Provision of Raw Materials then in 2005, he was promoted to Director of Production, before, in 2008, being promoted to General Director of the Company and, ultimately, in 2013, being appointed as Chief Operational Officer.

Yuriy has more than ten years of experience of administrative activity and a degree in “Production Organization Management”. In 2006, Mr. Hordiychuk graduated with an MBA from the School of Economics (Russia) and earned a degree in “Logistics and Supply Chains Management”.

Senior Management

Volodymyr Vardzielov
Chief Financial Officer

Volodymyr Vardzielov has been with the Group since April 2018 as Chief Financial Officer. He has a Master`s degree in Finance and possesses 25 years’ professional experience in finance roles, including 16 years in managerial positions.

Remuneration Committee Report

This report is prepared by the Remuneration Committee of the Board and sets out the Group's policy on the remuneration of the Directors, with a description of service agreements and remuneration packages for each Director.

Remuneration Committee

The Remuneration Committee comprises one Non-Executive Director, Jack Rowell. This Committee is scheduled to meet at least twice per annum to advise the Board on the Group's remuneration strategy and to determine the terms of employment and total remuneration of the respective Executive Directors of the Group and of its subsidiary companies, including the granting of share options. Among others, the objective of this Committee is to attract, retain and motivate Executives capable of delivering the Group's objectives. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

The board members were invited to discuss issues on the Remuneration Committee, three meetings took place during 2020.

Remuneration Policy

The Group's remuneration policy is to provide remuneration packages which:

- are designed to attract, motivate and retain high calibre Executives;
- are competitive and in line with comparable businesses;
- are rooted in practices exercised in countries where the Group operates;
- intend to align the interests of the Executives with those of the shareholders by means of fixed and performance related remuneration; and
- set challenging performance targets and motivate Executives to achieve those targets both in the short and long-term.

Base salary

The Committee on an annual basis reviews base salaries of the respective Executive Directors of the Company and its subsidiaries, taking into account job responsibilities, competitive market rates and the performance of the Executive concerned. Consideration is also given to the cost of living and the Director's professional experience. While determining the base salaries, the Committee also considers general aspects of the employment terms and conditions of employees elsewhere in the Group.

Incentive Bonus Plans and Equity Arrangements

The Committee continues to plan to introduce long-term equity incentive arrangements to make the overall Executive Remuneration structure more performance-related, more competitive and aligned with shareholders' interests subject to an improving environment in Ukraine.

Service contracts

The appointments of the respective Executive Directors of the Company and its subsidiaries are valid for an indefinite period and may be terminated with three months' notice given by either party at any time.

The Group's policy, including for individual subsidiaries, for compensation for loss of office is to provide compensation that reflects the Group's or a subsidiary's contractual obligations.

Bonus Scheme

The Committee has established a cash bonus scheme for Executive Directors based on the overall performance of the Group and/or respective subsidiary company and attainment of the operating profit targets. No bonus awards were made for FY 2020.

Non-Executive Directors

The appointments of non-executive Directors are valid for an indefinite period and may be terminated with three months notice given by either party at any time. The decision to re-appoint, as well as the determination of the fees of the non-executive Directors, rests with the Board. The non-executive Directors may accept appointments with other companies, although any such appointment is subject to the Board's approval, terms, and conditions of Service Agreements.

Directors' remuneration

Details of the Directors' cash remuneration are outlined below:

	Annual Salary/fee		Bonus		Non-cash compensation		Total cash remuneration	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Executive								
Alexander Slipchuk	45.0	45.0	-	-	-	-	45.0	45.0
Sergey Evlanchik	35.0	35.0	-	-	-	-	35.0	35.0
Yuriy Hordiychuk	15.0	15.0	-	-	-	-	15.0	15.0
	95.0	95.0					95.0	95.0
Non-Executive								
Jack Rowell	22.5	22.8	-	-	-	-	22.5	22.8
General manager								
Yuriy Hordiychuk*	13.3	14.5	-	-	-	-	13.3	14.5

*This relates to fees paid to Yuriy Hordiychuk for general management services under a separate contract to his service contract.

Share based payments

As at 31 December 2020 there are no outstanding options issued by Group.

Corporate Governance Report

Corporate Governance Policy

As an AIM-quoted company, the Company is required to apply a recognised corporate governance code, demonstrating how the Group complies with such corporate governance code and where it departs from it.

The Directors of the Company have formally made the decision to apply the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). The Board recognises the principles of the QCA Code, which focuses on the creation of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which small to medium sized companies, such as UPG, have been created. The Company will provide annual updates on its compliance with the QCA Code in its Annual Report.

The key governance related matter that occurred during the financial year ended 31 December 2020 was the formal adoption of the QCA Code.

The Board

The Board consists of three Executive Directors and one Non-Executive Chairman, being the Chairman, reflecting a blend of different experience and backgrounds. The Board considers Jack Rowell to be classified as an independent Non-Executive Director under the QCA guidelines.

The Board meets four times a year. At these quarterly meetings the Board, inter alia, discusses the implementation of strategy, reviews financial progress and evaluates the individual and collective accountability of the Board.

The Group's day-to-day operations are managed by the Executive Directors. All Directors have access to the Company Secretary and any Director needing independent professional advice in the furtherance of their duties may obtain this advice at the expense of the Group.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively, and that all Directors have adequate time to fill their roles.

Details of the current Directors, their roles and background are set out on the Company's website at http://ukrproduct.com/en/kompaniya/management-structure/.

The role of the Chairman is to provide leadership of the Board and ensure its effectiveness on all aspects of its remit to maintain control of the Group. In addition, the Chairman is responsible for the implementation and practice of sound corporate governance. The Chairman is considered independent and has adequate separation from the day-to-day running of the Group.

The role of the Chief Executive Officer is for the strategic development of the Group and for communicating it clearly to the Board and, once approved by the Board, for implementing it. In addition, the Chief Executive Officer is responsible for overseeing the management of the Group and its executive management.

Application of the QCA Code

It is the Board's job to ensure that the Group is managed for the long-term benefit of all shareholders and other stakeholders with effective and efficient decision-making. Corporate governance is an important part of that job, reducing risk and adding value to the Group. The Board will continue to monitor the governance framework of the Group as it grows.

The Company remains committed to listening to, and communicating openly with, its shareholders to ensure that its strategy, business model and performance are clearly understood. The AGM is a forum for shareholders to engage in dialogue with the Board. The results of the AGM will be published via RNS and on the Company's website. Regular progress reports are also made via a Regulatory Information Service. The point of contact for shareholders is Volodymyr Vardzielov, CFO – Volodymyr.Vardzielov@ukrproduct.com.

The Company's management maintains a close dialogue with local communities and its workforce. Where issues are raised, the Board takes the matters seriously and, where appropriate, steps are taken to ensure that these are integrated into the Company's strategy.

Both the engagement with local communities and the performance of all activities in an environmentally and socially responsible way are closely monitored by the Board and ensure that ethical values and behaviours are recognised.

Corporate Governance Committees

The Board has two committees comprising the following:

The Audit Committee

The Audit Committee consists of Jack Rowell (Non-Executive Chairman). The terms of reference of the Audit Committee are to assist all the Directors in discharging the individuals of appropriate ability and experience and to help in promoting the following:

- The Group's financial and accounting systems provide accurate and up-to-date information on its current financial position, including all significant issues and going concern;
- The integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgments contained therein are monitored;
- The Group's published financial statements represent a true and fair reflection of this position; and taken as a whole are balanced and understandable, providing the information necessary for shareholders to assess the Group's performance, business model and strategy;
- The external audit is conducted in an independent, objective thorough, efficient and effective manner, through discussions with management and the external auditor; and
- A recommendation is made to the Board for it to put to shareholders at a general meeting, in relation to the reappointment, appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor.

Remuneration Committee

The Remuneration Committee consists of Jack Rowell (Non-Executive Chairman). The terms of reference of the Remuneration Committee are to:

- recommend to the Board a framework for rewarding senior management, including Executive Directors, bearing in mind the need to attract and retain individuals of the highest calibre and with the appropriate experience; and
- ensure that the elements of the remuneration package are competitive and help in promoting the Group.

Nominations Committee

Given the Company's size, the Board has not considered it appropriate to have a Nominations Committee.

Internal control

The Directors acknowledge their responsibility for the Group's system of internal control, which is designed to ensure adherence to the Group's policies whilst safeguarding the assets of the Group, in addition to ensuring the completeness and accuracy of the accounting records. Responsibility for implementing a system of internal financial control is delegated to Volodymyr Vardzielov, the CFO. The essential elements of the Group's internal financial control procedures involve:

- *Strategic business planning*: strategic business planning is undertaken annually. This includes financial budget for the following year.
- *Performance review*: the Directors aim to monitor the Group's performance through the preparation of monthly management accounts and regular reviews of expenditure and projections.
- *The internal control system*: the internal control system is further enforced by the Group's internal audit department with the main objectives of ensuring the safety of the Group's assets and the reliability of accounting records.

Departure from the QCA Code

In accordance with the AIM Rules for Companies, the Company departs from the QCA Code in the following ways:

Principle 5: "Maintain the board as a well-functioning, balanced team led by the chair."

The Company does not comply with the recommendation of Principle 5 that the Board should have at least two independent non-executive directors. The Company only has one Non-Executive Director, the Chairman, who is considered independent, but has three Executive Directors. The Executive Directors have valuable industry knowledge and are integral to the running of the business. The Chairman has an extensive business experience at the Board level especially in the Food industry.

Principle 7 – "Evaluate board performance based on clear and relevant objectives, seeking continuous improvement."

The Board is small and extremely focussed on implementing the Company's strategy. However, given the size and nature of the Company, the Board does not consider it appropriate to have a formal performance evaluation procedure in place, as described and recommended in Principle 7 of the QCA Code. The Board will closely monitor the situation as it grows.

Jack Rowell
Chairman

Corporate Social Responsibility Report

Corporate Social Responsibility

The Board is committed to developing and implementing corporate social responsibility (CSR) policies aimed at:

- Promoting equality and fairness among employees, partners and suppliers
- Ensuring safe working conditions
- Maintaining the Group's corporate reputation and dedication to business ethics
- Supporting the communities in which the Group operates
- Establishing long-term and healthy relationships with the Group's partners, customers and other affiliated parties.

The main elements of the Group's approach towards fulfilling the above objectives are as follows:

Employees

The Group is committed to ensuring equal opportunities to all its employees, both current and prospective. Each employee's efforts are highly valued and the Board believes that a diverse mix of the workforce facilitates innovation, efficiency and teamwork. As a matter of corporate policy, regular training and development workshops are conducted for Ukrproduct's staff. These are aimed at all employee groups, including managerial, technical and production personnel. The training programmes encourage staff to progress up the career ladder and are central to the Group's continuing growth and success.

Health and safety

Management at business units within the Group are responsible for developing and maintaining the underlying practices that provide for a safe working environment. Special attention is given to the production facilities, where the equipment, including lighting, air conditioning, workspace and other constituents, undergo constant reviews and improvements. Regular monitoring is carried out to ensure that the required standards are met and that employees use the provided communication channels to further improve their surrounding working conditions.

Customers

Customer satisfaction is at the core of the Group's business model. Therefore, the Board is keen to continue supplying the customers with high quality, affordable products required by current market demands. The Group's segmentation practices are aimed at segregating various customer groups in order to meet their respective needs with maximum efficiency. In addition, regular market research and surveys are conducted to ensure maximum value is consistently offered to customers.

Environment

The Group recognises the importance of good environmental practices and seeks to minimise any negative impact that its operations or products might have on the production sites and surrounding areas. The Group adopted the environmental laws and regulations of Ukraine to reduce, control and eliminate various types of pollution and to protect natural resources. Ukrproduct monitors and controls all its production facilities regularly in order to ensure that air quality is not adversely impacted by its operations. The Group focuses on cutting water and energy consumption, as well as reducing the volumes of waste. Collection and processing of waste have been organised through the local waste collection plants. The Group's development programme puts specific emphasis on acquiring and installing only the most advanced and environmentally friendly production and auxiliary equipment.

Food safety

Food safety is one of key priorities for the Group. Ukrproduct is committed to produce high quality and safe food and ensures that high standards are maintained within its supplier base. The certified food safety management system in compliance with ISO 22000 was implemented by the Group. This system provides the possibility of fully monitoring all production stages - from forage control and sound health of the cattle to the final product distribution.

Community support

The Group is keen to further enhance and maintain its partnership with local communities by supporting their initiatives and charitable events. The Group contributes cash donations and gifts, as well as employee time, by encouraging staff to participate as volunteers.

Directors' Report

The Directors present their report and the audited consolidated financial statements of Ukrproduct Group Ltd (referred to as the "Company" and together with its subsidiaries, "the Group") for the year ended 31 December 2020.

Principal Activities and Business Review

Ukrproduct is a holding company for a group of food and beverages businesses located in Ukraine. The principal activities of the Group are the production and distribution of highly branded dairy foods and beverages (kvass) in Ukraine and for export of milk powder. The Group is one of the leading branded food producers in Ukraine with its own nationwide distribution network. More detailed commentary on the Group's activities during the year, its financial performance, future plans, and prospects are outlined in the Chairman and Chief Executive Statement.

Results and Dividends

The results of the Group for the year are set out on the page 25. The Company recorded a net financial result of negative £1.16 million, compared to the profit of £2.031 million in 2019. The effect of exchange rate led to the Group reporting a loss overall by £1.5 million.

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2020.

Directors

Details of members of the Board of Directors are shown on page 5.

The Directors' interests in the share capital of the company as at 31 December 2020 and 31 December 2019 are shown below:

	Shares		Share options	
	2020	**2019**	**2020**	**2019**
Executive				
Sergey Evlanchik	14,967,133	14,967,133	-	-
Alexander Slipchuk	14,939,133	14,939,133	-	-
Yuriy Hordiychuk	-	-	-	-
Non-executive				
Jack Rowell	138,690	138,690	-	-

Powers of the Directors

Subject to the Company's Memorandum and Articles of Association, Companies (Jersey) Law 1991, as amended and any directions given by special resolution, the business of the company shall be managed

by the Directors who may exercise all such powers of the company. The rules in relation to the appointment and replacement of Directors are set out in the Company's Article of Association.

Financial Risks Facing the Group

The principal financial risks of the business are credit risk, liquidity risk and market risk, including fair value or cash flow, interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Financial Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors.

For further details of the Group's risk management please see Note 5 on page 62-67.

Employees

The Group is committed to ensuring provision of equal opportunities for all employees, which is reflected by its selection, recruitment and training policies. The Group considers its employees to be one of its most valuable assets and rewards high performance through competitive remuneration and incentive schemes. The Directors also consider it a priority to give employees the opportunity to communicate their ideas and opinions to all levels of management, both directly and through various surveys. The average number of employees of the Group during the year ended 31 December 2020 was 860 (2019: 844).

Payment Policy

The Group has a general set of guidelines for paying its suppliers based on specific criteria. However, it is normal practice to agree payment terms with a specific supplier when entering into a purchase contract. The Group seeks to abide by the payment terms agreed whenever it is satisfied that the goods or services have been provided in accordance with the agreed terms and conditions.

Going Concern

These consolidated financial statements have been prepared on the assumption that the Group is able to continue its operations on a going concern basis for the foreseeable future.

For the year ended 31 December 2020, net loss amounted to £1.16 million, including the exchange difference loss of £1.5 million (2019: net profit of £2.031 million after the exchange difference gain of £1.081 million).

For the year ended 31 December 2020, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development ("EBRD") and the bank has not issued a waiver for the breaches. Though to 31 May 2021 the Group serviced its debt on time in accordance with the loan agreements with its lenders, on 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group's management continues to have discussions with the EBRD and at present the EBRD has taken

no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties, the management is seeking to secure sufficient additional funding from the local banks to refinance the existing loan on more competitive terms. To the best of their knowledge the Board has a reasonable expectation that the Group has sufficient liquidity to continue its operations going forward and to apply the going concern basis in preparation of the financial statements.

Overall, the Company's management has been implementing a number of steps focused on margin improvement and working capital replenishment that include, but are not limited to, the actions described below. Ukrproduct undertakes ongoing optimisation of the raw milk supply and its settlement scheme that is complemented with optimisation of the products' portfolio aimed at increasing the overall margin and turnover. Additionally, the Group's management is introducing new cost efficiency initiatives in procurement, processing, distribution, marketing and logistics as well as carefully reducing overhead. The Company has launched new B2B partnerships (as well as developing existing ones) in dairy processing, logistics and distribution to capitalise on economy of scale. Moreover, Ukrproduct continues to introduce new dairy products and beverages appealing to shifting consumer demand, which is complemented by focused marketing and promotion efforts, while export trading is being developed with new packaging to adapt to international consumer requirements. On a daily basis the management team is engaged in proactive negotiation with retailers and other trading partners in order to reflect input costs volatility in the current pricing of its end products on shelves, however, this process is challenging and takes time.

The Board acknowledges that COVID-19 had a modest impact on the balance sheet and overall performance of the Group in FY2020 and Ukrproduct has already taken a set of the relevant measures to adapt to the changing marketplace. As a part of the going concern assessment the Company performed a broad analysis of the future cash flows and budgets, applying to them multiple scenarios and stress tests including but not limited to the potential impact of COVID-19 on the future trading performance. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as stable flow of revenues in due course. Finally, to the best of their knowledge the management does not believe that COVID-19 has a direct negative financial impact on its operations and closely monitors the pandemic evolution and its potential pressure on the markets, consumers etc.

Annual General Meeting

Ukrproduct's AGM will be held on 22 July 2021. The Notice of AGM will be sent to shareholders no less than 21 days prior to the date of the meeting.

Auditors

Moore Stephens Audit & Assurance (Jersey) Limited was appointed as the Group's auditors for the 2020 financial year by the resolution of the Directors held on 30 July 2020. A resolution to reappoint them will be proposed at the forthcoming AGM.

Statement as to disclosure of information to the auditor

All of the current Directors have taken the necessary steps to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Jack Rowell
Chairman

24 June 2020

Statements of Directors' Responsibilities

The directors are responsible for the preparation of the consolidated 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. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company Law, the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of its profit or loss for the period ended.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial information complies with IFRS, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The board of directors confirms that the Group has complied with the above mentioned requirements in preparing its consolidated financial statements.

The directors are also responsible for:

- implementing and maintaining an efficient and reliable system of internal controls in the Group;
- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the Group's website.

On behalf of the Directors:

24 June 2020

MOORE Stephens

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Ukrproduct Group Limited and its subsidiaries (the "Group") which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position as at 31 December 2020, the consolidated statement of changes in equity, consolidated statement of cash flows and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2020 and of its results for the year then ended;
- have been properly prepared in accordance with the IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Jersey, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Material uncertainty related to going concern

We draw attention to note 2.1 (b), in the financial statements, which indicates that the Group is in breach of covenants in respect of funding received from European Bank for Reconstruction and Development (EBRD) and that such breaches have continued after the year end. These events or conditions, along with other matters as set in note 2.1 (b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion these matters.

Key Audit Matter	How the matter was addressed in the audit
Risk of fraud in revenue recognition Revenue is material and an important determinant of the Group's performance and profitability. This gives rise to inherent risk that revenue recognised is overstated in order to present more profitable results for the year. The Group generates revenue from local and export sales of milk, dairy foods and beverages amounted to £55.50 million, excluding the charge of bonuses. Given the magnitude of the amount and the inherent risk of revenue overstatement, we consider revenue recognition to be a key audit matter.	Our main audit procedures in respect of revenue recognition were as follows: ▪ We obtained an understanding of the policies and procedures applied to revenue recognition, as well as compliance therewith, including an analysis of the effectiveness of the design and implementation of controls related to revenue recognition processes employed by the Group; ▪ We performed tests of details for accuracy and occurrence of sales transaction during the year; ▪ We performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to previous year; ▪ We performed journal entries testing for accounts related to identified risks of material misstatement and verified them to supporting documentations; ▪ We performed sales cut-off procedures for a sample of revenue transactions at year end in order to conclude on whether they were recognized in the correct accounting period; and, ▪ We reviewed the disclosures included in the notes to the consolidated financial statements. ▪ **Key Observations** We did not note any material issues arising from the procedures performed in this area.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

Our application of materiality

We define materiality as the magnitude of misstatements in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the results of that work. Materiality was determined as follows:

Consolidated financial statements as a whole:

Materiality was calculated at *£555k* which is approximately *1% of Total Revenue*. This benchmark is considered the most appropriate because, based on our professional judgement, we considered that this is the primary measure used by the users of the consolidated financial statements in assessing the performance of the Group.

Communication of misstatements to the Board:

We agreed with the Directors that any misstatement above £28k identified during our audit will be reported, together with any misstatement below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

During our audit planning, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements including the consideration of where Directors made subjective judgements, for example, in respect of the assumptions that underlie significant accounting estimates and their assessment of future events that are inherently uncertain. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole taking into account the Group, its accounting processes and controls and the industry in which it operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report set out on page 3 to 18 other than the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audits or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the consolidated financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the consolidated financial statements

As explained more fully in the Statement of Directors' Responsibilities on page 18, the Directors are responsible for the preparation of the consolidated financial statements which give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the Companies (Jersey) Law 1991 & the AIM Rules for Companies. We also reviewed the laws and regulations applicable to the Group that have an indirect impact on the financial statements.

• We gained an understanding of how the Group is complying with Companies (Jersey) Law 1991 & the AIM Rules for Companies by making inquiries of management. We corroborated our inquiries through our review of minutes of Board of Directors meetings and the review of various correspondence examined in the context of our audit and noted that there was no contradictory evidence.

• We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence management to manage earnings and revenue by overriding internal controls. We performed specific procedures to respond to the fraud risk of inappropriate revenue recognition. Our procedures also included a risk-based sample of journal entries that may have been posted with the intention of overriding internal controls to manipulate earnings. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

• Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and those charged with governance and obtaining additional corroborative evidence as required.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities.This description forms part of our auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

Use of our report

This report is made solely to the Group's shareholders as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Phillip Callow
For and on behalf of Moore Stephens Audit & Assurance (Jersey) Limited
1 Waverley Place
Union Street
St Helier
Jersey
Channel Islands
JE4 8SG
Dated: 24 June 2021

Ukrproduct Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Note	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Revenue	**8**	55 508	49 961
Cost of sales	**9**	(50 778)	(45 233)
GROSS PROFIT		**4 730**	**4 728**
Administrative expenses	**9**	(1 205)	(1 137)
Selling and distribution expenses	**9**	(2 464)	(2 175)
Other operating (expenses) /income	**9**	(223)	74
PROFIT FROM OPERATIONS		**838**	**1 490**
Net finance expenses	**11**	(486)	(578)
Net foreign exchange gain (loss)	**10**	(1 547)	1 081
(LOSS) / PROFIT BEFORE TAXATION		**(1 195)**	**1 993**
Income tax credit	**13**	35	38
(LOSS) / PROFIT FOR THE YEAR		**(1 160)**	**2 031**
Attributable to:			
Owners of the Parent		(1 160)	2 031
Earnings per share:			
Basic (pence)	**26**	(2.92)	5.12
Diluted (pence)	**26**	(2.92)	5.12
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		(494)	165
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment		3 758	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		**2 104**	**165**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2 104**	**2 196**
Attributable to:			
Owners of the Parent		2 104	2 196
Non-controlling interests		-	-

The notes on pages 29 – 95 are an integral part of these consolidated financial statements.

Ukrproduct Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Note	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	**14**	9 934	6 994
Intangible assets	**15**	598	493
		10 532	**7 487**
Current assets			
Inventories	**17**	7 317	5 071
Trade and other receivables	**18**	6 115	7 257
Current taxes	**19**	214	310
Other financial assets	**20**	27	31
Cash and cash equivalents	**21**	156	231
		13 829	**12 900**
TOTAL ASSETS		**24 361**	**20 387**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	**22**	3 967	3 967
Share premium	**23**	4 562	4 562
Translation reserve	**23**	(15 231)	(14 737)
Revaluation reserve	**23**	7 031	3 437
Retained earnings		4 935	5 931
		5 264	**3 160**
TOTAL EQUITY		**5 264**	**3 160**
Non-Current Liabilities			
Liabilities for right-of-use assets		13	68
Deferred tax liabilities	**16**	1 029	242
		1 042	**310**
Current liabilities			
Bank loans	**24**	6 628	7 213
Short-term payables		467	441
Trade and other payables	**25**	10 947	9 245
Other taxes payable		13	18
		18 055	**16 917**
TOTAL LIABILITIES		**19 097**	**17 227**
TOTAL EQUITY AND LIABILITIES		**24 361**	**20 387**

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 June 2020 and were signed on its behalf by:

Alexander Slipchuk
Chief Executive Officer 2021

The notes on pages 29 – 95 are an integral part of these consolidated financial statements.

Ukrproduct Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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	£ '000	£ '000	£ '000
As At 31 December 2018	**3 967**	**4 562**	**3 619**	**3 718**	**(14 902)**	**964**	**-**	**964**
Profit for the year	-	-	-	**2 031**	-	**2 031**	-	**2 031**
Other comprehensive income								
Currency translation differences	-	-	-	-	**165**	**165**	-	**165**
Total comprehensive income	**-**	**-**	**-**	**2 031**	**165**	**2 196**	-	**2 196**
Depreciation on revaluation of property, plant and equipment	-	-	(182)	182	-	**-**	-	**-**
As At 31 December 2019	**3 967**	**4 562**	**3 437**	**5 931**	**(14 737)**	**3 160**	**-**	**3 160**
Profit for the year	-	-	-	(1 160)	-	**(1 160)**	-	**(1 160)**
Other comprehensive income	**-**	**-**	**-**	-	**-**	-	-	-
Currency translation differences	-	-	-	-	(494)	(494)	-	(494)
Total comprehensive income	**-**	**-**	**-**	**(1 160)**	**(494)**	**(1 654)**		**(1 654)**
Reduction of revaluation reserve	-	-	(98)	-	-	(98)	-	(98)
Gain on revaluation of property, plant and equipment	-	-	3 856	-	-	3 856	-	3 856
Depreciation on revaluation of property, plant and equipment	-	-	(164)	164	-	**-**	-	**-**
As At 31 December 2020	**3 967**	**4 562**	**7 031**	**4 935**	**(15 231)**	**5 264**	**-**	**5 264**

The notes on pages 29 – 95 are an integral part of these consolidated financial statements.

Ukrproduct Group
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in thousand GBP, unless otherwise stated)

	Note	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Cash flows from operating activities			
(Loss) / Profit before taxation		(1 195)	1 993
Adjustments for:			
Exchange difference	**10**	1 547	(1 081)
Depreciation and amortization	**9**	618	636
(Loss)/Profit on disposal of non-current assets	**9**	(4)	7
(Loss)/ Profit on revaluation	**9**	225	-
Write off of receivables/payables	**9**	(53)	(118)
Impairment of inventories	**9**	(42)	(28)
Interest income	**11**	(2)	(1)
Interest expense on bank loans	**11**	488	579
Operation cash flow before working capital changes		**1 582**	**1 987**
Increase in inventories		(2 246)	(1 309)
Decrease / (Increase) in trade and other receivables		1 232	(3 973)
Increase in trade and other payables		1 662	4 210
Changes in working capital		**648**	**(1 072)**
Cash / generated from operations		**2 230**	**915**
Interest received		2	1
Income tax paid		(2)	2
Net cash / generated from operating activities		**2 230**	**918**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets		(688)	(297)
Proceeds from sale of property, plant and equipment		13	28
Repayments of loans issued		(3)	(3)
Net cash used in investing activities		**(678)**	**(272)**
Cash flows from financing activities			
Interest paid	**24**	(494)	(530)
Decrease in short term borrowing		-	(21)
Repayments of long term borrowing	**24**	(525)	(347)
Net cash used in financing activities		**(1 019)**	**(898)**
Net Increase / (decrease) in cash and cash equivalents		**533**	**(252)**
Effect of exchange rate changes on cash and cash equivalents		(608)	302
Cash and cash equivalents at the beginning of the year		**231**	**181**
Cash and cash equivalents at the end of the year	**21**	**156**	**231**

The notes on pages 29 – 95 are an integral part of these consolidated financial statements.

1. GROUP AND PRINCIPAL ACTIVITIES

(a) Introduction

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). The average number of employees of the Group during the year ended 31 December 2020 was 860 (2019: 844).

(b) Share capital

Significant shareholders of the Company as at 31 December are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Ukrproduct Group		
Slipchuk Alexander	34.89%	34.89%
Evlanchik Sergey	34.96%	34.96%

As at 31 December 2020, 7.34% of the Company's issued share capital was held in treasury.

(c) Ukrainian environment

The global Covid-19 pandemic and crisis have hit Ukraine hard and darkened the outlook. Until February 2020, the economy was still in a robust macroeconomic state, with declining public debt, falling inflation and positive growth forecasts. However, since the outbreak of the pandemic and the introduction of strict quarantine measures, the situation has changed fundamentally. Ukraine's GDP contracted 4%, after growing by 3.2% in 2019 according to State Statistics Service of Ukraine. The National Bank of Ukraine (the NBU) states the reduction in investment as the key factor in the fall in GDP. Throughout the year, gross fixed capital formation declined significantly (by 24.4% in 2019) across nearly all sectors. The contribution of net exports to the change in GDP in 2020 remained positive (2.4 pp). Lower energy and higher iron and grain commodity prices resulted in the most favourable terms of trade for Ukraine for the last decade. The import declined by 9.6% due to weak consumer demand in H1, as well as declining investment demand and restrictions on international travel during the year.

Economic activity recovered in H2 2020 supported by a number of measures to mitigate the impact of COVID-19. Moreover, the full-scale lockdown has been replaced by an adaptive quarantine in June 2020 that enabled many services to return to normal functioning.

According to data compiled by the State Statistics Service of Ukraine inflation in Ukraine amounted at 5% in 2020 For comparison previous years' inflation amounted to 4.1% in 2019; 9.8% in 2018; 13.7% in 2017; 12.4% in 2016; 43.3% in 2015 and 24.9% in 2014.

During most of the year, inflation was below the 5% ± 1 pp target range. Falling global energy prices, as well as declining demand for nonstable goods and services, kept inflation low. A weaker hryvnia affected consumer prices with a certain lag. With inflationary pressures easing significantly and business activity declining in H1 2020, the NBU loosened its monetary policy to help the economy recover while returning inflation to the target. The key policy rate was brought to an all-time low of 6%. Thanks to the NBU's monetary support, which helped reduce the cost of funding, and the government's fiscal stimulus, which supported domestic consumption, the economy began to recover in Q3 2020.

In 2020 hryvnia devaluated by 16.2% after two years of strengthening by 16.9% in 2019 and by 1.4% in 2018.

The labor migration of Ukrainians has increased due to a visa-free regime with the European Union. The shortage of professional workers in many industries caused a visible rise in wages for the necessary personnel in Ukraine in 2020

In 2020 Ukraine produced 8 million 23.5 thousand tons of milk, which is 4.1% less than in 2019 - according to the State Statistics Committee. The share of the industrial sector in the total milk supply is 29%, the remaining 71% is produced by households. According to the results of 2020, milk processing enterprises received 3 million 511.8 thousand tons of milk, which is 7.6% less than in the same period last year. At the same time, the distribution of raw milk materials into grades in the total milk supply showed an increase in the share of "extra" and "migration" of the second grade to the first according to the data of of the Association of Milk Producers.

It is noted that along with the reduction that is observed in most dairy products, there is also a change in the structure of manufactured products. Thus, there was a noticeable reduction in the production of drinking milk of different fat content, the volume of which decreased by 8%. At the same time, its share in the structure of production decreased from 46% in 2019 to 43% in 2020. Low profitability is the main reason of decrease in the production.

Thus, the share of raw materials in the total weight of revenues for processing increased from 20.5 to 26.9%, or 885.1 thousand tons in physical terms. The percentage of higher grade decreased from 27.1% to 26.6% (875.9 thousand tons). And the first, on the contrary, increased from 27.3% to 41.4% (1 million 361.9 thousand tons). The share of the second grade decreased sharply from 23.3 to 4.6% (150.5 thousand tons).

Milk prices were record high, which increased cost production for the processing industry. As per Infoagro information, in 2019 dairy producers had profitability at 50%, although in 2020 even the most effective companies had profitability from milk production only at about 25%, and many farms worked at loss at all.

The year ended with the establishment of the weighted average price of three varieties at 11.64 UAH /kg. The cost of extra grade averages 12.15 UAH / kg, the highest - 11.7 UAH/ kg, the first - 11.08 UAH/ kg. Price for milk from households is valued at about UAH 7.00/kg on average, excluding VAT.

The production of the main exchange-traded dairy products, which are sold in foreign markets, has multidirectional dynamics. In particular, skimmed milk powder in 2020 was produced by 4.3% more than last year - 28.2 thousand tons, while the amount of butter produced (up to 85% fat) remains 3% lower.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The 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.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (collectively "IFRS").
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Further information is provided in Note 3.

(b) Going concern

For the year ended 31 December 2020, net loss amounted to £1.16 million, including the exchange difference loss of £1.5 million (2019: net profit of £2.031 million after the exchange difference gain of £1.081 million).

For the year ended 31 December 2020, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development ("EBRD") and the bank has not issued a waiver for the breaches. Though to 31 May 2021 the Group serviced its debt on time in accordance with the loan agreements with its lenders, on 01 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group's management continues to have discussions with the EBRD and at present the EBRD has taken no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties, the management is seeking to secure sufficient additional funding from the local banks to refinance the existing loan on more competitive terms. To the best of their knowledge the Board has a reasonable expectation that the Group has sufficient liquidity to continue its operations going forward and to apply the going concern basis in preparation of the financial statements.

(b) Going concern (continued)

Overall, the Company's management has been implementing a number of steps focused on margin improvement and working capital replenishment that include, but are not limited to, the actions described below. Ukrproduct undertakes ongoing optimisation of the raw milk supply and its settlement scheme that is complemented with optimisation of the products' portfolio aimed at increasing the overall margin and turnover. Additionally, the Group's management is introducing new cost efficiency initiatives in procurement, processing, distribution, marketing and logistics as well as carefully reducing overhead.

The Company has launched new B2B partnerships (as well as developing existing ones) in dairy processing, logistics and distribution to capitalise on economy of scale. Moreover, Ukrproduct continues to introduce new dairy products and beverages appealing to shifting consumer demand, which is complemented by focused marketing and promotion efforts, while export trading is being developed with new packaging to adapt to international consumer requirements. On a daily basis the management team is engaged in proactive negotiation with retailers and other trading partners in order to reflect input costs volatility in the current pricing of its end products on shelves, however, this process is challenging and takes time.

The Board acknowledges that COVID-19 had a modest impact on the balance sheet and overall performance of the Group in FY2020 and Ukrproduct has already taken a set of the relevant measures to adapt to the changing marketplace. As a part of the going concern assessment the Company performed a broad analysis of the future cash flows and budgets, applying to them multiple scenarios and stress tests including but not limited to the potential impact of COVID-19 on the future trading performance. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as stable flow of revenues in due course. Finally, to the best of their knowledge the management does not believe that COVID-19 has a direct negative financial impact on its operations and closely monitors the pandemic evolution and its potential pressure on the markets, consumers etc.

(c) Consolidation principles

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2020.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2.1.Basis of preparation (continued)

(c) Consolidation principles (continued)

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction, that is, as transactions with owners in their capacity as owners. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Non-controlling interests represent a portion of profits or losses and net assets not owned by the Group. Non-controlling interests are presented separately from parent share capital in equity in the Consolidated statement of financial position.

2.1.Basis of preparation (continued)

(c) Consolidation principles (continued)

Consolidated financial statements of the Group include following companies:

Group's company	Country of incorporation	Effective ownership ratio		Principal activities
		As at 31 December		
		2020	2019	
Molochnik LLC*	Ukraine	100%	100%	Holder of some assets
Starokonstantinovskiy Molochniy Zavod SC****	Ukraine	100%	100%	Production
Krasilovsky Molochny Zavod Private Enterprise SC****	Ukraine	100%	100%	Owner of land assets
Molochaia Dolina LLC****	Ukraine	100%	100%	Owner of land assets
Zhiviy Kvas LLC****	Ukraine	100%	100%	Production
Alternative Investments MCVIF**	Ukraine	100%	100%	Asset management
Ukrproduct Group LLC	Ukraine	100%	100%	Holder of some assets and operating companies
LinkStar Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets
Solaero Global Alternative Fund Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets
Dairy Trading Corporation Limited	BVI	100%	100%	Export operations
Ukrproduct Group LTD	Jersey			Parent company traded on AIM

* The companies are held through Ukrproduct Group LLC which is a 100%-owned subsidiary of the Company.

** Subsidiaries of Solaero Global Alternative Fund Limited, the Group's holder of trademarks and assets.

**** Subsidiaries of Alternative Investments MCVIF.

Alternative Investments MCVIF is a limited life entity and is due to cease to exist on 5 April 2022.

2.1. Basis of preparation (continued)

(d) Reorganisation

During 2020 the Group has not been reorganised.

(e) Accounting for acquisitions of companies under common control

Acquisitions of controlling interests in companies that were previously under the control of the ultimate beneficiaries of the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the ultimate beneficiaries of the Company. The assets and liabilities acquired are recognised at their book values. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as a part of merger reserve. The cash consideration for such acquisitions is recognised as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid.

No goodwill is recognised where the Group acquires additional interests in the acquired companies from the ultimate controlling shareholders. The difference between the share of net assets acquired and the cost of investment is recognised directly in equity.

2.2. Significant accounting policies

Significant accounting policies given below have been consistently applied by the Group in the preparation of these financial statements, unless otherwise stated.

2.2.1. Foreign currency translation and transactions

(a) Functional and presentation currency

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

Transactions in currencies that differ from the functional currency are considered to be foreign currency transactions.

Management has considered what would be the most appropriate presentation currency for consolidated IFRS financial statements and has concluded that the Group should use British Pounds Sterling (hereinafter “GBP” or £) as the Group’s presentation currency. This is because the Ukrainian Hryvnia is not a major convertible or recognisable currency outside of Ukraine, and also because the Group’s public shareholder base is located predominantly in the UK.

2.2.Significant accounting policies (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within “Net foreign exchange gain (loss)”.

The financial results and financial position of the Group's companies are translated into the presentation currency as follows:

- For current year, all assets and liabilities are translated at the rate effective at the reporting date. Income and expense items are translated at rates approximating to those ruling when the transactions took place;

- Equity items are translated into the presentation currency using the historical rate;

- For comparative figures, all assets and liabilities are translated at the closing rate existing at the relevant reporting date. Income and expense items are translated at rates approximating to those ruling when the transactions took place;

- Income and expenses for each Statement of Comprehensive Income are translated at monthly average exchange rates; and

- All resulting exchange differences are recognised as a separate component of equity within "Translation reserve".

The principal UAH exchange rates used in the preparation of Consolidated Financial Statements are as follows:

Currency	31 December 2020	Average exchange rate for 2020	31 December 2019	Average exchange rate for 2019
UAH/GBP	38.44	34.91	31.02	32.96
UAH/USD	28.27	26.99	23.69	25.82
UAH/EUR	34.74	30.85	26.42	28.92

Foreign currency can be freely converted within Ukraine at a rate close to the rate of the National Bank of Ukraine. At present, the UAH is not a freely convertible currency outside Ukraine.

2.2. Significant accounting policies (continued)

2.2.2. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included in current liabilities in the Consolidated Statement of Financial Position.

2.2.3. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

The Group identifies the following types of inventories:

- raw and other materials (including main and auxiliary operating supply and materials);
- work in progress (including semi-finished products);
- finished goods;
- other inventories (including fuel, packaging, building materials, spare parts, other materials, goods of little value and high wear goods).

The cost of finished goods and semi-finished products comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. The cost of raw materials and other inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

At each reporting date the Group analyses inventories to determine whether they are damaged, obsolete or slow-moving or whether their net realisable value has declined. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The Group periodically checks inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined for any other reason and reduces accordingly the value of inventory to properly reflect in the Consolidated Statement of Comprehensive Income within cost of sales.

2.2. Significant accounting policies (continued)

2.2.4. Property, plant and equipment

(a) Recognition and measurement of property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably and the entity expects to use the items during more than one reporting period (more than 12 months).

The Group adopts the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets, except office equipment which is carried at cost. Management believes that this policy provides more reliable and relevant financial information because it better reflects the value in use of such assets to the Group.

All significant categories of property, plant and equipment are subsequently carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Changes in fair value are recognised in equity (the "Revaluation reserve"). An appropriate transfer is made from the revaluation reserve to the retained earnings when assets are expensed through the Consolidated Statement of Comprehensive Income (e.g. through depreciation, impairment or sale).

Subsequent costs that increase future economic benefits of the item of property, plant and equipment also increase its carrying amount. Otherwise, the Group recognises subsequent costs as expenses of the period in which they were incurred. The Group classifies costs, associated with property, plant and equipment, for the following categories: repairs and maintenance; capital repairs, including modernisation.

(b) Impairment of property, plant and equipment

At each reporting date the Group assesses the carrying value of its property, plant and equipment to determine whether there is any evidence that the assets have lost part of their value as a result of impairment. If such evidence exists, the expected recoverable amount of such an asset is calculated to determine the amount of impairment loss, if any. In case it is not practicable to determine the expected recoverable amount of a separate asset, the Group determines the expected recoverable amount of a cash-generating unit, to which the asset belongs.

2.2. Significant accounting policies (continued)

2.2.4. Property, plant and equipment (continued)

(b) Impairment of property, plant and equipment (continued)

When, according to estimates, the expected recoverable amount of an asset (or a cash-generating unit) is lower than its carrying value, the carrying value of an asset (or a cash generating unit) is reduced to its expected recoverable amount. Impairment losses are immediately recognised as expenses, except when the asset is carried at revalued price. In such cases, the impairment loss is considered as a decrease in the revaluation reserve. If the impairment loss is subsequently reversed, the asset's carrying value (or a cash generating unit) is increased to the revised estimate of its expected recoverable amount. In such a case, the increased carrying value should not exceed the carrying value that could be determined in case the impairment loss for an asset (or a cash-generating unit) was not recognised in previous years. The reversal of the impairment loss is immediately recognised as income.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit and loss on disposal of non-current assets.

(c) Depreciation of property, plant and equipment

Depreciation of an asset begins when it becomes available for use. Depreciation of an asset terminates with the termination of its recognition. Depreciation does not terminate when an asset is idle or if it is removed from active use and is intended for disposal, unless it is already fully depreciated.

Depreciation is applied to all items of property, plant and equipment with the exception of land and assets under construction. The Group calculates the depreciation using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. The Group has applied the production method of depreciation to all production equipment as management considered this method to be the most appropriate for the production assets.

Terms of useful lives by groups of property, plant and equipment (except for those depreciated under production method) are listed below:

Group of property, plant and equipment	Useful life
Buildings	7 - 62 years
Plant and machinery	2 - 20 years
Vehicles	5 - 12 years
Instruments, tools and other equipment	2 - 20 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. Impact of any changes arising from estimates made in prior periods is recorded as a change in an accounting estimate.

2.2. Significant accounting policies (continued)

2.2.5. Assets under construction

Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the Group's material costs incurred. No depreciation is charged on assets under construction. Upon completion, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Group performs impairment testing as described in Note 2.2.19. Unless an indication of impairment exists, all accumulated costs of the asset are transferred to the relevant fixed asset category and depreciated at applicable rates from the time the asset is completed and ready for use.

2.2.6. Intangible assets

(a) Recognition and measurement of intangible assets

Intangible assets are recognised at historical cost less accumulated amortisation and accumulated impairment losses.

The Group recognises an item as an intangible asset if it meets the following criteria for recognition: it is probable that the Group will receive future economic benefits associated with the asset and costs of the asset can be reasonably estimated.

The Group identifies the following types of intangible assets:

- Computer software licenses;
- Trademarks.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specialised software.

Trademarks are shown at historical cost.

An intangible asset is derecognised at disposal, or when the Group no longer expects receipt from this asset of any economic benefits. The profit from cancellation or disposal is defined by the difference between net proceeds on the sale and the carrying value of intangible assets. If the intangible asset is exchanged for a similar asset, the value of the acquired asset is equal to the value of the disposed asset.

(b) Amortisation and useful life

Costs of computer software licenses are amortised over their estimated useful lives using the straight-line method (1-10 years). The amortisation expense is included within administrative expenses in the Consolidated Statement of Comprehensive Income.

2.2. Significant accounting policies (continued)

(b) Amortisation and useful life (continued)

Trademarks have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (11-18 years). The amortisation expense is included within selling and distribution expenses in the Consolidated Statement of Comprehensive Income.

(c) Business combinations and goodwill

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 "Financial Instruments" either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Goodwill is not amortised but is subject to testing for impairment as at the reporting date or more frequently, if events or changes in circumstances indicate the possibility of reducing its usefulness. At the acquisition date, goodwill is allocated to each asset or group of assets that generate cash, and benefits from which are expected to be received upon consolidation.

2.2. Significant accounting policies (continued)

(c) Business combinations and goodwill (continued)

The amount of impairment is determined by assessing the recoverable amount, which may be obtained for a cash-generating asset (group of cash generating assets) to which goodwill relates. Where the recoverable amount is less than the book value of cash generating asset (group of cash generating assets), impairment is recognised.

2.2.7. Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be subsequently measured at fair value (either through other comprehensive income ("FVOCI"), or through profit or loss ("FVPL"), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Three measurement categories into which the Group classifies its debt financial assets are as follows:

1) Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income / (expenses). Impairment losses are presented in other operating income / (expenses) or as a separate line item in the consolidated income statement, if material.

2) Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Impairment are presented in other operating income / (expenses) or as a separate line item in the consolidated statement of comprehensive income, if material.

3) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other operating income / (expenses) in the period in which it arises.

2.2. Significant accounting policies (continued)

2.2.7 Financial assets (continued)

(a) Initial recognition

Financial assets at fair value through profit and loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in the consolidated statement of comprehensive income for trading investments; and recognised in equity for assets classified as assets that are held for collection of contractual cash flows and for selling the financial assets.

(b) Fair value estimation principles

Fair value of financial instruments is based at their market value, established at the reporting date, less transaction costs. If market value is not available, fair value of the instrument is determined by means of pricing and discounted cash flow models.

If a discounted cash flow model is applied, the determination of future cash flows is based on optimal management estimations and the discounting rate is market rate for similar financial instruments predominated as at reporting date. If the price model is used entering figures are based on average market data predominated as at reporting date.

(c) Subsequent measurement

After initial recognition, the Group measure a financial asset at:

(a) amortised cost;

(b) fair value through other comprehensive income; or

(c) fair value through profit or loss.

2.2. Significant accounting policies (continued)

(c) Subsequent measurement (continued)

Financial assets at amortised cost are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(d) Impairment of financial assets

The Group use a three-stage impairment model, based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition. These three-stages then determine the amount of impairment to be recognised as expected credit losses (ECL) at each reporting date as well as the amount of interest revenue to be recorded in future periods:

(a) Credit risk has not increased significantly since initial recognition – recognise 12 months ECL, and recognise interest on a gross basis;

(b) Credit risk has increased significantly since initial recognition – recognise lifetime ECL, and recognise interest on a gross basis;

(c) Financial asset is credit impaired (using the criteria currently included in IFRS 9) – IFRS 9 requires that credit losses on financial assets are measured and recognised using the 'expected credit loss (ECL) approach.

(e) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

2.2.8. Financial liabilities

The Group classifies its financial liabilities into categories depending on the purpose for which the liability was acquired. The Group has not classified any of its liabilities at fair value through profit and loss.

Financial liabilities held at amortised cost include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank borrowings, overdrafts, promissory notes and bonds issued by the Group are initially carried at fair value, being the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

2.2. Significant accounting policies (continued)

2.2.8. Financial liabilities (continued)

"Interest expense" in this context includes initial transaction costs and interest payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(a) Initial recognition

Financial liabilities are initially recognized at fair value, adjusted in case of borrowings for directly attributable transaction expenses.

(b) Subsequent measurement

Trade and other accounts payable initially recognized at fair value, are subsequently accounted for at amortized cost at effective interest rate method.

Borrowings and liabilities initially recognized at fair value less transaction costs, are subsequently measured at amortized cost; any difference between the amount of received resources and the sum of repayment is represented as interest cost using the effective interest rate method during the period, when borrowings were received.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.2.9. Share capital

The ordinary shares are classified as share capital. The difference between the fair value of consideration received and the nominal value of issued share capital is recognized as share premium.

2.2.10. Treasury shares

The price paid for treasury shares is deducted from Companies' shareholders' equity until the shares are cancelled or reissued. When treasury shares are sold or reissued, the amount received is recognized as an increase in equity. Treasury stock is held at cost until retired or reissued. Legal, brokerage, and other costs to acquire shares are not included in the cost of treasury stock. When treasury stock is reissued, any gains are included as part of additional paid-in capital. Losses upon reissuance reduce additional paid-in capital to the extent that previous net gains from the same class of stock have been recognized and any losses above that are recognized as part of retained earnings.

2.2. Significant accounting policies (continued)

2.2.11. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured simultaneously with an increase in asset or decrease in liabilities, which causes the increase in shareholder's equity (excluding the capital increase through contributions from members of the enterprise), provided that the amount of income can be reasonably estimated. Revenue is reflected in the amount of the fair value of assets received.

Revenue is the amount of cash or cash equivalents received or receivable. However, in case of delay in receipt of cash or cash equivalents, the fair value of the consideration may be less than received or the nominal amount of cash expected to be received. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. Revenue (proceeds) from sale of products (goods, works and services) is not corrected by an amount of related doubtful and uncollectible receivables. The amount of such debt is recognized as expenses of the Group.

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Group. Revenues and expenses are recognized on an accruals basis.

(a) Revenue from sale of goods (products)
Revenue from the sale of goods (products) is recognised when all the following conditions are satisfied:
- the significant risks and rewards of ownership of the goods have passed to the buyer;
- the Group is no longer involved in the management to the extent that is usually associated with ownership, and has no control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Revenue from sale of services
The revenue from rendering of services is recognised when all the following conditions are satisfied:
- the amount of revenue can be reliably measured;
- inflow of economic benefits related to the transaction is probable;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

To recognise revenue under IFRS 15, the Company applies the following five steps:
- definition of the contract with the customer;
- definition of contractual obligations;
- determining the transaction price;
- allocation of prices to contractual obligations;
- determination of revenue from the fulfillment of contractual obligations.

2.2. Significant accounting policies (continued)

2.2.12. Expenses recognition

Expenses which can not be related directly to a gain in a certain period, are shown as a part of expenses of the period they were incurred in.

If an asset provides economic benefits receivable during several reporting periods, expenses are calculated by allocating its value on a systematic basis over respective reporting periods.

Writing off deferred expenses is made on a straight-line basis within the periods to which they relate, during which the receipt of economic benefits is expected.

Expenses which were incurred in the reporting period but relate to production of semi-finished products which will be further processed to finished goods and sold in future reporting periods, are accounted for in the current period in the item "Work-in-progress", included within “Inventories” in the consolidated statement of financial position.

2.2.13. Financial expenses

Interest expenses and other costs on borrowings to finance construction or production of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed. Net financial expenses are recorded in the consolidated statement of comprehensive income.

2.2.14. Value added tax

VAT is levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine.

2.2. Significant accounting policies (continued)

2.2.14. Value added tax (continued)

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against their VAT liability in the reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

2.2.15. Tax

Taxation has been provided for in the financial statements in accordance with relevant legislation currently in force. The charge for taxation in the consolidated statement of comprehensive income for the year comprises current tax and changes in deferred tax.

Current tax is the amount of income tax payable/recoverable in respect of taxable profit/tax loss for the period determined in accordance with rules established by the tax authorities in respect of which income tax shall be paid/refundable.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except in situations where the deferred tax arising on initial recognition of goodwill or of an asset or liability in a transaction that is not a deal to merge companies and which, at the time of its commission, has no effect on accounting or taxable profit or loss.

Assessment of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise depending on the ways in which the Group assumes the reporting date of realisation or settlement of the carrying value of its assets or liabilities.

2.2. Significant accounting policies (continued)

2.2.15. Tax (continued)

A deferred tax asset is recognised only to the extent to which there is a substantial probability that future taxable profit, which may be reduced by the amount of deductible temporary differences, will be received. Deferred tax assets and liabilities are measured at tax rates, the use of which is expected in the period of the asset or liability is settled, based on the provisions of the legislation enacted, or declared at that date.

Deferred income taxes are recognised for all temporary differences associated with investments in subsidiaries and associated companies and joint activities, except in cases where the Group controls the timing of the reversal of temporary differences, and where there is a significant probability that the temporary difference will not will be reduced in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces it to the extent to which there is no longer the probability that there will be sufficient taxable profits, which allow to realise the benefits of part or all of this deferred tax asset. Any such reduction is restored to the extent to which there is the likelihood that sufficient taxable profit is accrued.

Deferred tax assets and liabilities are not discounted.

2.2.16. Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period. Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received. Where fair value of goods and services received from persons other than employees is difficult to identify, the fair value of the instruments granted is charged to the consolidated statement of comprehensive income over the vesting period. The fair value of options to be expensed is determined on the basis of adjusted Black-Scholes model as set out in Note 28.

2.2.17. Pension costs

The Group contributes to the Ukrainian mandatory state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred and are included in staff costs. The Group does not operate any other pension schemes.

2.2. Significant accounting policies (continued)

2.2.18. Share issue costs

All qualifying transaction costs in respect of the issue of shares are accounted for as a deduction from share premium, net of any related tax deduction. Qualifying transaction costs include the costs of preparing the prospectus, accounting, tax and legal expenses, underwriting fees and valuation fees in respect of the shares and of other assets.

2.2.19. Leases

Group as a lessee

The Group as a lessee various warehouses and vehicles. The Group recognizes a lease liability and a corresponding right-of-use asset at the commencement date of a lease. A lease is a contract — or part of a contract — that conveys a right to control the use of an identified asset for a period of time in exchange for consideration. In general, Group splits the contractual consideration into a lease and a non-lease component based on their relative stand-alone prices. For vehicle leases, however, Group applies the practical expedient not to make this split but rather accounts for the fixed consideration as a single lease component. In addition, payments related to short-term leases (leases with a term shorter than 12 months) are recognized on a straight-line basis in profit or loss.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life. Payments associated with short-term leases and of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group’s investment in the relevant leases. Income from finance leases is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the relevant leases.
Lease income from operating leases where the group is a lessor is recognised in income on a straightline basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature

2.2. Significant accounting policies (continued)

2.2.20. Impairment of assets

In respect of all assets, the Group conducts the following procedures ensuring accounting for these assets at an amount, not exceeding their recoverable amount:

- at each reporting date the condition of these assets is analyzed for impairment;
- in case any impairment indicators exist, the amount of expected recovery of such asset is calculated to determine the amount of losses from impairment, if any. If it is impossible to determine the amount of losses from impairment of a separate asset, the Group determines the amount of estimated impairment of the cash-generating unit, to which the asset belongs.

The amount of expected recovery is the higher of two estimates: net selling price and "value in use" of the asset. In estimating value in use of asset, estimated future cash flows are discounted to their current value using a pre-tax discount rate that reflects current market estimates of time value of money and risks related to the asset.

If according to estimates the amount of expected recovery of assets (or a cash-generating unit) is less than its book value, the book value of asset (or a cash-generating unit) is reduced to the amount of expected recovery. Losses from impairment are recognised as expenses directly in the consolidated statement of comprehensive income.

2.2.21 Contingent liabilities and assets

Contingent liabilities are potential liabilities of the Group arising from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events, which are not under the complete control of the Group, or current obligations resulting from past events are not recognised in the financial statements in connection with the fact that the Group does not consider an outflow of resources embodying economic benefits, and required to settle liabilities as probable, or the value of liabilities can not be reliably determined.

The Group does not recognise contingent liabilities in the financial statements. The Group discloses information about contingent liabilities in the notes to the financial statements except when the probability of outflow of resources required to settle the obligation, is remote.

Contingent assets are not recognised in the consolidated financial statements, but disclosed in the Notes where there is a sufficient probability of future economic benefits.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

2.2. Significant accounting policies (continued)

2.2.22. Related parties

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

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.

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.

While considering any relationship which can be defined as a related party transaction, the Group takes into consideration the substance of the transaction not just its legal form.

The Group classifies the related parties according to existing criteria in the following categories:

a) companies that directly or indirectly, through one or more intermediaries, exercise control over the Group, are controlled by it, or together with it are under common control (this includes holding companies, subsidiaries and fellow subsidiaries of the parent company);

b) associates are companies whose activities are significantly influenced by the Group, but are neither subsidiaries, nor joint ventures of the investor;

c) individuals, directly or indirectly holding ordinary shares that give them a possibility to significantly influence the Group's activities;

d) key management personnel are persons having authority and responsibility for planning, managing and controlling the activities of the Group, including directors and senior officials (as well as the non-executive director and close relatives of these individuals); and

e) companies, large blocks of shares with voting rights of which are owned directly or indirectly by any person described in paragraphs (c) or (d), or a person influenced significantly by such persons. This includes enterprises owned by directors or major shareholders of the Group, and companies which have a common key management member with the Group;

f) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity

2.2.23. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

2.2. Significant accounting policies (continued)

2.2.23. Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2.2.24. Dividends

Equity dividends are recognised in the consolidated financial statements when they become legally payable. Interim dividends are recognised when they are paid. In the case of final dividends, this is when approved by the shareholders at the annual general meeting.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

(a) Estimates of fair value of property, plant and equipment based on revaluation

The Group is required, periodically as determined by the directors, to conduct revaluations of its property, plant and equipment. Such revaluations are conducted by independent valuers who employ the valuation methods in accordance with International Valuation Standards such as cost approach, comparative (market) approach and revenue (income) approach.

(b) Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long life of certain assets, changes to the estimates used can result in significant variations in the carrying value. Further information is contained in Notes 14 and 15.

(c) Inventory

The Group reviews the net realisable value of, and demand for, its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that could affect estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, supplier prices and economic trends. Further information is contained in Note 17.

(d) Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

(e) Income taxes

The Group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. Further information is contained in Notes 13 and 16.

(f) Quality claims

The Group supplies consumers and industrial customers in Ukraine with dairy products manufactured in accordance with the current laws, food safety standards and technical requirements of the relevant Ukrainian authorities. The Group voluntarily applies non-domestic standards – ISO and HASSP – to some of the Group's operations. For the industrial customers both domestically and outside of Ukraine, the food products are manufactured to the technical specifications agreed with the buyers in advance of the sale. In instances where the quality criteria and/or technical specifications are not met or the delivery of products are made close to expiry date, a quality claim may arise and the corresponding contingent liability may be disclosed in the notes to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(f) Quality claims (continued)

Realisation of any such contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to quality claims requires the Group's management to make determinations about the future matters that may, at the time of determination, be beyond management's control. Among the factors considered in making decisions on quality claims provisions are: the nature of the claim, the quantifiable variances in quality giving rise to a claim, the potential loss from satisfying the claim and any decision of the Group's management as to how it will respond to the claim.

(g) Transfer pricing

The transfer pricing methods, established by the Tax Code of Ukraine, are in line with the OECD Guidelines. The Group exports skimmed milk powder and performs intercompany transactions, which is in the scope of the Ukrainian TP regulations. The Group has submitted the controlled transaction report for the year ended 31 December 2019 within the required deadline, and has prepared all necessary documentation on controlled transactions for the year ended 31 December 2020 as required by legislation and plans to submit report. Management believes that the Group has been in compliance with all requirements of effective tax legislation.

(h) Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of non-financial assets at each reporting date. If any events or changes in circumstances indicate that the current value of the assets may not be recoverable or the assets, goods or services relating to a prepayment will not be received, the Group estimates the recoverable amount of assets. If there is objective evidence that the Group is not able to collect all amounts due to the original terms of the agreement, the corresponding amount of the asset is reduced directly by the impairment loss in the consolidated statement of comprehensive income. Subsequent and unforeseen changes in assumptions and estimates used in testing for impairment may lead to the result different from the one presented in the consolidated financial statements.

(i) Fair value of financial instruments

The fair value of financial assets and liabilities is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model.

(j) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(j) Fair value measurement (continued)

The principal or the most advantageous market must be accessible to the Group. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy as the lowest level input that is significant to the entire fair value measurement.

4. ADOPTION OF NEW AND REVISED IFRS

Application of new standards

In general, the accounting policy corresponds to that applied in the previous reporting year. Some new standards and interpretations have become mandatory for use from 01 January 2020. Below there is information on new and revised standards and interpretations that have been applied by the Company from 01 January 2020.

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" in respect to definition of material

These Amendments clarify the definition of material by making it more consistent and relevant to all standards. According to the new definition, information is considered material if its omission, misstatement or concealment by other information in the financial statements, in accordance with reasonable expectations, could affect the decisions of the main users of the financial statements of general purpose, who make it on the basis of such financial statements containing the financial information about the specific reporting organization. These Amendments did not affect the Company's financial statements.

Amendments to IFRS 3 "Business Combinations"

These Amendments clarify that business is an integrated set of activities and assets must which include at least a contribution and a fundamentally meaningful process, which together can significantly contribute to generating of income. Herewith, Amendments explains that the business does not necessarily have to include all the contributions and processes necessary to generate an income. The Amendments also introduce an unrequired "concentration test", which simplifies the assessment of whether the acquired set of activities and assets is a business. These Amendments did not affect the Company's financial statements, but may be applied in the future if the Company conducts a business combination.

Amendments to IFRS 7 "Financial Instruments: Disclosures", IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" - Interest Rate Benchmark Reform

The Amendments provide a number of exemptions that are applied to hedging relationship that are directly affected by the base interest rate reform. Base interest rate reform affects the hedging relationship if its application results in uncertainties about the terms and/or amount of cash flows based on the base

4. ADOPTION OF NEW AND REVISED IFRS (continued)

interest rate, on the hedged item or hedging instrument. The Amendments did not affect the Company's financial statements as it does not have hedging relationship based on interest rates.

Amendments to the Conceptual Framework of Financial Reporting

The Conceptual Framework for the financial statements in the new version contains a new section on valuation, guidance on presentation of financial results, improved definitions and recommendations (in particular, the definition of a liability) and clarification of such important issues as management functions, prudence and uncertainty in valuation during the preparation of the financial statements.

The Amendments did not affect the Company's financial statements.

IFRS and Interpretations which are issued but not yet effective

The Company has not applied the following IFRS, Interpretations to IFRS and IAS, changes and amendments to them that have been issued but are not yet effective.

IFRS 17 "Insurance Contracts"

IFRS 17 is a new standard for financial statements in respect to insurance contracts that establishes the recognition and measurement, presentation and disclosure of insurance contracts. IFRS 17 will replace IFRS 4 “Insurance Contracts”, which was issued in 2005.

IFRS 17 becomes effective for reporting periods beginning on or after 01 January 2023, with comparative information being required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on the date of the first application of IFRS 17 or earlier. This Standard was not applied to the Company.

Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Distribution of Assets between an Investor and its Associate or Joint Venture

The Amendments consider the contradictions between IFRS 10 and IAS 28 in respect to accounting of the loss of control over a subsidiary that is sold to an associate or joint venture or is contributed to them. The Amendments clarify that the gain or loss arising from the sale or contribution of assets that is a business, as defined in IFRS 3, is recognized in full amount in an agreement between the investor and its associate or joint venture. However, gains or losses arising from the sale or contribution of non-business assets are recognized only to the extent of the unrelated investors’ interests in associate or joint venture. The IASB postponed the effective date of these Amendments indefinitely, however, earlier application of the Amendments is permitted.

Amendments to IAS 1 “Presentation of Financial Statements”

In January 2020, the IASB issued Amendments to IAS 1 in order to clarify issues related to the classification of current and non-current liabilities. The Amendments are effective for periods beginning on or after 01 January 2023. The Amendments are applied retrospectively, early application is permitted.

4. ADOPTION OF NEW AND REVISED IFRS (continued)

The Amendments may affect the classification of the liabilities in the Company's statement of financial position.

Amendments to IFRS 3 "Business Combinations" – "Reference to Conceptual Framework"

In May 2020, the IASB issued Amendments to IFRS 3, which aim is to replace the reference to the "Framework for the Preparation and Presentation of Financial Statements" issued in 1989 with the reference to the "Conceptual Framework for Financial Reporting" issued in March 2018 without making significant changes to the requirements of the standard. These Amendments shall enter into force for annual periods beginning on or after 01 January 2022 and shall be applied prospectively.

Amendments to IAS 16 – "Property, Plant and Equipment" - Proceeds before Intended Use

In May 2020, the IASB issued Amendments to IAS 16, according to which entities are prohibited to deduct from the historical cost of an item of property, plant and equipment any proceeds from the sale of products manufactured in the process of delivering of such item to its location and bringing it into condition, which is required for its operation in the manner prescribed by management. Instead, the entity recognizes proceeds from the sale of such products, as well as the cost of production of those products, in profit or loss. These Amendments shall enter into force for annual periods beginning on or after 01 January 2022 and shall be applied retrospectively. It is expected that these Amendments will not have a material impact on the Company's financial statements.

Amendments to IFRS 16 "Leases" – "Covid-19-Related Rent Concessions"

On 28 May 2020, the IASB issued Amendments to IFRS 16 "Leases" – "Covid-19-Related Rent Concessions". These Amendment provide an exemption for tenants from the requirements of IFRS 16 in respect to accounting of modifications to lease agreements in the case of lease concessions that arise as a direct result of Covid-19 pandemic. As a practical simplification, the lessee may decide not to analyze whether the lease concession made by the lessor in connection with the Covid-19 pandemic is a modification of the lease agreement.

A lessee that makes such a decision should consider any change in lease payments due to a lease concession related to the Covid-19 pandemic, similar to how this change would be accounted for in accordance with IFRS 16 if it was not a modification of the lease agreement. These Amendments are applied to annual periods beginning on or after 01 June 2020.The application of these Amendments did not have an impact on the Company's financial statements.

4. ADOPTION OF NEW AND REVISED IFRS (continued)

Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - "Onerous Contracts – Cost of Fulfilling a Contract"

In May 2020, the IASB issued Amendments to IAS 37, which clarify which costs an entity should consider when assessing whether a contract is onerous or unprofitable. These Amendments provide an application of an approach based on "costs directly related to the contract". Costs directly related to the contract for the provision of goods or services include both additional costs for the performance of this contract and distributed costs directly related to the performance of the contract. General and administrative expenses are not directly related to the contract and are therefore excluded, except when they are clearly reimbursable by the contractor under the contract.

These Amendments shall enter into force for annual periods beginning on or after 01 January 2022. It is expected that these Amendments will not have a material impact on the Company's financial statements.

Interest Rate Benchmark Reform - Phase 2

On 27 August 2020, the IASB published the Amendments "Interest Rate Benchmark Reform" - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. These Amendments relate to the following:

changes in contractual cash flows - the company does not have to derecognize or adjust the carrying amount of financial instruments to reflect the changes required by the reform, but instead needs to update the effective interest rate in order to reflect the change in the base interest rate;

hedge accounting - the company does not have to stop hedge accounting only because it makes changes necessary for the reform if the hedge meets other hedge accounting criteria; and

disclosure - the company will have to disclose new risks arising from the reform and how it manages the transition to alternative base rates.

The Amendments shall enter into force for annual periods beginning on or after 01 January 2021, with early application permitted.

"Annual Improvements to IFRS" (cycle for 2018 – 2020 years)

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Subsidiary that applies International Financial Reporting Standards for the first time

Under these Amendments, a subsidiary that chooses to apply paragraph D16 (a) of IFRS 1 has the right to measure accumulated exchange differences using the amounts recognized in the financial statements of the parent company based on the date of transition of the parent company to IFRS. These Amendments may also be applied by associates and joint ventures that decide to apply paragraph D16 (a) of IFRS 1. These Amendments are effective for annual periods beginning on or after 01 January 2022. These Amendments will not have an impact on the Company's financial statements.

4. ADOPTION OF NEW AND REVISED IFRS (continued)

Amendments to IFRS 9 "Financial Instruments" - Fees in the "10 per cent" test for derecognition of financial liabilities

These Amendments clarify which amounts of commission fees the entity considers when assessing whether the terms of a new or modified financial liability differ materially from the terms of the original financial liability. Such amounts include only those commission fees that have been paid or received between a particular creditor and the borrower and commission fees paid or received by the creditor or borrower on behalf of another party. An entity shall apply these Amendments in respect to financial liabilities that have been modified or replaced at the date of commencement (or after) of the annual reporting period in which the entity first applied these Amendments. These Amendments shall enter into force for annual periods beginning on or after 01 January 2022. It is expected that these Amendments will not have a material impact on the Company's financial statements.

Amendments to IAS 41 "Agriculture" - Taxation in Fair Value Measurements

These Amendments eliminate the requirement in paragraph 22 of IAS 41 that entities do not include tax-related cash flows in measuring the fair value of assets within the scope of IAS 41. An entity shall apply these Amendments prospectively to the fair value measurement at the date of commencement (or after) of the first annual reporting period beginning on or after 01 January 2022. Application is allowed until this date. These Amendments will not have an impact on the Company's financial statements

5. FINANCIAL RISK MANAGEMENT

The principal risks facing the Group's business are credit risk, liquidity risk and market risk, including fair value or cash flow interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Executive Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors.

(a) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- other financial assets;
- cash and cash equivalents;
- bank loans;
- trade and other payables.

The principal financial instruments are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
	£ '000	**£ '000**
Financial assets		
Financial assets at amortised cost		
- trade and other receivables (excluding non-financial assets)	5 506	6 794
- cash and cash equivalents	156	231
- other financial assets	27	31
	5 689	**7 056**
Financial liabilities		
Financial liabilities at amortised cost:		
- short-term payables	467	441
- current bank loans	6 628	7 213
- trade and other payables (excluding non-financial liabilities)	10 112	7 570
- interest payable	179	171
	17 386	**15 395**

(b) General objectives, policies and processes

The Group's overall risk management programme recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group Chief Executive Officer (CEO) under policies approved by the Board of Directors (the "Board"). The Group CEO identifies and evaluates financial risks in close co-operation with the Group's operating units.

5. FINANCIAL RISK MANAGEMENT (continued)

The Board provides broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investing excess liquidity.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are laid out below.

(c) Credit risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. The Ukrproduct Group is mainly exposed to credit risk from credit sales to customers in Ukraine. The Group manages its credit risk through the Group's risk assessment policy by evaluating each new customer before signing a contract using the following criteria: trading history and the strength of own balance sheet. The Group attempts to reduce credit risk by conducting periodic reviews which includes obtaining external ratings and in certain cases bank references.

According to the Group's risk assessment policy, implemented locally, every new customer is appraised before entering contracts; trading history and the strength of their own balance sheet being the main indicators of creditworthiness. While starting the commercial relationship with the Group, a new customer is offered the terms that are substantially tighter than those for the existing customers and stipulate, as a rule, the cash-on-delivery payments terms and no-returns policy (quality-related claims exempted). If the relationship progresses successfully, the terms are gradually relaxed to fall in line with the Group's normal business practices and local specifics as required by the market.

The Group's periodic review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the CEO. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only.

Quantitative disclosures of the credit risk exposure in relation to trade and other receivables, which are neither past due nor impaired, are made in Note 18. The Group does not rate trade receivables by category or recoverability, as the Group's historical default rates have been negligible in the past (less than 5%); essentially all trade receivables due to the Group had been recovered.

5. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

In the future, the default rate on trade receivables overdue is expected to remain stable or even fall because in Ukraine the Group deals increasingly with the modern-format retailers whose creditworthiness is conducive to the payment discipline required by the Group.

Maximum exposure to the trade and other receivables component of credit risk at the reporting date is the fair value of trade and other receivables. There is no collateral held as security or other credit enhancements.

The Group's credit controllers monitor the utilisation of the credit limits on a daily basis by customer and apply the delivery stop orders immediately if the individual limits are exceeded. The Group's procedure for recovery of the trade receivables past due includes the following steps:

- identification of the date and exact amount of the receivable past due, termination of all further deliveries and forwarding to the customer of the details of the amount due and the notice of the failure to pay - 3 days after the past due date;
- delivery to the customer of the formal claim for the amount overdue and the visit of the representative of the commercial credit control department to the customer premises- 2 weeks thereafter;
- filing a claim to the commercial court for repayment of the amount overdue and late payment fees - 2 weeks thereafter;
- obtaining a court order for repayment of the amount due and collaboration with bailiff - 2 weeks thereafter.

As a result of the credit control and risk assessment procedures, the Group does not expect any significant losses from non-performance by the counterparties at the reporting date from any of the financial instruments currently employed in the business.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

Maximum exposure to the cash and cash equivalents and deposits with banks and financial institutions component of credit risk at the reporting date is the fair value of the cash balances due from such banks and financial institutions. There is no collateral held as security or other credit enhancements.

5. FINANCIAL RISK MANAGEMENT (continued)

Cash at bank and short term deposits are kept on the accounts in the following banks:

Bank	**Year ended 31 December 2020** Rating	**Year ended 31 December 2019** Rating	**Year ended 31 December 2020** £ '000	**Year ended 31 December 2019** £ '000
JSC OTP Bank	uaAAA	uaAA	8	2
PJSC Raiffeisen Bank Aval	Aa3.ua	A3.ua	10	28
CreditWest	uaAA+	uaAA+	86	189
Other	Caa3	Caa3	37	4
			141	**223**

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

The Group is also exposed to a credit risk with regard to loans issued to third parties, related parties and employees. This risk is considered to be low and is managed according to the Group's risk assessment policy.

The Group's exposure to credit risk, where the carrying value of financial assets is unsecured, is as shown below:

	Year ended 31 December 2020 £ '000 Carrying Value	**Year ended 31 December 2020** £ '000 Maximum exposure (unsecured)	**Year ended 31 December 2019** £ '000 Carrying Value	**Year ended 31 December 2019** £ '000 Maximum exposure (unsecured)
Cash and cash equivalents	156	156	231	231
Trade receivables	4 513	4 513	6 664	6 664
Other receivables	993	993	130	130
Other financial assets	27	27	31	31
	5 689	**5 689**	**7 056**	**7 056**

(d) Liquidity risk

Liquidity risk is a function of the possible difficulty to be encountered in raising funds to meet financial obligations. The Group's policy is to ensure that it will always have sufficient cash to enable it to meet its obligations as they fall due by maintaining the minimum cash balances and agreed overdraft facilities. The Group also seeks to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its borrowings. Detailed information is contained in Note 24.

5. FINANCIAL RISK MANAGEMENT (continued)

The Group's operating divisions (plants) have different liquidity requirement profiles. As the Group's products have short-cycled and long-cycled production, the liquidity risk of each plant is monitored and managed centrally by the Group Treasury function. Each plant has a cash facility based on cash budgets with the Group Treasury. The cash budgets are set locally and agreed by the CEO in advance.

The CEO (and the Board, if requested) receives rolling quarterly cash flow projections on a monthly basis as well as information regarding the daily cash balances at each plant and overall. In the ordinary course of business, the Group relies on a combination of the available overdraft facilities and cash balances to fund the on-going liquidity needs. Capital expenditures are usually funded through longer-term bank loans. In case of the inadequate cash balances and the overdraft facilities close to the agreed ceilings, the Group is expected to revert to the emergency funding made available through temporary freeze to the current portion of capital spending, immediate operating cost reductions, postponement of payments to the third parties, and expansion of the overdraft ceilings. Although undesirable and never occurring in the past, such emergency funding is the last resort on which the Group may have to draw while ensuring the ongoing continuity of the business.

(e) Market risk

Market risk may arise from the Group's use of interest bearing, tradable and foreign currency financial instruments. Market risk comprises fair value interest rate risk, foreign exchange risk and commodity price risk and is further assessed below:

(i) Interest-rate risk

The Group's interest-rate risk arises only from short-term credits, and is considered to be insignificant. The Group analyses the interest rate exposure on a year basis. Detailed information is contained in Note 24.

A sensitivity analysis is performed by applying various interest rate scenarios to the borrowings. A change of interest rate by 1 percentage points (being the maximum reasonably possible expectation of changes in interest rates) would cause a decrease in interest expense by GBP 66 280 (decrease 2019: -1%-GBP 72 130).

(ii) Foreign exchange risk

Regardless of the increase of sales in Ukraine, the Group's management believes that currency risk is rather high. This risk can be expressed in the growth of currencies of dependent raw materials (vegetable fats), packaging materials, energy resources and fuel. The Group does the best to minimise this risk by replacing raw materials and other components. An increase in export sales is another step taken to deal with exchange risks. All sales are made in a stable currency.

Purchase of raw milk, main semi-processed products and other components of the cost price are produced in Ukraine and are represented in hryvnia. All Group's outstanding balances of the trade accounts payable are in UAH. Currency analysis is provided in Note 29.

5. FINANCIAL RISK MANAGEMENT (continued)

The Group has a long-term loan from the European Bank of Reconstruction and Development ("EBRD") for the purpose of modernising Starokonstantinovskiy Molochniy Zavod SC. This debt is denominated in Euros. Therefore, the Group is exposed to the exchange rate risk that lies in the possibility of Euro (EUR) appreciation against Hryvna (UAH). The sensitivity analysis shows that UAH depreciation against EUR by 1% would cause an exchange rate loss of GBP 190 thousand (2019 by 3%: GBP 230 thousand).

(iii) Commodity price risk
The Ukrainian economy has been characterised by high rates of inflation. This situation can result in higher NBU rates that will increase the lending rate of Ukrainian banks. The Group tends to experience inflation-driven increase in certain costs, including salaries and rents, fuel costs that are sensitive to rises in the general price level in Ukraine. The management of the Group believes there exists high risk of Ukrainian minimum wage growth. In this situation, due to competitive pressures, it may not be able to raise the prices charged for products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Ukraine could increase the Group's cost and decrease its operating margins. Minimization of risk can be achieved by means of rapid response to the market-growth rates and the timeliness of raising prices for finished products.

The Group controls the prices for branded products through timely changes of sales prices according to the market development and competition.

The Group is also exposed to commodity price risk for skimmed milk powder ("SMP"). The price for this product is determined by the world and domestic market. The profitability of SMP was adversely affected by higher raw milk prices.

(f) Operational risk

Operational risk is a risk arising from systems failure, human error, fraud or external events. When controls fail to work, this could have legal consequences or lead to financial losses. The Group cannot expect that all operational risks have been eliminated, but with the help of control system and by monitoring the reaction to potential risks, the Group may manage such risks. The control system provides an effective separation of duties, access rights, approval and verification, personnel training, and valuation procedures.

6. CAPITAL MANAGEMENT POLICIES

The Group's definition of the capital is ordinary share capital, share premium, accumulated retained earnings and other equity reserves. The Directors view their role as that of corporate guardians responsible for preservation and growth of the capital, as well as for generation of the adequate returns to shareholders.

The Group's objectives when maintaining and growing capital are:
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to identify the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows;
- to provide an adequate return to shareholders by delivering the products in demand by the customers at prices commensurate with the level of risk and expectations of shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the current trading environment. The Group's core assets consist predominantly of the property, plant and equipment – the resources that have proven their ability to withstand the competitive erosion and inflationary pressure.

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the amount of dividends paid to shareholders, repay the debt, return capital to shareholders or sell assets to improve the cash position. Historically, the first three methods were used to achieve and support the desired capital structure. The Group monitors capital on the basis of the net debt to equity ratio (D/E ratio). This ratio is calculated as net debt to shareholder equity. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents.

Traditionally, the Group's conservative strategy was to maintain the D/E ratio at 0.6 (60%) maximum. The Directors believe that for the Group, as an operating company and a public entity, the maintenance of the prudent debt policy is crucial in preserving the capital of the business.
As at 31 December 2020, the D/E ratio consists of approximately 1.31.

	Year ended 31 December 2020 £ '000	**Year ended 31 December 2019 £ '000**
Total debt	7 095	7 654
Less: Cash and cash equivalents	(156)	(231)
Net debt	**6 939**	**7 423**
Total equity	**5 264**	**3 160**
D/E ratio	**131.8%**	**234.9%**

7. SEGMENT INFORMATION

At 31 December 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 – grain crops

The segment results for the year ended 31 December 2020 are as follows:

	Branded products	**Beverages**	**Non-branded products**	**Distribution services and other**	**Supplementary products**	**Un-allocated**	**Total**
	£ '000	**£ '000**	**£ '000**	**£ '000**	**£ '000**	**£ '000**	**£ '000**
Sales	**34 445**	**1 659**	**6 004**	**1 647**	**11 753**	**-**	**55 508**
Gross profit	**4 159**	**959**	**(1 289)**	**538**	**363**	**-**	**4 730**
Administrative expenses	(787)	(186)	245	(102)	(69)	(306)	**(1 205)**
Selling and distribution expenses	(2 035)	(553)	645	(263)	(178)	(80)	**(2 464)**
Other operating expenses	-	-	-	-	-	(223)	**(223)**
Profit from operations	**1 337**	**220**	**(399)**	**173**	**116**	**(609)**	**838**
Finance expenses, net	-	-	-	-	-	(486)	**(486)**
Loss from exchange differences	-	-	-	-	-	(1 547)	**(1 547)**
Profit before taxation	**1 337**	**220**	**(399)**	**173**	**116**	**(2 642)**	**(1 195)**
Taxation	-	-	-	-	-	35	**35**
Profit for the year	**1 337**	**220**	**(399)**	**173**	**116**	**(2 607)**	**(1 160)**
Segment assets	14 291	688	2 491	-	-	-	**23 029**
Unallocated corporate assets	-	-	-	-	-	1 332	**1 332**
Consolidated total assets	**14 291**	**688**	**2 491**	**-**	**-**	**1 332**	**24 361**
Segment liabilities	5 776	-	-	212	-	-	**9 684**
Unallocated corporate liabilities	-	-	-	-	-	12 080	**8 384**
Unallocated deferred tax	-	-	-	-	-	1 029	**1 029**
Consolidated total liabilities	**5 776**	**-**	**-**	**212**	**-**	**13 109**	**19 097**
Depreciation and amortisation	448	117	53	-	-	-	**618**

The unallocated corporate liabilities represent bank loans, overdrafts and accruals.

7. SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2019 are as follows:

	Branded products	Beverages	Non-branded products	Distribution services and other	Supplementary products	Un-allocated	Total
	£ '000	**£ '000**	**£ '000**	**£ '000**	**£ '000**	**£ '000**	**£ '000**
Sales	**27 255**	**1 647**	**7 214**	**1 942**	**11 902**	**-**	**49 961**
Gross profit	**4 697**	**823**	**(1 534)**	**403**	**339**	**-**	**4 728**
Administrative expenses	(894)	(155)	293	(77)	(64)	(240)	**(1 137)**
Selling and distribution expenses	(1 985)	(406)	618	(170)	(143)	(89)	**(2 175)**
Other operating expenses	-	-	-	-	-	74	**74**
Profit from operations	**1 818**	**262**	**(623)**	**156**	**132**	**(255)**	**1 490**
Finance expenses, net	-	-	-	-	-	(578)	**(578)**
Loss from exchange differences	-	-	-	-	-	1 081	**1 081**
Profit before taxation	**1 818**	**262**	**(623)**	**156**	**132**	**248**	**1 993**
Taxation	-	-	-	-	-	38	**38**
Profit for the year	**1 818**	**262**	**(623)**	**156**	**132**	**286**	**2 031**
Segment assets	13 927	1 423	3 922	-	-	-	**19 272**
Unallocated corporate assets	-	-	-	-	-	1 115	**1115**
Consolidated total assets	**13 927**	**1 423**	**3 922**	**-**	**-**	**1 115**	**20 387**
Segment liabilities	8 266	-	-	267	-	-	**8 533**
Unallocated corporate liabilities	-	-	-	-	-	8 166	**8 166**
Unallocated deferred tax	-	-	-	-	-	242	**242**
Consolidated total liabilities	**8 266**	**-**	**-**	**267**	**-**	**8 408**	**16 941**
Depreciation and amortization	349	52	235	-	-	-	**636**

7. SEGMENT INFORMATION (CONTINUED)

Secondary reporting format - geographical segments:

Sales by country (consignees)	Year ended 31 December 2020 £ '000	Sales by country (consignees)	Year ended 31 December 2019 £ '000
Ukraine	47 325	Ukraine	43 517
Republic of Iraq	1 937	Azerbaijan	1 021
Azerbaijan	1 762	Kazakhstan	1 012
Poland	758	Denmark	965
Moldova	619	Mexico	796
Turkey	530	Holland	717
Kazakhstan	498	Moldova	523
Singapore	477	Turkmenistan	374
Lebanon	326	Egypt	299
Egypt	304	Georgia	260
Uzbekistan	197	Nigeria	144
Denmark	170	Poland	105
Germany	170	Canada	85
Other countries	435	Other countries	144
Total	**55 508**	**Total**	**49 961**

The majority of the Group's assets and liabilities are in Ukraine. Sales to the countries in Europe represent sales to international traders of milk powders located in Europe. These traders consequently resell the milk powders to other countries worldwide.

The Group has no single customers that exceed 10% of total sales.

8. REVENUE

For the years ended 31 December 2020 and 31 December 2019, sales revenue was presented as follows:

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Branded (including bonuses)	36 110	28 626
Beverages (including bonuses)	1 950	1 942
Non-branded products	6 004	7 214
Distribution services (including bonuses)	1 647	1 942
Supplementary products	11 753	11 902
Gross revenue	**57 465**	**51 626**
Charge of bonuses	(1 957)	(1 665)
Total revenue (excluding bonuses)	**55 508**	**49 961**

Bonuses are compensation granted to the Group's main customers within its distribution network. Bonuses are accounted for based on a fixed percentage of the product sold by customers who comprise retail networks and distributors. Cash compensation is paid on a periodic basis during the year.

9. EXPENSES BY NATURE

For the years ended 31 December 2020 and 31 December 2019, items of expenses were presented as follows:

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Cost of sales	**(50 778)**	**(45 233)**
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(47 294)	(42 089)
Wages and salaries, social security costs (Note 12)	(2 977)	(2 649)
Depreciation	(507)	(495)
Administrative expenses	**(1 205)**	**(1 137)**
Including:		
Wages and salaries, social security costs (Note 12)	(490)	(486)
PR, nominated broker, secretary, legal services etc.	(209)	(183)
Security	(90)	(95)
Lease and current repair and maintenance	(65)	(73)
Bank service	(49)	(69)
Communication	(44)	(40)
Amortization and depreciation	(29)	(54)
Audit fees	(38)	(46)
Taxes and compulsory payments	(34)	(43)
IT materials, household expenses, reading materials	(16)	(18)
Other	(141)	(30)
Selling and distribution expenses	**(2 464)**	**(2 175)**
Including:		
Delivery costs	(517)	(587)
Promotion	(417)	(622)
Wages and salaries, social security costs (Note 12)	(394)	(390)
Lease and current repair and maintenance	(131)	(148)
Packaging	(82)	(97)
Amortization and depreciation	(78)	(76)
Veterinary certificates, medical examination, permits	(75)	(73)
Impairment of inventories	(72)	(150)
Other	(698)	(32)
Other operating (expenses)/income	**(223)**	**74**
Including:		
(Loss)/Profit on revaluation	(225)	-
Impairment of inventories	(42)	(28)
Impairment of trade receivables	(53)	(32)
Penalties	(19)	(29)
Profit / (loss) on disposal of non-current assets	(4)	7
Amortization and depreciation	(4)	(11)
Wages and salaries, social security costs (Note 12)	-	(2)
Other	124	169

10. NET FOREIGN EXCHANGE GAIN (LOSS)

For the years ended 31 December 2020 and 31 December 2019, net foreign exchange gain (loss), consists of:

Exchange difference in trade and other receivables	1	(14)
Exchange difference in trade and other payables	32	46
Exchange difference in short and long credits	(1 536)	1 093
Effect of exchange rate changes and restatements on cash and cash equivalents	(44)	(44)
Total net foreign exchange gain (loss)	**(1 547)**	**1 081**

11. NET FINANCE EXPENSES

For the years ended 31 December 2020 and 31 December 2019, financial income/(expenses) were presented as follows:

	Year ended 31 December 2020 £ '000	**Year ended 31 December 2019 £ '000**
Finance expense		
Interest expense on bank loans	(481)	(564)
Interest expense on lease liabilities	(7)	(15)
Finance income		
Interest income	2	1
Net finance expense recognised in the statement of comprehensive income	**(486)**	**(578)**

12. EMPLOYEE BENEFIT EXPENSES

For the years ended 31 December 2020 and 31 December 2019, employee benefit expenses were presented as follows:

	Year ended 31 December 2020 £ '000	**Year ended 31 December 2019 £ '000**
Wages and salaries (including key management personnel)	(3 213)	(2 929)
Social security costs	(648)	(598)
Total	**(3 861)**	**(3 527)**
Average number of employees	**860**	**844**

12. EMPLOYEE BENEFIT EXPENSES (CONTINUED)

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Wages and salaries of operating personnel	(2 977)	(2 649)
Wages and salaries of administrative personnel	(490)	(486)
Wages and salaries of distribution personnel	(394)	(390)
Wages and salaries of personnel related to other operating expenses	-	(2)
Total	**(3 861)**	**(3 527)**

Wages and salaries of key management personnel:

For the year ended 31 December 2020, remuneration of the Group's key management personnel amounted to GBP 130.8 thousand (2019: GBP 132.3 thousand).

Key management personnel received only short term benefits during the years ended 31 December 2020 and 31 December 2019. The key management personnel are those persons remunerated by the Group who are members of the Board of Directors of the Company (Ukrproduct Group Ltd).

13. INCOME TAX EXPENSES

For the years ended 31 December 2020 and 31 December 2019, income tax expenses were presented as follows:

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Current tax charge – Ukraine	-	25
Current tax charge - non-Ukraine	1	1
Deferred tax relating to the origination and reversal of temporary differences	(36)	(64)
Total income tax expenses	**(35)**	**(38)**

Differences in treatment of certain elements of financial statements by IFRS and Ukrainian statutory taxation regulations give rise to temporary differences. The tax effect of the movement on these temporary differences is recognised at the rate of 18% (2019: 18%).

13. INCOME TAX EXPENSES (CONTINUED)

The numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate(s) is provided in the following table.

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
Profit before tax:		
Ukraine	(2 487)	3 137
Cyprus	95	67
Other (BVI, Jersey)	1 197	(1 102)
Profit before tax, total	**(1 195)**	**2 102**
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (2019: 18%, 2018: 18%)	(448)	565
Cyprus (10%)	-	7
	(448)	**572**
Tax calculated at domestic tax rates applicable to net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	(484)	(604)
Cyprus	1	(6)
	(483)	**(610)**
Tax charge		
Ukraine	(36)	(39)
Cyprus	1	1
	(35)	**(38)**
The weighted average applicable tax rate		
Ukraine	18%	18%
Cyprus	8%	8%
BVI, Jersey	Nil	Nil
	26%	**26%**

There are a number of laws related to various taxes imposed by both central and regional governmental authorities. Although laws related to these taxes have not been in force for significant periods, the practice of taxation and implementation of regulations are well established, documented with a sufficient degree of clarity and adhered to by the taxpayers. Nevertheless, there remain certain risks in relation to the Ukrainian tax system: few court precedents with regard to tax related issues exist; different opinions regarding legal interpretation may arise both among and within government ministries and regulatory agencies; tax compliance practice is subject to review and investigation by a number of authorities with overlapping responsibilities.

Generally, tax declarations remain subject to inspection for an indefinite period. In practice, however, the risk of retroactive tax assessments and penalty charges decreases significantly after three years. The fact that a year has been reviewed does not preclude the Ukrainian tax service performing a subsequent inspection of that year.

13. INCOME TAX EXPENSES (CONTINUED)

The Group's management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that those relevant authorities could take different positions with regard to interpretative issues.

During the period under review, the Ukrainian companies within the Group paid royalties and interest charges on the outstanding credits to another Group company – Solaero Global Alternative Fund Limited (Cyprus). These payments were not taxable in Ukraine due to the existing Double Taxation Treaty between Ukraine and Cyprus.

14. PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16 "Property, Plant and Equipment", the Group carries out revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. An independent valuation of the Group's property, plant and equipment was undertaken by Price Consulting LLC as at 01 December 2020.

The Group is divided into two cash-generating units (CGU).

Dairy production

Dairy productions consists of production assets for butter, cheese, protein and skimmed dairy products:
- Production assets of SE Starokostyantynivski Dairy Plant and two other units in Zhytomir and Letychiv;
- Group vehicle park used for raw material and product transportation;
- "Nash Molochnik", "Vershkova Dolyna" and "Narodny product" trade marks.

Beverage production

Beverage production combines the production assets of Live kvass "Arseniivsky". It consists of:
- Production assets of "Zhyvyi Kvass" LTD and,
- "Arseniivsky" Trade mark.

Main assumptions used in value in use calculation

Value in use calculation for production both dairy products and beverages is sensitive to the following assumptions:

Gross profit margin – Gross profit margin is based on 2020 budget value and takes into consideration trends of value indexes for 2019-2022.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Discount rate – Discount rate assumes current market estimates risks, specific for each CGU, inclusive of cash cost and individual risks and corresponding assets excluded from the cash flow valuation. Discount rate calculation based on specific Group circumstances and operational segment and based on from Weighted Average Cost of Capital (WACC). WACC takes into account both loan and owned capital. The value of owned capital is calculated on the basis of predicted return on investment of Group investors. Specific segment risks are included in usage of separate facts of beta-testing. Beta factors are estimated annually using generally accessible market data. The WACC used in the model for both CGUs is 21,5%.

Production value increase – is derived from published consumer price index for Ukraine or world price tendencies for export product groups.

Increase of raw material price – forecast is obtained got from published consumer price index for Ukraine. Predicted increase data – the data are based on published industry research in Ukraine and management estimates.

Assumption regarding business segment – in so far as the directors are aware, forecasts in relation to the growth rate of each business segment are based on a comparison with the forecast growth rates of the Group's competitors.

The growth of sales of branded products on the local market is related to the development of sales of the brands "Nash Molochnik", "Arseniivskyi" and "Molendam". These brand gave more than 50% of revenue.

Industry forecast is not used for kvass (beverage) sales forecasting, as the Group produces the unique product "Zhyviy Kvass" that has no competitors in Ukraine by its nature. The model is based on management's forecasts including sensitivity analysis. Brand development plans include:
- Extension of brand presence in distribution networks;
- Kvass in kegs sales increase;
- Extension of beverage product range (production of white kvass);

The given product is dependent on weather conditions.

In so far as the directors are aware, the future cash inflow from each CGU is not expected to be below its acquisition cost and, therefore, no impairment considerations have been included in the valuation.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2020 and 31 December 2019, property, plant and equipment were presented as follows:

	Assets under Construction	Land and Buildings	Plant and Machinery	Vehicles	Instruments, tools and other equipment	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation						
At 1 January 2019	**39**	**2 445**	**4 069**	**643**	**696**	**7 892**
Additions	261	-	-	-	-	261
Transfers to/from AUC	(234)	35	109	45	45	-
Disposals	-	-	(7)	(79)	(10)	(96)
Exchange differences on translation to the presentation currency	5	418	568	85	92	1 168
At 31 December 2019	**71**	**2 898**	**4 739**	**694**	**823**	**9 225**
Accumulated depreciation						
At 1 January 2019	**-**	**382**	**591**	**314**	**185**	**1 472**
Depreciation charge	-	140	241	119	71	571
Disposals	-	-	(8)	(43)	(16)	(67)
Exchange differences on translation to the presentation currency	-	91	85	45	34	255
At 31 December 2019	**-**	**613**	**909**	**435**	**274**	**2 231**
Cost or valuation						
At 1 January 2020	**71**	**2 898**	**4 739**	**694**	**823**	**9 225**
Additions	460	-	-	-	-	460
Transfers to/from AUC	(476)	43	336	41	56	-
Elimination due to revaluation	-	(552)	(904)	(393)	(169)	(2 018)
Revaluation increase / (decrease)	-	2 002	1 627	307	443	4 379
Disposals	-	-	(5)	(49)	(5)	(59)
Exchange differences on translation to the presentation currency	(45)	(641)	(935)	(107)	(110)	(1 838)
At 31 December 2020	**10**	**3 750**	**4 858**	**493**	**1 038**	**10 149**
Accumulated depreciation						
At 1 January 2020	**-**	**613**	**909**	**435**	**274**	**2 231**
Depreciation charge	-	128	247	102	77	554
Disposals	-	-	(4)	(33)	(4)	(41)
Elimination due to revaluation	-	(552)	(904)	(393)	(169)	(2 018)
Exchange differences on translation to the presentation currency	-	(162)	(204)	(100)	(45)	(511)
At 31 December 2020	**-**	**27**	**44**	**11**	**133**	**215**
Net book value at 31 December 2020	**10**	**3 723**	**4 814**	**482**	**905**	**9 934**
Net book value at 31 December 2019	**71**	**2 285**	**3 830**	**259**	**549**	**6 994**
Net book value at 31 December 2018	**39**	**2 063**	**3 478**	**329**	**511**	**6 420**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2020 the Group has no contractual commitments to purchase property, plant and equipment.

Fixed assets with a net book value of GBP 2.562 thousand at 31 December 2020 (2019: GBP 4.872 thousand) were pledged as collateral for loans.

As at 31 December 2020 any prepayments for property, plant and equipment were included within Assets under construction in the amount of GBP 20 thousand (2019: GBP 28 thousand).

As at 31 December 2020 fully depreciated assets have been included within property, plant and equipment with the original cost of GBP 130 thousand (2019: GBP 287 thousand).

It’s impracticable to provide information about the carrying amounts of all classes of assets, except office equipment, as they were measured using the cost model without undue cost and effort.

In 2020, the Group made a revaluation of fixed assets. An independent valuation of the Group's property, plant and equipment was undertaken by Price Consulting LLC as at 01 December 2020

15. INTANGIBLE ASSETS

As at the reporting dates intangible assets were presented as follows:

	Computer software	Trademarks	Total
	£ '000	£ '000	£ '000
Cost or valuation			
At 1 January 2019	**36**	**891**	**927**
Additions	36	-	36
Disposals	(8)	-	(8)
Exchange differences on translation to the presentation currency	5	60	65
At 31 December 2019	**69**	**951**	**1 020**
Accumulated amortization			
At 1 January 2019	**25**	**378**	**403**
Amortization charge for the year	1	64	65
Disposals	-	-	-
Exchange differences on translation to the presentation currency	3	56	59
At 31 December 2019	**29**	**498**	**527**
Cost or valuation			
At 1 January 2020	**69**	**951**	**1 020**
Additions	190	-	190
Disposals	-	-	-
Exchange differences on translation to the presentation currency	1	45	46
At 31 December 2020	**260**	**996**	**1 256**
Accumulated amortization			
At 1 January 2020	**29**	**498**	**527**
Amortization charge for the year	2	62	64
Disposals	-	-	-
Exchange differences on translation to the presentation currency	5	62	67
At 31 December 2020	**36**	**622**	**658**
Net book value at 31 December 2020	**225**	**374**	**598**
Net book value at 31 December 2019	**40**	**453**	**493**
Net book value at 31 December 2018	**11**	**513**	**524**

The remaining amortization periods of the intangible assets are as follows:
- Computer software 1-10 years;
- Trademarks 11-18 years;

15. INTANGIBLE ASSETS (CONTINUED)

The Group performed its annual impairment test in December 2020 and 2019. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2020, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and impairment of the assets of the operating segment.

Trademark "Zhyviy Kvas"

The recoverable amount of the trademark "Zhyviy Kvas" CGU, GBP 1 588 thousand as at 31 December 2020, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the recovering demand for products and services. The discount rate applied to cash flow projections is 18.2% (2019: 16.7%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 0%. As a result of the analysis, management did not identify an impairment for this CGU.

Group of the trademarks within the "Dairy segment"

The recoverable amount of the three trademarks within the "Dairy segment" CGU, GBP 1 668 thousand as at 31 December 2020, is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased recovering for products and services. The pre-tax discount rate applied to the cash flow projections is 18.2% (2019: 16.7%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 0 %.As a result of the analysis, management did not identify an impairment for this CGU.

16. DEFERRED TAX ASSETS AND LIABILITIES

For the year ended 31 December 2020, deferred tax assets and liabilities were presented as follows:

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Deferred tax assets at the beginning of the year	-	-
Deferred tax liability at the beginning of the year	**242**	**274**
Deferred tax liability recognised in SOCI during the year	-	(25)
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortization	(36)	(39)
Property, plant and equipment revaluation reserve	825	-
Exchange differences on translation to the presentation currency	(2)	32
Deferred tax assets at the end of the year	-	-
Deferred tax liability at the end of the year	**1 029**	**242**

17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Finished goods	5 060	3 269
Raw materials	999	877
Work in progress	537	240
Other inventories	721	685
Total	**7 317**	**5 071**

During 2020, GBP 30,355 thousand (2019: GBP 28,774 thousand) was recognised as an expense in cost of sales.

18. TRADE AND OTHER RECEIVABLES

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Trade receivables	4 513	6 664
Other receivables	993	130
Prepayments	609	463
Total	**6 115**	**7 257**

The Group's management believes that the carrying value for trade and other receivables is a reasonable approximation of their fair value.

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Maturity of trade receivables as at 31 December 2020 and 31 December 2019 is presented as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 Days	61-90 days	91-120 days	>120 Days
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
2020	4 513	4 092	207	34	-	-	180
2019	6 664	6 073	325	22	2	3	239

Provisions were created for impaired trade and other receivables and holiday allowance.

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Impaired trade and other receivables at the beginning of the year	**251**	**220**
Accrual / (Reversal)	41	61
Use of allowances	(29)	(1)
Effect of translation to presentation currency	14	(29)
Impaired trade and other receivables at the end of the year	**277**	**251**

19. CURRENT TAXES

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
VAT receivable	149	210
Current income tax prepayments	63	77
Other prepaid taxes	2	23
Total	**214**	**310**

20. OTHER FINANCIAL ASSETS

Loans and receivables	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Loans issued to third parties	21	24
Loans issued to employees	6	7
Total	**27**	**31**

Loans issued are short term in nature, repayable on demand and are interest free.

21. CASH AND CASH EQUIVALENTS (EXCLUDING BANK OVERDRAFTS)

As at the reporting dates cash and cash equivalents were presented as follows:

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Cash on hand - on UAH	15	8
Cash in bank - on UAH	49	168
Cash in Bank - in other currencies	92	55
Total	**156**	**231**

22. SHARE CAPITAL

As at the reporting dates share capital was presented as follows:

	Authorised			
	As at 31 December 2020	**As at 31 December 2020**	**As at 31 December 2019**	**As at 31 December 2019**
	Number '000	£ '000	Number '000	£ '000
Ordinary shares of 10p each	**60 000**	**6 000**	**60 000**	**6 000**

	Issued and fully paid at beginning and end of the year			
	As at 31 December 2020 Number '000	**As at 31 December 2020 £ '000**	**As at 31 December 2019 Number '000**	**As at 31 December 2019 £ '000**
Ordinary shares of 10p each				
At beginning of the year	39 673	3 967	39 673	3 967
Own shares acquired	-	-	-	-
At end of the year (excluding shares held as treasury shares)	**39 673**	**3 967**	**39 673**	**3 967**

	Treasury shares			
	As at 31 December 2020 Number '000	**As at 31 December 2020 £ '000**	**As at 31 December 2019 Number '000**	**As at 31 December 2019 £ '000**
Ordinary shares of 10p each				
At beginning of the year	3 145	315	3 145	315
At end of the year	**3 145**	**315**	**3 145**	**315**

As at 31 December 2020 and 31 December 2019 the Company held a total of 3,144.800 ordinary shares as treasury shares and the total number of ordinary shares in issue (excluding shares held as treasury shares) was 39,673.049.

23. OTHER RESERVES

At the reporting date other reserves were presented as follows:

	Share premium	Translation reserve	Revaluation reserve	Total other reserves
	£ '000	£ '000	£ '000	£ '000
At 1 January 2019	**4 562**	**(14 902)**	**3 619**	**(6 721)**
Depreciation on revaluation of property, plant and equipment	-	-	(182)	**(182)**
Reduction of revaluation reserve	-	-	-	**-**
Exchange differences on translation to the presentation currency	-	165	-	**165**
At 31 December 2019	**4 562**	**(14 737)**	**3 437**	**(6 738)**
Depreciation on revaluation of property, plant and equipment	-	-	(164)	**(164)**
Reduction of revaluation reserve	-	-	(98)	**(98)**
Gain on revaluation of property, plant and equipment	-	-	3 856	**3 856**
Exchange differences on translation to the presentation currency	-	(494)	-	**(494)**
At 31 December 2020	**4 562**	**(15 231)**	**7 031**	**3 638**

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value.
Revaluation	Gains arising on the revaluation of the Group's property. The balance on this reserve is wholly undistributable.
Translation	Amount of all foreign exchange differences arising from the translation of the financial information of Group entities to presentation currency.

24. BANK LOANS AND SHORT-TERM PAYABLES

As at 31 December 2020 the Group has two loans: the loan from Creditwest Bank in the amount of 1.673 thousand GBP (in UAH 65.0 million) and the loan from the EBRD in the amount of 4.955 thousand GBP (in EUR 5.482 thousand).

During 2020, the Group fulfilled its obligations under the EBRD loan in accordance with the agreement. The Group completed installments of payments and in accordance with an agreement between all parties, the payment of the tranche in December was postponed to subsequent periods.

Fixed assets with a net book value of GBP 2.562 thousand at 31 December 2020 (2019: GBP 3.177 thousand) were pledged as collateral for loan.

Assets pledged as security for the EBRD loan include property and land in Starokonstantinov, equipment for dairy production and production of hard cheese, as well as trademarks.

The Group classified the loan from the EBRD as a current liability following the breach of certain covenants and as no formal waivers were received by the Group from the EBRD. Though to 31 May 2021 the Group serviced its debt on time in accordance to the loan agreements with its lenders, on 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Ukrproduct also notified the EBRD that although the Company had settled the interest amount due on 1 June 2021, it did not repay the quarterly loan tranche due on that date. At the same time Ukrproduct is seeking to increase its working capital facility provided locally in Ukraine. The Group's management continues to have discussions with the EBRD and at present the EBRD has taken no action to accelerate repayment of the loan. Though the Company is hopeful that an agreement can be reached in due course that works for both parties.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit £ '000	As At 31 December 2020 £ '000	As at 31 December 2019 £ '000
EBRD	EUR	Loan	31.03.2011	30.11.2024	5-7%	7 070	4 956	5 140
Creditwest Bank Ukraine	UAH	Credit line	05.02.2018	05.02.2021	15.89%	2 095	1 672	2 073
Total							**6 628**	**7 213**

The average interest rate as at 31 December 2020 was 11% (2019: 11%).

24. BANK LOANS AND SHORT-TERM PAYABLES (CONTINUED)

Maturity of financial liabilities

	Year ended 31 December 2020 £ '000	Year ended 31 December 2019 £ '000
On demand	-	-
In less than 1 year	6 628	7 213
In more than 1 year	-	-
Total	**6 628**	**7 213**

Interest rate profile of financial liabilities

	Floating rate	Fixed rate	As at 31 December 2020	As at 31 December 2019
	£ '000	£ '000	£ '000	£ '000
On demand	-	-	-	-
Expiry within 1 year	4 956	1 672	6 628	7 213
Expiry in more than 1 year	-	-	-	-
Total	**4 956**	**1 672**	**6 628**	**7 213**

The currency profile of the Group's financial liabilities is as follows:

	Floating rate liabilities	Fixed rate liabilities	Total as at 31 December 2020	Total as at 31 December 2019
	£ '000	£ '000	£ '000	£ '000
UAH	-	1 672	1 672	2 073
EUR	4 956	-	4 956	5 140
Total	**4 956**	**1 672**	**6 628**	**7 213**

The book value and fair value of financial liabilities are as follows:

	Book value as at 31 December 2020 £ '000	Fair value as at 31 December 2020 £ '000	Book value as at 31 December 2019 £ '000	Fair value as at 31 December 2019 £ '000
Bank loans	6 628	6 628	7 213	7 213
Total	**6 628**	**6 628**	**7 213**	**7 213**

24. BANK LOANS AND SHORT-TERM PAYABLES (CONTINUED)

Reconciliation of liabilities arising from financing activities

	As at 31 December 2019	Financing cash flows	Accrual of interest	Foreign exchange move-ment	Effect from translation to presentation currency	As at 31 December 2020
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Bearing loans and borrowings	7 213	(525)	-	8 822	(8 882)	6 628
Interest	540	-	-	-	(172)	368
Interest-bearing loans and borrowings	**7 753**	**(525)**	**-**	**8 822**	**(9 053)**	**6 996**

25. TRADE AND OTHER PAYABLES

At the reporting date trade and other payables were presented as follows:

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Trade payables	9 412	7 364
Prepayments received	272	1 171
Accruals	209	195
Interests payable	179	171
Provisions	176	138
Other payables	699	206
Total	**10 947**	**9 245**

The Group's management believes that the carrying value for trade and other payables is a reasonable approximation of their fair value.

For the year ended 31 December 2020, provisions were presented as follows:

	As at 31 December 2020 £ '000	As at 31 December 2019 £ '000
Holiday allowance at the beginning of the year	**138**	**102**
Accrual	251	217
Use of allowances	(180)	(197)
Effect of translation to presentation currency	(33)	16
Holiday allowance at the end of the year	**176**	**138**

26. EARNINGS PER SHARE

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

	Year ended 31 December 2020 £ '000	**Year ended 31 December 2019 £ '000**
Net profit/loss attributable to ordinary shareholders	(1 160)	2 031
Weighted number of ordinary shares in issue	39 673	39 673
Basic earnings per share, pence	**(2.92)**	**5.12**
Diluted average number of shares	39 673	39 673
Diluted earnings per share, pence	**(2.92)**	**5.12**

27. DIVIDENDS

Due to the business circumstances dictating prudence and cash conservation, the Board has decided not to pay a final dividend in respect of the year ended 31 December 2020.

28. SHARE-BASED PAYMENTS

The Company operates an equity-settled share based remuneration scheme for employees. During 2020, the Group did not issue options to the third parties. They were not exercised. There are no outstanding options issued by the Group.

29. CURRENCY ANALYSIS

Currency analysis for the year ended 31 December 2020 is set out below:

	UAH	USD	GBP	EUR	Total
Assets					
Trade and other receivables	5 241	264	2	-	**5 507**
Current taxes	200	14	-	-	**214**
Other financial assets	27	-	-	-	**27**
Cash and cash equivalents	64	92	-	-	**156**
Total assets	**5 532**	**370**	**2**	**-**	**5 904**
Liabilities					
Bank borrowings	1 673	-	-	4 956	**6 628**
Trade and other payable	10 473	11	28	164	**10 675**
Current income tax liabilities	-	-	-	-	
Other taxes payable	13	-	-	-	**13**
Total Liabilities	**12 159**	**11**	**28**	**5 120**	**17 318**

Currency analysis for the year ended 31 December 2019 is set out below:

	UAH	USD	GBP	EUR	Total
Assets					
Trade and other receivables	6 659	135	-	-	**6 794**
Current taxes	260	50	-	-	**310**
Other financial assets	31	-	-	-	**31**
Cash and cash equivalents	228	2	1	-	**231**
Total assets	**7 178**	**187**	**1**	**-**	**7 366**
Liabilities					
Bank borrowings	2 073	-	-	5 140	**7 213**
Trade and other payable	7 862	18	72	122	**8 074**
Current income tax liabilities	-	-	-	-	**-**
Other taxes payable	18	-	-	-	**18**
Total Liabilities	**9 953**	**18**	**72**	**5 262**	**15 305**

29. CURRENCY ANALYSIS (CONTINUED)

3% strengthening of Hryvnia rate against USD and 18% strengthening of Hryvnia rate against EUR the following currencies as at 31 December 2020 and 2019, would increase /decrease the amount of profits /or losses for the period by the amounts mentioned below. This analysis was conducted based on the assumption that all other variables, in particular, interest rates, remained unchanged. The change of GBP exchange rate does not have an impact on the result as all the balances in GBP are attributable to the Group's companies where GBP is a functional currency.

	Increase/ decrease in rate	**Effect on income before tax in 2020**	**Effect on income before tax in 2019**
		£ '000	**£ '000**
USD	3%	11	5
EUR	18%	922	(947)
USD	-3%	(11)	(5)
EUR	-18%	(922)	947

30. RELATED PARTY TRANSACTIONS

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

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.

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.

Transactions and balances between the Group companies and other related parties are set out below. Remuneration of key management personnel is disclosed in Note 12.

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.

	Year ended 31 December 2020 £ '000	**Year ended 31 December 2019 £ '000**
Sales	-	-
Cost of sales	268	-
Administrative expenses	18	-
Other operational expenses	-	-

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

	As at 31 December 2020 £ '000	**As at 31 December 2019 £ '000**
Receivables and prepayments	-	-
Other financial assets	-	-
Trade and other payables	5	14

In 2020, the Group's commercial relationships with the related parties comprised sales, purchases, provision. 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 owners and beneficiaries of the related parties were Mr. Alexander Slipchuk and Mr. Sergey Evlanchik.

31. COMMITMENTS AND CONTINGENCIES

(a) Economic environment

The Group carries out most of its operations in Ukraine. Laws and other regulatory acts affecting the activities of Ukrainian enterprises may be subject to changes and amendments within a short period of time. As a result, assets and operating activity of the Group may be exposed to the risk in case if any unfavourable changes take place in political and economic environment.

(b) Retirement and other liabilities

Employees of the Group receive pension benefits from the Pension Fund, a Ukrainian Government organization in accordance with the applicable laws and regulations of Ukraine. The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance the benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions from salaries. As at 31 December 2020 and 2019 the Group had no liabilities for supplementary pensions, health care, insurance benefits or retirement indemnities to its current or former employees.

(c) Compliance with covenants

The Group is subject to a covenant related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. As at 31 December 2020 and as at 31 March 2021 the Group had been in breach of certain covenants regarding the loan with the EBRD. Ukrproduct notified the EBRD that on 1 June 2021 the Company had settled the due interest amount without repayment of the next loan tranche.The Group classified the loan from the EBRD as a Current Liability following the breach of certain covenants and no formal waivers were received by the Group from the bank. To the best of the Group's management knowledge, as of today the EBRD has taken no action to accelerate repayment of the loan.

31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(d) Litigations and claims

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. Management believes that the Group has complied with all regulations and paid or accrued all taxes that are applicable. In the ordinary course of business, the Group is subject to various legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of the Group's operations. Where the risk of outflow of resources is probable, the Group has accrued liabilities based on management's best estimate.

(e) Other

The amount of uncancellable lease commitments is insignificant.

As at 31 December 2020, the Group does not possess any finance lease and hire purchase commitments, capital commitments and guarantees.

32. SUBSEQUENT EVENTS

(a) EBRD – breach of loan covenants

As at 31 December 2020 the Group had been in breach of one of covenants regarding the loan with EBRD- debt service coverage ratio. The Group was still in breach of this covenant as at 31 March 2021, however the Board believes that the EBRD will not demand accelerated payments in respect of this breach, therefore no further commitments or contingencies have arisen.

(b) Installment

The Group agreed to defer the principal amount payment of EUR 200 000.00 due on 1 March 2021 under the terms of the loan agreement with the EBRD, resulting in a principal payment at the amount of EUR 65 434.57 and an interest payment of EUR 32 240.41.

On 1 June 2021 the Company entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements of the business due to increased raw milk costs and an increase in volumes required to meet demand. Accordingly, Ukrproduct also notified the EBRD that on 1 June 2021 the Company had settled the due interest amount without repayment of the next loan tranche at the amount of EUR 294 0066.00 that was due under the loan agreement. However, the Company settled the respective interest payment of EUR 33 089.98 in full and on time.

32. SUBSEQUENT EVENTS (continued)

(c) Foreign exchange rates

Post year end, the Ukrainian Hryvnia has strengthened against the USD, EUR and GBP. According to the information provided by the National Bank of Ukraine, the main exchange rates are set at the following rates:

Currency	**24 June 2021**
UAH/GBP	38.15
UAH/USD	27.27
UAH/EUR	32.60

(d) Increase in the statutory capital of a Group company

On 24 March 2021, there was an increase in the authorized capital of the Starokonstantinovskiy Molochniy Zavod SC in the amount of 4.222 k GBP. 100% of Starokonstantinovskiy Molochniy Zavod SC belongs to MCNVIF “Alternative Investments”.