



Ukrproduct Group

Condensed consolidated interim financial statements

For the six months ended 30 June 2022

Table of Contents

CHAIRMAN AND CHIEF EXECUTIVE STATEMENT.....	3
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES.....	5
MANAGEMENT STATEMENTS.....	6
MANAGEMENT REPORT.....	7
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME.....	11
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION.....	12
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY.....	13
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS.....	14
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	15

Chairman and Chief Executive Statement

Ukrproduct, one of the leading Ukrainian producers and distributors of branded dairy foods and beverages (kvass), is pleased to announce its interim results for the half year ended 30 June 2022 (“1H 2022”) and outlook for the remainder of 2022.

2022 Half-Year Trading Update

Trading in 2022 was severely affected by the Russian invasion of Ukraine and the ongoing war. Ukrainian regions experienced a loss of production capacity in the occupied territory and in the war zone. Moreover, damaged infrastructure and increases in fuel prices together with fuel shortages, have impacted transportation and adversely affected logistics costs, both on the supply and distribution side. As the Ukrainian sea ports have been blockaded by the Russian Navy, there is increased pressure on the remaining routes for export.

In 2022, dairy processing enterprises throughout Ukraine did not have the opportunity to fully utilize production capacities as a result of difficulties in sourcing raw material. In the first half of 2022 the total milk production in Ukraine declined by 13.2% down to 3.7 million tons compared to the same period last year. Decreases in milk production, increases in fuel price and the effect of the occupation of part of the territories of Ukraine has, of course, led to an increase in the purchase price of milk.

As a result, management took steps to secure the supply chain vital for operational continuity. The Group concluded contracts with new alternative suppliers, where necessary, and developed new logistics routes. The central warehouse was moved to the one of Group’s main plants at Zhytomyr, away from the line of active hostilities.

2022 Half-Year Highlights

Consolidated revenue of the Group for the 1H 2022 decreased by 28.4% to £18.3 million while Gross profit increased by 63.6% to £3.3 million. The Group raised prices for products several times and decreased trade marketing activities, which made it possible to compensate for the increase in prices for raw materials, fuel and energy and to increase gross profit margins.

Selling, general and administrative expenses, as well as CAPEX, have been reduced to the minimum required to meet the primary needs of the Group’s core business.

Major customers have not been affected by the hostilities and continue to cooperate and fulfil their contractual obligations with the Group. Nevertheless, the Group recognized additional provision for trade receivables of £1.2 million, which is a part of Other operating expenses.

Trading headwinds were significant and meant the Group’s EBITDA in 1H 2022 reduced by 7.7% to £0.4 million compared with 1H 2021, with the EBITDA margin increasing from 1.9% in 1H 2021 to 2.4% in 1H 2022. The Group’s EBITDA in 1H 2022, if adjusted and stated before expenses relating to the war (including additional bad debt provision for receivables from customers which have been affected by the hostilities) would amount to £1.6 million.

The consolidated net loss of Ukrproduct for 1H 2022 amounted to £0.2 million compared with a net profit of £0.2 million in 1H 2021.

Financial position

As at 30 June 2022, Ukrproduct had net assets of £6.3 million compared to £5.7 million as at 30 June 2021.

For the six months ended 30 June 2022, the Group continued to be in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”), missed some interest payments and repayments and the EBRD has not issued a waiver for the breaches. The Company has been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has been slowed owing to the ongoing war in Ukraine. At present, the EBRD has taken no action to accelerate repayment of the loan.

Outlook for 2022

The development of the business in the second half of 2022 remains highly uncertain due to the ongoing war and further local currency devaluation and inflation in Ukraine. Ukrproduct continues to implement further efficiencies in procurement, processing, distribution and sales of its products, with a major focus on diversifying risks, maintaining profitability and Group assets.



Jack Rowell

Non-Executive Chairman



Alexander Slipchuk

Chief Executive Officer

**Statement of Management's Responsibilities
for preparation and approval of condensed consolidated interim financial statements for the six
months ended 30 June 2022**

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

The directors of the Group are responsible for preparing the condensed consolidated interim financial statements which reflect in all material aspects the financial position of the Group as at 30 June 2022, as well as the results of its activities, cash flows and changes in equity for the six months then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

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

The directors are also responsible for:

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

These condensed consolidated interim financial statements as at 30 June 2022 prepared in compliance with IFRS as approved by the European Union are approved on behalf of the Group's Directors on 29 September 2022.



On behalf of the Directors:

29 September 2022

Management Statements

This statement is provided to confirm that, to the best of our knowledge, the condensed consolidated interim financial statements for the six months ended 30 June 2022, and the comparable information, have been prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union and give a true, fair and clear view of Group's assets, financial standing and net results.

A handwritten signature in black ink, appearing to be 'J. J. J.', written in a cursive style.

On behalf of the Directors:

29 September 2022

Condensed consolidated interim financial statements

Management Report

1. Operational and Financial Results

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

	Six months ended 30 June 2022	Six months ended 30 June 2021	Changes in
	£ '000	£ '000	%
Revenue	18 278	25 532	(28%)
Cost of sales	(15 009)	(23 534)	(36%)
GROSS PROFIT	3 269	1 998	64%
Administrative expenses	(554)	(631)	(12%)
Selling and distribution expenses	(1 113)	(1 250)	(11%)
Other operating expenses	(1 543)	(170)	808%
PROFIT/(LOSS) FROM OPERATIONS	59	(53)	(211%)
Net finance expenses	(231)	(232)	(0%)
Net foreign exchange gain	20	366	(95%)
LOSS/ PROFIT BEFORE TAXATION	(152)	81	(288%)
Income tax (expense) / credit	(45)	70	(164%)
(LOSS)/PROFIT FOR THE SIX MONTHS	(197)	151	(230%)
Attributable to:			
Owners of the Parent	(197)	151	(230%)
Non-controlling interests	-	-	
Earnings per share from continuing and total operation:			
Basic (pence)	(0.50)	0.38	(232%)
Diluted (pence)	(0.50)	0.38	(232%)
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences	506	269	88%
OTHER COMPREHENSIVE INCOME, NET OF TAX	506	269	88%
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS	309	420	(26%)
Attributable to:			
Owners of the Parent	309	420	(26%)
Non-controlling interests	-	-	

Condensed consolidated interim financial statements

Non-IFRS financial information

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

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

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

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£ '000	£ '000
CONTINUING OPERATIONS		
Revenue for the period	18 278	25 532
Cost of sales	(15 009)	(23 534)
Operating expenses	(3 210)	(2 051)
EBIT	59	(53)

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

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£ '000	£ '000
CONTINUING OPERATIONS		
EBIT	59	(53)
Depreciation and amortization	387	537
EBITDA	446	484

Condensed consolidated interim financial statements

Revenue

The Group's sales decreased by 28.4% in 1H 2022 in comparison with the previous period.

Sales of branded products decreased by 22.9% in 1H 2022 in comparison with the previous period, while the share of sales of branded products increased from 70.9% to 76.3% of revenues.

The most significant part of the Group's income is the sale of packaged butter, processed cheese, processed cheese product and skimmed milk powder, making up 58.65% of total income in the first half of 2022 which compares with 69.92% in the first half of 2021.

Cost of sales

The Group's cost of sales decreased by 36% to GBP 15 million in the current period from GBP 23.5 million in previous period. The following table sets forth the principal components of the Group's cost of sales for the periods indicated:

	Six months ended 30 June 2022	Six months ended 30 June 2021	Changes in
	£ '000	£ '000	%
Raw materials	8 641	16 203	(47%)
Manufacturing overhead	2 345	792	196%
Fuel and energy supply	1 615	813	99%
Wages and salaries	1 184	1 613	(27%)
Supplementary products	604	3 399	(82%)
Depreciation and amortization	289	455	(36%)
Transport	335	614	(45%)
Other expenses	19	19	-
Adjustments	(23)	(374)	(94%)
	15 009	23 534	(36%)

Gross profit/(loss)

The Group's gross profit increased to GBP 3.3 million in 1H 2022 from GBP 2.0 million in 1H 2021. The Group raised prices for products several times and decreased trade marketing activities, which made it possible to compensate for the increase in prices for raw materials, fuel and energy resources and increase gross profit.

Selling and distribution expenses

Selling and distribution expenses decreased year-on-year to GBP 1.1 million in the current period from GBP 1.3 million in 1H 2021, mainly as a result of decreased marketing and advertising activities.

Net foreign exchange gain

In 1H 2022, the Group reports a net foreign exchange gain of GBP 20 thousand versus a net gain of GBP 366 thousand in 1H 2021. On 24 February 2022, after the Russian Federation launched a full-scale military invasion of Ukraine, the National Bank of Ukraine fixed the official exchange rate of USD as 29.25 UAH. Exchange rates for other currencies were calculated based on flexible cross rates to USD fixed rate. On 21 July 2022 the National Bank of Ukraine increased the official exchange rate of USD up to 36.57 UAH.

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Note	Six months ended 30 June 2022 £ '000	Six months ended 30 June 2021 £ '000
Revenue	9	18 278	25 532
Cost of sales		(15 009)	(23 534)
GROSS PROFIT		3 269	1 998
Administrative expenses		(554)	(631)
Selling and distribution expenses		(1 113)	(1 250)
Other operating expenses		(1 543)	(170)
PROFIT/(LOSS) FROM OPERATIONS		59	(53)
Net finance expenses		(231)	(232)
Net foreign exchange gain		20	366
(LOSS)/PROFIT BEFORE TAXATION		(152)	81
Income tax (expense) / credit		(45)	70
(LOSS)/PROFIT FOR THE SIX MONTHS		(197)	151
Attributable to:			
Owners of the Parent		(197)	151
Non-controlling interests		-	-
Earnings per share from continuing and total operations:			
Basic (in pence)	10	(0.50)	0.38
Diluted (in pence)	10	(0.50)	0.38
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		506	269
OTHER COMPREHENSIVE INCOME, NET OF TAX		506	269
TOTAL COMPREHENSIVE INCOME FOR THE SIX MONTHS		309	420
Attributable to:			
Owners of the Parent		309	420
Non-controlling interests		-	-

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Note	As at 30 June 2022 £ '000	As at 31 December 2021 £ '000	As at 30 June 2021 £ '000
ASSETS				
Non-current assets				
Property, plant and equipment		9 926	9 795	9 909
Intangible assets		842	809	765
		10 768	10 604	10 674
Current assets				
Inventories	6	4 556	4 655	5 919
Trade and other receivables		5 528	6 763	6 976
Current taxes		120	920	305
Other financial assets		43	40	41
Cash and cash equivalents		293	312	147
		10 540	12 690	13 388
TOTAL ASSETS		21 308	23 294	24 062
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital		4 282	4 282	4 282
Treasury shares		(315)	(315)	(315)
Share premium		4 562	4 562	4 562
Translation reserve		(14 481)	(14 987)	(14 962)
Revaluation reserve		6 182	6 348	6 715
Retained earnings		6 026	6 057	5 403
		6 256	5 947	5 685
TOTAL EQUITY		6 256	5 947	5 685
Non-current Liabilities				
Deferred tax liabilities		748	796	937
		748	796	937
Current liabilities				
Bank loans		6 394	6 039	6 812
Short-term payables		448	587	-
Trade and other payables		7 032	9 829	10 610
Current income tax liabilities		154	41	-
Other taxes payable		276	55	18
		14 304	16 551	17 440
TOTAL LIABILITIES		15 052	17 347	18 377
TOTAL EQUITY AND LIABILITIES		21 308	23 294	24 062

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent						Total	Total Equity
	Share capital	Share treasury	Share premium	Revaluation reserve	Retained earnings	Translation reserve		
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
As At 31 December 2020	4 282	(315)	4 562	7 031	4 935	(15 231)	5 264	5 264
Loss for the six months	-	-	-	-	152	-	-	152
Currency translation differences	-	-	-	-	-	269	269	269
Total comprehensive income	-	-	-	-	152	269	421	421
Depreciation on revaluation of property, plant and equipment	-	-	-	(316)	316	-	-	-
As At 30 June 2021	4 282	(315)	4 562	6 715	5 403	(14 962)	5 685	5 685
Profit for the six months	-	-	-	-	287	-	287	287
Currency translation differences	-	-	-	-	-	(25)	(25)	(25)
Total comprehensive loss	-	-	-	-	287	(25)	262	262
Depreciation on revaluation of property, plant and equipment	-	-	-	(367)	367	-	-	-
As At 31 December 2021	4 282	(315)	4 562	6 348	6 057	(14 987)	5 947	5 947
Loss for the six months	-	-	-	-	(197)	-	(197)	(197)
Currency translation differences	-	-	-	-	-	506	506	506
Total comprehensive income	-	-	-	-	(197)	506	309	309
Depreciation on revaluation of property, plant and equipment	-	-	-	(166)	166	-	-	-
As At 30 June 2022	4 282	(315)	45 262	6 182	6 026	(14 481)	6 256	6 256

Ukrproduct Group
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£ '000	£ '000
Cash flows from operating activities		
Profit before taxation	(152)	81
Adjustments for:		
Exchange difference	(20)	(366)
Depreciation and amortization	387	537
Loss on disposal of non-current assets	-	5
Provision for bad debt	1 435	166
Impairment of inventories	18	9
Interest expense on bank loans	232	232
Operating cash flow before working capital changes	1 900	664
Increase in inventories	85	1 390
Increase/Decrease in trade and other receivables	596	(1 128)
Increase in trade and other payables	(2 653)	(366)
Changes in working capital	(1 972)	(104)
Cash generated from operations	(72)	560
Interest received	1	-
Income tax paid	33	9
Net cash generated from operating activities	(38)	569
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(194)	(519)
Issuance of loans	(2)	(13)
Net cash used in investing activities	(196)	(532)
Cash flows from financing activities		
Interest paid	(149)	(188)
Repayments of long term borrowing	-	(57)
Net cash used in from financing activities	(149)	(245)
Net decrease in cash and cash equivalents	(383)	(208)
Effect of exchange rate changes on cash and cash equivalents	364	199
Cash and cash equivalents at the beginning of the six months	312	156
Cash and cash equivalents at the end of the six months	293	147

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

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

The Group's operational management and production facilities are based in Ukraine, with the headquarters 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 "Vershкова Dolina" (Creamy Valley).

2. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The condensed consolidated financial information in this half yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), as adopted by the EU, and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

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

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

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

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

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

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities. Based on this review the Group will be able to remain a going concern for at least the next twelve months, from both the date of the Condensed Consolidated Statement of Financial Position and the approval of the Condensed Consolidated Financial Statements.

(b) Going concern

On 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine. Having examined the existing and potential implications of the war for the Ukraine located businesses, the management of the Group have identified several points of specific concern that require careful analysis and assessment. They include, but are not limited to, the following:

- risks related to safety of personnel;
- risk of physical destruction of the production assets;
- risks of disruption of the supply and distribution chains;
- risk of liquidity and limited access to financing.

In preparing these financial statements, the Directors have assessed the Group's ability to continue as a going concern. The Company performed an analysis of the future cash flows and budgets for the next 12 months based on the known facts and events applying to them, including multiple scenarios as a result of the ongoing war with the Russian Federation. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as a stable flow of revenues in due course. The Group fully complies with all sanctions rules and regulations regarding Russia and Belarus.

Management is taking steps to secure the supply chain which is vital for operational continuity. The Group concluded contracts with new alternative suppliers where necessary and developed new logistics routes. The central warehouse was moved to the one of Group's main plants at Zhytomyr, away from the line of active hostilities. Major customers have not been affected by the hostilities and continue to cooperate and fulfil their contractual obligations with the Group. The military action has had no critical impact on the local distribution. The share of sales in the most affected regions does not exceed 15%.

Selling, general and administrative and other operating expenses, as well as CAPEX, has been reduced to the minimum required to meet the primary needs of the Group's core business.

The Group's management is exploring various opportunities to attract additional financing to support the Group's the liquidity under different state aid programs.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

For the six months ended 30 June 2022, the Group continued to be in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”), missed some interest payments and repayments and the EBRD has not issued a waiver for the breaches. The Company has been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has been slowed owing to the ongoing war in Ukraine. At present, the EBRD has taken no action to accelerate repayment of the loan.

These financial statements are prepared using the going concern basis assumption.

In addition, the following key assumptions were used for the forecasts: no further significant progression of Russian troops into the territory of Ukraine that could severely affect the Group's assets; production facilities located in the uncontrolled territories remaining physically undamaged and being able to continue operating; remaining logistic routes continuing to be available; sales levels being maintained to cover operational expenses and debt servicing (depending on how discussions with EBRD progress).

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates (“the functional currency”). For the companies operating in Cyprus and British Virgin Islands, the functional currency is United States Dollars (“USD”). For the Parent company, which is located in Jersey, the functional currency is Pound Sterling (“GBP”). For the companies operating in Ukraine, the functional currency is Ukrainian Hryvnia (“UAH”).

These condensed consolidated interim financial statements are presented in the thousands of Pound Sterling (“GBP”), unless otherwise indicated.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

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

Currency	30 June 2022 (spot rate)	Average for the six months ended 30 June 2022	31 December 2021 (spot rate)	30 June 2021 (spot rate)	Average for the six months ended 30 June 2021
UAH/GBP	35,55	37,72	36,84	37,58	38,55
UAH/USD	29,25	28,91	27,28	27,18	27,77
UAH/EUR	30,77	31,74	30,92	32,30	33,46

(d) Reclassification

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

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

IFRS 16 ‘Leases’

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

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

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

Recognition and measurement

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

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

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

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

An amendment to IFRS 16

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

Nature and effect of amendment to IFRS 16

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

Ukrproduct Group

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

(in thousand GBP, unless otherwise stated)

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 17 ‘Insurance Contracts’

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

Other pronouncements

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

5. ESTIMATES AND JUDGEMENTS

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

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

6. INVENTORY WRITE OFF TO NET REALISABLE VALUE

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

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

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

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

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

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

The loss from impairment of inventories amounted to:

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£ '000	£ '000
Impairment of finished goods	(18)	(9)

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

7. Provision for bad debt

The Group had to make an additional bad debt provision for receivables from customers which have been affected by the hostilities.

The expenses for the formation of a provision for doubtful debts amounted to:

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£ '000	£ '000
Write off of receivables	(1 435)	(166)

8. RELATED PARTY TRANSACTIONS

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

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

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

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

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

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£ '000	£ '000
Administrative expenses	-	12
Other operational incomes	-	21

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

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£ '000	£ '000
Trade and other payables	-	(4)

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

9. SEGMENT INFORMATION

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

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

At 30 June 2022, the Group was organized internationally into five main business segments:

- 1) Branded products – processed cheese, hard cheese, packaged butter and spreads
- 2) Beverages – kvass, other beverages
- 3) Non-branded products – skimmed milk powder, other skimmed milk products
- 4) Distribution services and other – resale of third-party goods and processing services
- 5) Supplementary products – export trading activities with non-dairy products. The Group has expanded export sales into non-dairy products such as corn, protein meal and oil. These operations make use of third party logistics services and are financed by deferring payment for purchased products.

The segment results for the six months ended 30 June 2022 are as follows:

	Branded products	Beverages	Non-branded products	Distribution services and other	Supplementary products	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Sales	13 951	404	986	2 330	607	18 278
Gross profit	2 881	184	(270)	472	2	3 269

The segment results for the six months ended 30 June 2021 are as follows:

	Branded products	Beverages	Non-branded products	Distribution services and other	Supplementary products	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Sales	18 098	690	2 236	1 022	3 486	25 532
Gross profit	1 419	429	(253)	316	87	1 998

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

10. EARNINGS PER SHARE

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

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

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

	Six months ended 30 June 2022 £ '000	Six months ended 30 June 2021 £ '000
Net profit attributable to ordinary shareholders	(197)	151
Weighted average number of ordinary shares in issue	39 673 049	39 673 049
Basic earnings per share, pence	(0.50)	0.38
Diluted weighted average number of shares	39 673 049	39 673 049
Diluted earnings per share, pence	(0.50)	0.38

11. SUBSEQUENT EVENTS

As of the date of this report, the Group continues to operate. The management of the Group controls all of its operations. Office staff mostly work remotely, while production staff perform their duties at their sites. As of the date of this report, the war in Ukraine continues.

The duration and consequences of the war in Ukraine are currently unclear. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group in future periods.

Subsequent to 31 December 2021 and up to the date of these consolidated financial statements, the Group has not settled the principal and interest payment with reference to the loan agreement schedule with the EBRD. The Company have been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. At this current stage the active phase of negotiations with EBRD has slowed owing to the ongoing war in Ukraine. At present the EBRD has taken no action to accelerate repayment of the loan.

On 22 July 2022 the National Bank of Ukraine increased the official exchange rate of EUR to UAH up to 37.27 UAH from 29.81 as at 21 July 2022. As a result, the Group expect significant foreign exchange losses related to EBRD loan liabilities in the second half of 2022.

There were no other events after the end of the reporting date, which would have a material impact on the financial statements.

Ukrproduct Group
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
(in thousand GBP, unless otherwise stated)

12. APPROVAL OF INTERIM STATEMENTS

The unaudited condensed consolidated financial statements were approved by the board of directors on 29 September 2022