

# ANNUAL REPORT

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# MANAGEMENT REPORT



# 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).

During 2021, Ukrproduct experienced several global challenges. There was an acute, ongoing shortage of dairy raw materials, and an increase in imports of dairy products from abroad which hampered the development of the Ukrainian dairy products market. Rising costs of raw materials and consumables, energy and transport created additional problems. Increases in selling prices could not keep pace with the growth in costs and this affected manufacturers in 2021. Manufacturers were forced to raise selling prices in stages and over time, as they faced resistance from retailers.

For FY 2021, consolidated sales stood at £52.0 million, down 6.3% from the previous year (2020: £55.5 million), though in local currency it grew 0.6%.

Due to an increase of 18% in the price of raw milk over the period, the Group limited the volume of raw milk procured and used previously purchased, semi-finished products for production. The Group also suspended operations at its minor production facility in Letychiv due to the rise in raw milk prices in its captive raw milk zone.

Despite the challenging situation and limited marketing activities, Ukrproduct exceeded its expectations in sales of branded dairy products in 2021 achieving 7% growth compared to 2020. This increase in sales was delivered following a revision of the Company’s marketing strategy with renewed focus on processed cheese and processed cheese products, where sales have grown by 24% and 98% respectively. The overall Group market share in processed cheese and processed cheese products in Ukraine increased from 14% in 2020 to 21% in 2021.

Also in 2021, the Group resumed cooperation with the largest national retail chain in Ukraine, ATB-Market LLC, for the production of Private Label Cheese. However, due to a significant increase in costs as a result of the above noted factors, the sales margin of processed cheese and other processed cheese products decreased from 20.2% and 7.5% in 2020 to 16.0% and 6.4% in 2021, respectively.

In order to maintain profitability in the Company’s key segment, butter, Ukrproduct reduced low-margin sales of packaged butter in retail chains in the second half of 2021 and utilised the butter in the production of processed cheeses. This led to a 46.3% decrease in sales of packaged butter in 2021, but allowed for a significant increase in the category’s margin (from 7.4% in 2020 to 10.6% in 2021), which almost maintained the gross margin at 2020 levels.

The Group increased sales of spreads by 8.1% in 2021, despite the market contraction in Ukraine. However, a significant increase in the cost of vegetable fats (up 35% compared to 2020) led to a decrease in sales margin from 19.9% in 2020 to 14.7% in 2021.

An additional factor contributing to the slight growth of turnover in 2021 (in local currency) was an increase in sales of kvass and beverages of 5.8% in volume and 5.9% in value. Ukrproduct continued to increase its range of products in 2021, launching several new drinks into the market during the year.

The Group expanded its exports in 2021 both in terms of geographic locations and penetration in existing markets, which resulted in an increase in sales of exported branded products by 55.5% in volume (from 3,600 tons in 2020 to 5,600 tons in 2021), and by 60.5% in value (from \$7.1 million in 2020 to \$11.4 million in 2021). The main growth was delivered in the processed cheese category, sales of which increased 2.4 times in volume (from 1,900 tons in 2020 to 4,600 tons in 2021) and 2.6 times in value (from \$3.2 million in 2020 to \$8.4 million in 2021).

In 2021, the Group minimized production and export of skimmed milk powder, instead using the raw milk in the production of other semi-processed products.

The export of spreads declined significantly compared to 2020 due to cost inflation, the impact of COVID-19 lockdowns on transportation, and a reluctance by major customers including retailers to pass on the respective price increases.

Additionally, Ukrproduct undertook a number of initiatives to improve its operational cost efficiency, including optimised energy consumption and production standards complemented with increased productivity. The Group was also successful in maintaining the same level of logistical costs as in 2020 due to further optimisation of transportation routes and processes. This was a material achievement offsetting fuel inflation in 2021.

In 2021, the Group operating expenses rose by 12.0% compared to 2020, mainly driven by increases in salaries, legal and audit costs, marketing and fuel expenses.

These trading headwinds were significant and meant the Group’s EBITDA in 2021 level reduced by 21.6% to £1.1 million compared with the prior year, with the EBITDA margin decreasing from 2.6% in 2020 to 2.2% in 2021.

The consolidated net profit of Ukrproduct for 2021 amounted to £0.4 million compared with a net loss of £1.2 million loss in 2020.

## Financial Position

As at 31 December 2021, Ukrproduct reports net assets of £5.9 million including cash balances of £0.3 million compared to net assets of £5.3 million

as of 31 December 2020 with a cash balances of £0.2 million.

For the year ended 31 December 2021, the Group was in breach of several provisions of the loan agreement with the European Bank for Reconstruction and Development (“EBRD”), missed some repayments and the bank has not issued a waiver for the breaches. 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 have been slowed owing to the ongoing war in Ukraine. At present the EBRD has taken no action to accelerate repayment of the loan.

## Outlook

Trading in 2022 has been severely affected by the Russian invasion of Ukraine and the ongoing war. Dairy processing enterprises will not have the opportunity to maximize production capacity in 2022. As at 1 June 2022 the reduction of raw material supply for processing amounted to 2.9 million tons, and this is 16% lower than last year. Ukrainian regions have experienced a loss of production capacity in the occupied territory and in the war zone. Moreover, damaged infrastructure, and increases in fuel prices complemented 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. Ukrproduct expects to make provisions for some of its sales to distributors, which operate in the regions engaged in military activities and cannot pay on time.



Jack Rowell  
Non-Executive Chairman



Alexander Slipchuk  
Chief Executive Officer

# The Board of Directors

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 22 July 2021.

## 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 Group. He studied at Far-Eastern High Engineering Marine School in USSR 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 and acquired initial stakes in the companies that later became part of Ukrproduct Group. Later in 1998, Alexander took on the executive positions at the Molochnik and the Starokonstantynivsky Dairy plants, Ukrproduct's two main operating assets.

## Sergey Evlanchik

### Executive Director



Sergey Evlanchik received his Master's degree at Oxford University, where he studied Business Administration at Said Business School.

Together with Alexander Slipchuk, he established the equity trading group, Alfa-Broker in 1994 and after the downturn of 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 Ukrproduct Group in 2004. Sergey then led the Group to its successful listing on the AIM market of the London Stock Exchange in 2005.

In 2011 under the leadership of Sergey Evlanchik the Group secured debt finance with EBRD focused on energy and production efficiency upgrade of the existing production facilities.

Sergey is also a partner in Rengy Development that is focused on development of renewable projects – mainly solar power generation in Ukraine.

## Yuriy Hordiychuk

### Chief Operational Officer



Yuri Hordiychuk has been with the Group since 2002. Firstly, he was Director of Procurement, and in 2005 was promoted to Director of Production. The next significant step in the career of Mr. Hordiychuk was taken in 2008, when the owners of Ukrproduct Group appointed him as Chief Operational Officer of the Company. Yuri has a successful track record of business administration and a degree in "Production Organization Management".

In 2006, Mr. Hordiychuk received his MBA Degree from the School of Economics."

## Andrii Honcharuk

### Chief Financial Officer



Andrii Honcharuk has joined the Group in September 2021 and has overall control and responsibility for all financial aspects of company strategy. He holds Master's degree in Finance and possesses 15 years' in corporate finance, including 10 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 2021.

## 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 2021.

## 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	
	2021	2020	2021	2020	2021	2020	2021	2020
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
<b>Executive</b>								
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
	<b>95.0</b>	<b>95.0</b>					<b>95.0</b>	<b>95.0</b>
<b>Non-Executive</b>								
Jack Rowell	22.5	22.5	-	-	-	-	22.5	22.5
<b>General manager</b>								
Yuriy Hordiychuk*	13.3	13.3	-	-	-	-	13.3	13.3

\*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 2021 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 Ukrproduct Group Ltd, have been created. The Company will provide annual updates on its compliance with the QCA Code in its Annual Report.

## 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 Andrii Honcharuk, Chief Financial Officer, [andrii.honcharuk@ukrproduct.com](mailto:andrii.honcharuk@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 Andrii Honcharuk, 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 2021.

## 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 34. The Company recorded a net financial result of the profit £0.4 million, compared to the loss of £1.2 million in 2020. The effect of exchange rates led to the Group reporting a net foreign exchange gain of £0.6 million.

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2021.

## Directors

Details of members of the Board of Directors are shown on page 8.

The Directors' interests in the share capital of the company as at 31 December 2021 and 31 December 2020 are shown below:

	Shares 2021	Share options 2020	2021	2020
<b>Executive</b>				
Sergey Evlanchik	14,967,133	14,967,133	-	-
Alexander Slipchuk	14,939,133	14,939,133	-	-
Yuriy Hordiychuk	-	-	-	-
<b>Non-executive</b>				
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 64-68.

## 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 2021 was 852 (2020: 860).

## 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

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 the 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 the result of the ongoing war with Russian Federation. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as stable flow of revenues in due course. The Group fully complies with all sanctions rules and regulations regarding Russia and Belarus.

The management is taking steps to secure the supply chain which is vital for Company's

operational continuity. 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 local distribution of products and distribution to large national retail chains. 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, have been reduced to the minimum required to meet the primary needs of the Group's core business. 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 will continue to be available; maintain sales level to cover operational expenses level and debt servicing.

For the year ended 31 December 2021, the Group was in breach of several provisions of the loan agreement with EBRD and the bank has not issued a waiver for the breaches. 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.

## Annual General Meeting

Ukrproduct's AGM will be held on 3 November 2022. 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 2021 financial year by the resolution of the Directors held on 22 July 2021. 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

28 September 2022

# 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:  
28 September 2022

# 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 2021, the consolidated statement of changes in equity, consolidated statement of cash flows and notes to the financial statements including 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 2021 and of its results for the year then ended;
- have been properly prepared in accordance with 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.

### 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.

## 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 on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p><b>Going Concern</b></p> <p>The financial statements have been prepared on a going concern basis as discussed in note 2. The Group is in a net current liability position due to a breach of loan covenants. The net current liability presented in the Consolidated Balance Sheet totalled was in the amount of £3.8m as at 31 December 2021. We included the going concern assumption as a key audit matter given both the continuing net current liability position as well as the ongoing Russian military action in Ukraine (refer note 2.1 b to the financial statements).</p>	<p>In assessing the appropriateness of the going concern assumption used in preparing the financial statements, our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Assessing the cash flow requirements of the Group over 12 months from expected signoff of these consolidated;</li> <li>• Understanding what forecast expenditure is committed and what could be considered discretionary;</li> <li>• Assessing the liquidity of existing assets on the statement of financial position that can be used to repay the Group's obligations;</li> <li>• Considering the terms of the EBRD and other bank loan and trade finance facilities and the amount available for drawdown as well as the probability of EBRD agreeing to restructure the facilities;</li> <li>• Considering the impact of the ongoing military conflict in Ukraine to the Group's operations and the Group's business continuity plan, if any; and,</li> <li>• Considering potential downside scenarios and the resultant impact on available funds.</li> </ul> <p><b>Key Observations</b></p> <p>In our opinion, a material uncertainty exists that may cast significant doubt as to the ability of the Group to continue as a going concern. This has been highlighted in our Material uncertainty related to going concern paragraph of the audit report.</p>

### 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's revenue from local and export sales of milk, dairy foods and beverages amounted to £51.90 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 (Refer to note 2.2.11 & 8).

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 employed by the Group;
- We performed sample based tests of details over the accuracy and occurrence of sales during the year specially responsive to the risk of fraud in revenue occurrence;
- We performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to the previous year;
- We tested a sample of journal entries relating to income recognition by reference to supporting documents;
- We performed sales cut-off procedures for a sample of revenue transactions at the year end in order to conclude on whether they were recognized in the correct accounting period; and,
- We reviewed the disclosures related to revenue 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.

## Material uncertainty related to going concern

We draw attention to note 2.1 (b), in the financial statements, which indicates that the Russian Federation launched a full-scale military invasion of Ukraine, and the Group is in breach of covenants in respect of funding received from the European Bank for Reconstruction

and Development (EBRD); - these events have continued after the year end. These events and conditions, along with other matters as set in note 2.1 (b) to the financial statements, 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.

## 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 £520,000 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 £26,000 identified during our audit will be reported, together with any misstatement below that threshold that, in our view, warranted reporting on qualitative grounds.

## 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 17 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.

## 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.

### **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 and 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 and 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 testing 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

### **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.



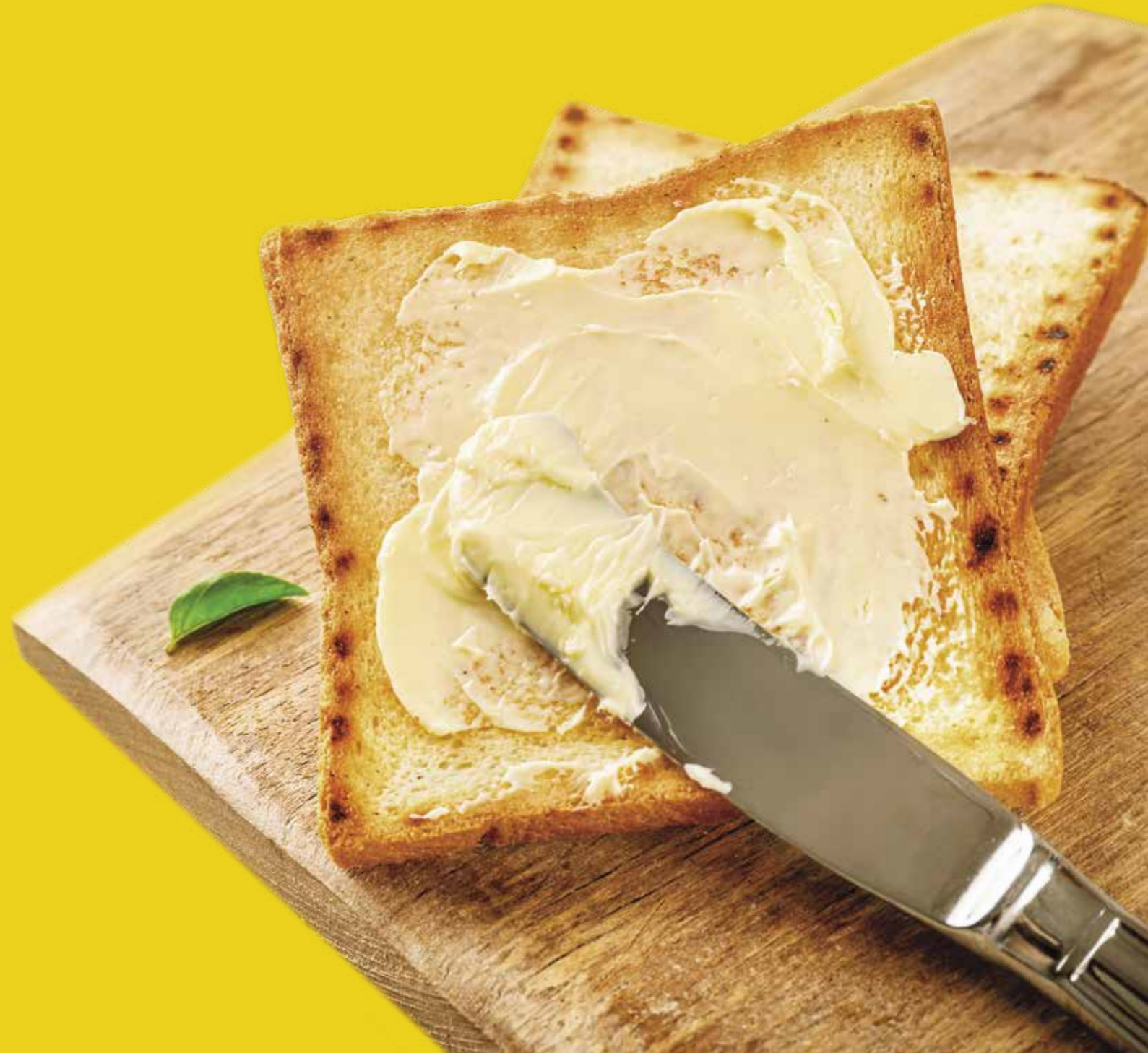
**Jeff Vincent**

For and on behalf of Moore Stephens Audit & Assurance (Jersey) Limited 1 Waverley Place  
Union Street St Helier Jersey  
Channel Islands JE4 8SG

28 September 2022



# FINANCIAL STATEMENTS



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousand GBP, unless otherwise stated)

	Note	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Revenue	8	51 985	55 508
Cost of sales	9	(47 457)	(50 778)
<b>GROSS PROFIT</b>		<b>4 528</b>	<b>4 730</b>
Administrative expenses	9	(1 415)	(1 205)
Selling and distribution expenses	9	(2 751)	(2 464)
Other operating expenses	9	(192)	(223)
<b>PROFIT FROM OPERATIONS</b>		<b>170</b>	<b>838</b>
Net finance expenses	11	(440)	(486)
Net foreign exchange gain (loss)	10	599	(1 547)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b>329</b>	<b>(1 195)</b>
Income tax credit	13	110	35
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>439</b>	<b>(1 160)</b>
<b>Attributable to:</b>			
Owners of the Parent		439	(1 160)
<b>Earnings per share from continuing and total operations:</b>			
Basic (pence)	26	1.11	(2.92)
Diluted (pence)	26	1.11	(2.92)
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences		244	(494)
<b>Items that will not be reclassified to profit or loss</b>			
Gain on revaluation of property, plant and equipment		-	3 758
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>244</b>	<b>3 264</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>683</b>	<b>2 104</b>
<b>Attributable to:</b>			
Owners of the Parent		683	2 104
Non-controlling interests		-	-

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousand GBP, unless otherwise stated)

	Note	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	9 795	9 934
Intangible assets	15	809	598
		<b>10 604</b>	<b>10 532</b>
<b>Current assets</b>			
Inventories	17	4 655	7 317
Trade and other receivables	18	6 763	6 115
Current taxes	19	920	214
Other financial assets	20	40	27
Cash and cash equivalents	21	312	156
		<b>12 690</b>	<b>13 829</b>
<b>TOTAL ASSETS</b>		<b>23 294</b>	<b>24 361</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	22	4 282	4 282
Treasury shares		(315)	(315)
Share premium	23	4 562	4 562
Translation reserve	23	(14 987)	(15 231)
Revaluation reserve	23	6 348	7 031
Retained earnings		6 057	4 935
		<b>5 947</b>	<b>5 264</b>
<b>TOTAL EQUITY</b>		<b>5 947</b>	<b>5 264</b>
<b>Non-Current Liabilities</b>			
Liabilities for right-of-use assets		-	13
Deferred tax liabilities	16	796	1 029
		<b>796</b>	<b>1 042</b>
<b>Current liabilities</b>			
Bank loans	24	6 039	6 628
Short-term payables		587	467
Trade and other payables	25	9 829	10 947
Current income tax liabilities		41	-
Other taxes payable		55	13
		<b>16 551</b>	<b>18 055</b>
<b>TOTAL LIABILITIES</b>		<b>17 347</b>	<b>19 097</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>23 294</b>	<b>24 361</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 September 2022 and were signed on its behalf by:

Alexander Slipchuk  
Chief Executive Officer 2022

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent								
	Share capital	Treasury shares	Share premium	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interests	Total Equity
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>As At 31 December 2019</b>	4 282	(315)	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)
<b>Total comprehensive income</b>	-	-	-	-	(1 160)	(494)	(1 654)	-	(1 654)
Reduction of revaluation	-	-	-	(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	-	-	-	-
<b>As At 31 December 2020</b>	4 282	(315)	4 562	7 031	4 935	(15 231)	5 264	-	5 264
Profit for the year	-	-	-	-	439	-	439	-	439
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	244	244	-	244
<b>Total comprehensive income</b>	-	-	-	-	439	244	683	-	683
Reduction of revaluation reserve	-	-	-	-	-	-	-	-	-
Gain on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	-	(683)	683	-	-	-	-
<b>As At 31 December 2021</b>	4 282	(315)	4 562	6 348	6 057	(14 987)	5 947	-	5 947

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousand GBP, unless otherwise stated)

	Note	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
<b>Cash flows from operating activities</b>			
Profit/(Loss) before taxation		329	(1 195)
Adjustments for:			
Exchange difference	10	(599)	1 547
Depreciation and amortization	9	1 003	618
Profit/ (Loss) on disposal of non-current assets	9	10	(4)
Profit on revaluation	9	-	225
Write off of receivables/payables	9	192	(53)
Impairment of inventories	9	(41)	(42)
Interest income	11	-	(2)
Interest expense on bank loans	11	441	488
<b>Operation cash flow before working capital changes</b>		<b>1 335</b>	<b>1 582</b>
Decrease / (Increase) in inventories		2 703	(2 246)
(Increase) / Decrease in trade and other receivables		(1 558)	1 232
(Decrease) / Increase in trade and other payables		(1 118)	1 662
<b>Changes in working capital</b>		<b>27</b>	<b>648</b>
<b>Cash generated from operations</b>		<b>1 362</b>	<b>2 230</b>
Interest received		-	2
Income tax paid		12	(2)
<b>Net cash generated from operating activities</b>		<b>1 374</b>	<b>2 230</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment and intangible assets		(723)	(688)
Proceeds from sale of property, plant and equipment		-	13
Repayments of loans issued		(11)	(3)
<b>Net cash used in investing activities</b>		<b>(734)</b>	<b>(678)</b>
<b>Cash flows from financing activities</b>			
Interest paid	24	(379)	(494)
Decrease in short term borrowing		-	-
Repayments of long term borrowing	24	(161)	(525)
<b>Net cash used in financing activities</b>		<b>(540)</b>	<b>(1 019)</b>
<b>Net increase in cash and cash equivalents</b>		<b>100</b>	<b>533</b>
Effect of exchange rate changes on cash and cash equivalents		56	(608)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>156</b>	<b>231</b>
<b>Cash and cash equivalents at the end of the year</b>	21	<b>312</b>	<b>156</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousand GBP, unless otherwise stated)

## 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 2021 was 852 (2020: 860).

### (b) Share capital

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

	Year ended 31 December 2021	Year ended 31 December 2020
<b>Ukrproduct Group</b>		
Slipchuk Alexander	34.89%	34.89%
Evlanchik Sergey	34.96%	34.96%

As at 31 December 2021, 7.34% of the Company’s issued share capital was held in treasury.

### (c) Ukrainian environment

In 2021, the growth of Ukraine’s real gross domestic product (GDP) amounted to 3.2%. As

reported earlier, Ukraine’s GDP contracted by 4% in 2020 following by a growth in the four previous years: 3.2% in 2019, 3.4% in 2018, 2.5% in 2017, and 2.4% in 2016.

Nominal GDP stood at UAH 5,460bn, slightly higher than our last prewar forecast (UAH 5,438bn). This was due to an improved economic growth estimate, from 3.2% to 3.4%, and a slight upward recalculation of the GDP deflator, which was 25.1% in 2021.

In sectoral terms, the best result, as expected, was recorded in agriculture (+14.4%) on the back of a record harvest of cereals and other crops. There was also a rapid recovery in economic activity amid a low comparison base in the financial sector (+14.2%) and HoReCa (+12.7%). Growth in construction (+7.1%) and IT (+6.5%) was relatively strong as well.

However, supply chain disruption harmed the performance of the wholesale trade. Although retail trade recorded a year-on-year increase (+5.1%), the aggregate figure for the trade sector fell by 0.6%. There was also a decline in public administration, compulsory and social insurance (-2.8%), which is explained by poor fiscal discipline on individual budget programmes and peculiarities of calculating social transfers to the population, taking into consideration strong growth in householder’s revenues and fixed price on natural gas.

According to the State Statistics Service, consumer inflation in Ukraine for the whole of 2021 is 10.0%.

The acceleration of inflation in 2021 was a global trend, driven primarily by the rapid

recovery of economic activity after the corona crisis amid supply chain disruptions related to quarantine restrictions. This, in particular, led to an increase in the price of energy carriers, raw materials and components.

According to the State Statistics Service, in 2021, the supply of raw milk to processing enterprises decreased by 8.9% compared to 2020, to 3.20 million tons. The two traditional sources - dairy farms and households - last year were distributed according to the following proportion of milk supply: 81.7% (2.48 million tons) of dairy farms and 18.3% (554.0 thousand tons) of households. Five years ago, dairy farms provided 68.5% of all milk supplied and households 31.6%. Such significant changes in the proportions are due to changes in the requirements of food law in the context of dairy production and safety indicators of raw milk, as well as a decrease in milk production in households.

The safety indicators of industrial milk delivered to dairy plants in 2021 continued to increase. Most milk was supplied by extra grade - 39.3%, or 973.2 thousand tons, which is 10% more than in 2020 and 2.2 times more than five years ago in 2017.

The volume of deliveries of higher grade milk increased from 34.2% to 35.3% compared to 2020 and amounted to 874.7 thousand tons. Milk of the first grade was purchased by 20.9% less than in 2020 - 613, 6 thousand tons, or 24.8% of the total structure.

Purchase prices for raw milk increased by 18.8% in 2021 compared to 2020 and averaged UAH 9,385 per ton across the country. Raw milk for processing was procured from agricultural enterprises at the average of UAH 9,936 per ton (up 16.0% than in 2020), from individuals - at UAH 6,921 per ton (up 24.2% than in 2020).

Key dairy products prices increased by an

average of 12.5% in 2021 from the prior year.

## 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

On 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine (Note 32). 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 personal;
- 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 the result of the ongoing war with Russian Federation. The analysis revealed that the Group would continue to maintain sufficient cash resources as well as 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 plant 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 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, have been reduced to the minimum required to meet the primary needs of the Group's core business.

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

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 beign able to continue operating; remaining logistic routes will continue to be available; maintain sales level to cover operational expenses level and debt servicing.

For the year ended 31 December 2021, the Group was in breach of several provisions of the loan agreement with EBRD, missed some repayments and the bank 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 have 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.

### (c) Consolidation principles

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2021.

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.

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.

The Consolidated financial statements of the Group include the following companies:

Group's company	Country of incorporation	Effective ownership ratio		Principal activities
		As at 31 December 2021	2020	
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 Ukrproduct Group LTD	BVI Jersey	100%	100%	Export operations Parent company traded on AIM

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

\*\* Subsidiary 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 will cease to exist on 4 April 2032.

#### (d) 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.

#### (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 2021	Average exchange rate for 2021	31 December 2020	Average exchange rate for 2020
UAH/GBP	36,8392	37,514	38.44	34.91
UAH/USD	27,2782	27,2659	28.27	26.99
UAH/EUR	30,9226	32,259	34.74	30.85

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.

## 2.2.2. 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.

## 2.2.4. 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.

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.

### 2.2.4. 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.

### 2.2.5. 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;
- Rights to use natural resources;
- Trademarks.

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

Rights to use natural resources are capitalised on the basis of the costs incurred to acquire.

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), right of use natural resources (15-20 years). The amortisation expense is included within administrative expenses in the Consolidated Statement of Comprehensive Income.

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.

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 comprehensive 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.

### (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.

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.

“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.

### 2.2.11. Revenue recognition

Revenue is recognised 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.

### 2.2.12. 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.

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.

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.

## 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.

## 2.2.18. 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 leases 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

## 2.2.20. 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

## 2.2.22. 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.

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.

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.

#### **(f) Transfer pricing**

The transfer pricing methods, established by the Tax Code of Ukraine, are in line with the OECD Guidelines. The Group exports dairy products and skimmed milk powder, 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 2020 within the required deadline, and at present the Group is preparing all necessary documentation controlled transactions for the year ended 31 December 2021 as required by legislation. 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.

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, accounting policies are consistent

with those applied in the previous reporting year. Some new standards and interpretations have become mandatory beginning on or after January 01, 2021. New and revised standards and interpretations applied by the Company for the first time as at January 01, 2021 are as follows.

#### **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform—Phase 2**

The amendments provide temporary exemptions that are applied to address financial reporting implications in cases where the Interbank Offer Rate (IBOR) is replaced by an alternative, virtually risk-free interest rate. The amendments relate to the following:

- changes in contractual cash flows - the entity does not need 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 to reflect the change in the benchmark interest rate;
- hedge accounting - the entity will not have to stop hedge accounting just because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- disclosure - the entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

These amendments did not affect the Group's financial statements.

#### **Amendments to IFRS 16 – Covid-19-Related Rent Concessions beyond June 30, 2021**

On May 2020, the IASB issued the Amendment to IFRS 16 Leases - Covid-19 - Related Rent Concessions. This amendment provides relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent

concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concessions from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification. The amendment was intended to be applied until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient until June 30, 2022. The amendment is applied to annual reporting periods beginning on or after April 01, 2021, with early application permitted. This amendment is mandatory for those business entities that have decided to apply the previous amendment related to COVID-19 - related rent concessions.

The application of this amendment did not affect the Group's financial statements.

IFRS and interpretations issued but not yet effective

The Company did not apply the following IFRS, interpretations to IFRS and IAS, changes and amendments thereto that were issued but not yet effective.

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

IFRS 17 is a new financial reporting standard for insurance contracts that addresses the recognition and evaluation issues, presentation and disclosures. IFRS 17 will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 Insurance Contracts is effective for annual reporting periods beginning on or after January 01, 2023; comparative information is required. Early application is permitted, provided that an entity also applies IFRS 9 and IFRS 15 on or before the date of the first application of IFRS

17. This standard is not applied to the Group.

#### **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.**

The amendments address the contradiction between IFRS 10 and IAS 28 in terms of accounting of the loss of control over a subsidiary that is sold/contributed to an associate or joint venture. The amendments clarify that profit or loss arising from the sale or contribution of assets representing a business, as defined in IFRS 3, are fully recognized in an agreement between an investor and its associate or joint venture. However, profit or loss resulting from the sale or contribution of assets that do not represent a business are recognized only within the limits of shares held by others other than the investor's company in an associate or joint venture. The IASB has postponed the date of entry into force of this amendment indefinitely, but early application is allowed prospectively.

#### **Amendments to IAS 1 Presentation of Financial Statements**

The IASB has amended IAS 1 to clarify issues related to the classification of current and non-current liabilities. The amendments are effective for reporting periods beginning on or after January 01, 2023. Amendments are applied retrospectively; early application is permitted. The amendments may affect the classification of liabilities in the Company's statement of financial position.

#### **Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework**

In May 2020, the IASB issued amendments to IFRS 3, the purpose of which is to replace the reference to the "Conceptual Framework for the Preparation and Presentation of Financial Statements" issued in 1989 with the reference

to the "Conceptual Framework for the Presentation of Financial Statements" issued in March 2018, without making significant changes to the requirements of the standard. These amendments will be effective for annual periods beginning on or after January 01, 2022 and are applied prospectively.

#### **Amendments to IAS 16, Property, Plant and Equipment - Proceeds before Intended Use**

In May 2020, the IASB published amendments to IAS 16, which prohibits businesses to deduct from the initial cost of an item of property, plant and equipment any proceeds from the sale of products produced during the delivery of this item to the location and bringing it into a condition that is necessary for its operation in the manner specified by the management. Instead, the entity recognizes proceeds from the sale of such products, as well as the production cost of these products, in profit or loss. These amendments will be effective for annual periods beginning on or after January 01, 2022 and are applied prospectively. It is expected that these amendments will not have a significant impact on the Group's financial statements.

#### **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 explaining what costs an entity should account for when assessing whether a contract is onerous or losing. The amendments provide for an approach based on "Costs that relate directly to fulfilling contracts". Costs that relate directly to fulfilling contracts for the provision of goods or services include both additional expenses for fulfilling a contract and allocated expenses directly related to fulfilling the contract. General and administrative expenses do not relate directly to the contract and, therefore, are excluded, except in cases where they are clearly subject to reimbursement by the contract's counterparty. These amendments

are effective for annual periods beginning on or after January 01, 2022. It is expected that these amendments will not have a significant impact on the Group's financial statements.

#### **Amendments to IAS 8 - Definition of Accounting Estimates**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 01, 2023 and are applied to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of the abovementioned period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's financial statements.

#### **Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies**

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, which provide guidance and examples, which assist entities in applying materiality judgements to accounting policy disclosures. The amendments aim to assist entities in providing accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities should apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 01, 2023 with earlier application

permitted. It is expected that these amendments will not have a significant impact on the Group's financial statements.

#### **Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction**

The amendments clarify that the exemption from the initial recognition is not applied to transactions where equal amounts of deductible and taxable temporary differences arise during initial recognition (for example, leases, decommissioning obligations). The amendments are applicable for annual periods beginning on or after January 01, 2023 with earlier application permitted. It is expected that these amendments will not have a significant impact on the Group's financial statements.

#### **Annual Improvements to IFRS (2018-2020 cycle)**

#### **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Subsidiary as a First-time Adopter**

Under this amendment, a subsidiary that decides to apply paragraph D16 (A) of IFRS 1 has the right to measure accumulated foreign exchange differences using the amounts reflected in the parent company's financial statements, based on the date of the parent company's transition to IFRS. This amendment may also be applied by associates and joint ventures that decide to apply paragraph D16 (a) of IFRS 1. This amendment is effective for annual reporting periods beginning on or after January 01, 2022. Early application is permitted. This amendment will not affect the Group's financial statements.

#### **Amendment to IFRS 9 Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities**

The amendment explains what amounts of fees an entity accounts when assessing whether the terms of a new or modified financial liability differ



significantly from the terms of the initial financial liability. These amounts include only those commissions that have been paid or received between a particular lender and a borrower and fees paid or received by the lender or borrower on behalf of the other party. The entity should apply this amendment to financial liabilities that have been modified or replaced on or after the start date of the annual reporting period in which the entity first applies this amendment. This amendment is effective for annual reporting periods beginning on or after January 01, 2022. Early application is permitted. It is expected that this amendment will not have a significant impact on the Group's financial statements.

#### Amendment to IAS 41 Agriculture - Taxation in Fair Value Measurements

This amendment removes the requirement in paragraph 22 of IAS 41 that entities do not include taxation cash flows in the calculation when measuring the fair value of assets falling within the scope of IAS 41. The entity should apply this amendment prospectively to the fair value measurement on or after the start date of the first annual reporting period beginning on or after January 01, 2022. Early application is permitted. This amendment will not affect the Group'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;
- short-term payables.

The principal financial instruments are as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
<b>Financial assets</b>		
<b>Financial assets at amortised cost</b>		
- trade and other receivables (excluding non-financial assets)	6 264	5 506
- cash and cash equivalents	312	156
- other financial assets	40	27
	<b>6 616</b>	<b>5 689</b>
<b>Financial liabilities</b>		
<b>Financial liabilities at amortised cost:</b>		
- short-term payables	587	467
- current bank loans	6 039	6 628
- trade and other payables (excluding non-financial liabilities)	8 967	10 112
- interest payable	193	179
	<b>15 786</b>	<b>17 386</b>

#### (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.

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 policies 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.

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.

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.

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

Bank	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2021	Year ended 31 December 2020
	Rating	Rating	£ '000	£ '000
JSC OTP Bank	uaAAA	uaAAA	8	8
PJSC Raiffeisen Bank Aval	uaAAA	Aa3.ua	53	10
CreditWest	uaAAA	uaAA+	146	86
Other	Caa3	Caa3	105	37
			<b>312</b>	<b>141</b>

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 2021 £ '000	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000	Year ended 31 December 2020 £ '000
	Carrying Value	Maximum exposure (unsecured)	Carrying Value	Maximum exposure (unsecured)
Cash and cash equivalents	312	312	156	156
Trade receivables	5 894	5 894	4 513	4 513
Other receivables	370	370	993	993
Other financial assets	40	40	27	27
	<b>6 616</b>	<b>6 616</b>	<b>5 689</b>	<b>5 689</b>

#### (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 Notes 2.1 (b), 4.

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 60 390 (decrease

2020: -1%-GBP 66 280).

**(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.

The Group has a long-term loan from EBRD for the purpose of modernising Starokonstantynivskiy 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 3% would cause an exchange rate loss of GBP 174 thousand (2020 by 3%: GBP 190 thousand).

**(iii) Commodity price risk**

Ukrproduct's principal raw material needs consist primarily of:

- materials needed to produce dairy products and beverage products, mainly raw milk, sugar, palm oil, corn starch etc. Changes in market prices for these raw materials can adversely influence on Group's financial results. In terms of value, milk is the main raw material purchased

from local producers or dairy farms. Its price is set locally, over contractual periods that vary from one region to another. Other materials are purchased through tenders or on stocks.

- packaging materials such as foil corrugated packaging. Prices are influenced by supply and demand at the global and regional levels, economic cycles.
- energy supplies.

**(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 2021, the D/E ratio consists

of approximately 1.05 improved compared to 31 December 2020 by 25.6 bp. In 2021 the management implemented long-term strategy to decrease D/E ratio down to 0.6 (60%). In 2022 as a result of Russian military aggression against Ukraine and further economic crisis the Group doesn't expect further improvement of D/E ratio by the end of 2022.

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Total debt	6 626	7 095
Less: Cash and cash equivalents	(312)	(156)
<b>Net debt</b>	<b>6 314</b>	<b>6 939</b>
Total equity	5 947	5 264
<b>D/E ratio</b>	<b>106.1%</b>	<b>131.8%</b>

**7. SEGMENT INFORMATION**

At 31 December 2021, 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 2021 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
<b>Sales</b>	<b>37 152</b>	<b>1 756</b>	<b>3 764</b>	<b>2 240</b>	<b>7 073</b>	-	<b>51 985</b>
<b>Gross profit</b>	<b>4 104</b>	<b>792</b>	<b>(720)</b>	<b>218</b>	<b>134</b>	-	<b>4 528</b>
Administrative expenses	(983)	(147)	175	(68)	(42)	(350)	<b>(1 415)</b>
Selling and distribution expenses	(2 420)	(618)	720	(294)	(50)	(89)	<b>(2 751)</b>
Other operating expenses	-	-	-	-	-	(192)	<b>(192)</b>
<b>Profit from operations</b>	<b>701</b>	<b>27</b>	<b>175</b>	<b>(144)</b>	<b>42</b>	<b>(631)</b>	<b>170</b>
Finance expenses, net	-	-	-	-	-	(440)	<b>(440)</b>
Loss from exchange differences	-	-	-	-	-	599	<b>599</b>
<b>Profit before taxation</b>	<b>701</b>	<b>27</b>	<b>175</b>	<b>(144)</b>	<b>42</b>	<b>(472)</b>	<b>329</b>
Taxation	-	-	-	-	-	110	<b>110</b>
<b>Profit for the year</b>	<b>701</b>	<b>27</b>	<b>175</b>	<b>(144)</b>	<b>42</b>	<b>(362)</b>	<b>439</b>
Segment assets	19 198	913	1 954	-	-	-	<b>22 065</b>
Unallocated corporate assets	-	-	-	-	-	1 229	<b>1 229</b>
<b>Consolidated total assets</b>	<b>19 198</b>	<b>913</b>	<b>1 954</b>	-	-	<b>1 229</b>	<b>23 294</b>
Segment liabilities	8 348	-	-	406	-	-	<b>8 754</b>
Unallocated corporate liabilities	-	-	-	-	-	7 703	<b>7 703</b>
Unallocated deferred tax	-	-	-	-	-	890	<b>890</b>
<b>Consolidated total liabilities</b>	<b>8 348</b>	-	-	<b>406</b>	-	<b>8 593</b>	<b>17 347</b>
Depreciation and amortisation	783	176	44	-	-	-	<b>1 003</b>

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

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
<b>Sales</b>	<b>34 445</b>	<b>1 659</b>	<b>6 004</b>	<b>1 647</b>	<b>11 753</b>	-	<b>55 508</b>
<b>Gross profit</b>	<b>4 159</b>	<b>959</b>	<b>(1 289)</b>	<b>538</b>	<b>363</b>	-	<b>4 730</b>
Administrative expenses	(787)	(186)	245	(102)	(69)	(306)	<b>(1 205)</b>
Selling and distribution expenses	(2 035)	(553)	645	(263)	(178)	(80)	<b>(2 464)</b>
Other operating expenses	-	-	-	-	-	(223)	<b>(223)</b>
<b>Profit from operations</b>	<b>1 337</b>	<b>220</b>	<b>(399)</b>	<b>173</b>	<b>116</b>	<b>(609)</b>	<b>838</b>
Finance expenses, net	-	-	-	-	-	(486)	<b>(486)</b>
Loss from exchange differences	-	-	-	-	-	(1 547)	<b>(1 547)</b>
<b>Profit before taxation</b>	<b>1 337</b>	<b>220</b>	<b>(399)</b>	<b>173</b>	<b>116</b>	<b>(2 642)</b>	<b>(1 195)</b>
Taxation	-	-	-	-	-	35	<b>35</b>
<b>Profit for the year</b>	<b>1 337</b>	<b>220</b>	<b>(399)</b>	<b>173</b>	<b>116</b>	<b>(2 607)</b>	<b>(1 160)</b>
Segment assets	18 191	888	3 947	-	-	-	<b>23 026</b>
Unallocated corporate assets	-	-	-	-	-	1 335	<b>1 335</b>
<b>Consolidated total assets</b>	<b>18 191</b>	<b>888</b>	<b>3 947</b>	-	-	<b>1 335</b>	<b>24 361</b>
Segment liabilities	5 776	-	-	212	-	-	<b>5 988</b>
Unallocated corporate liabilities	-	-	-	-	-	12 080	<b>12 080</b>
Unallocated deferred tax	-	-	-	-	-	1 029	<b>1 029</b>
<b>Consolidated total liabilities</b>	<b>5 776</b>	-	-	<b>212</b>	-	<b>13 109</b>	<b>19 097</b>
Depreciation and amortization	448	117	53	-	-	-	<b>618</b>

Secondary reporting format - geographical segments:

Sales by country (consignees)	Year ended 31 December 2021 £ '000	Sales by country (consignees)	Year ended 31 December 2020 £ '000
Ukraine	41 805	Ukraine	47 325
Republic of Iraq	4 811	-	
Azerbaijan	1 981	Azerbaijan	1 937
Holland	990	Holland	530
Moldova	775	Moldova	498
Singapore	376	Singapore	-
Lebanon	233	Lebanon	-
Poland	231	Poland	170
Germany	198	Germany	-
Kazakhstan	161	Kazakhstan	1 762
Georgia	125	Georgia	304
Turkey	99	Turkey	-
Uzbekistan	83	Uzbekistan	-
Denmark	-	Denmark	758
Mexico	-	Mexico	619
Turkmenistan	-	477	
Egypt	-	Egypt	326
Nigeria	-	Nigeria	197
Canada	-	Canada	170
Other countries	117	Other countries	
<b>Total</b>	<b>51 985</b>	<b>Total</b>	<b>55 508</b>

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 2021 and 31 December 2020, sales revenue was presented as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Branded (including bonuses)	38 720	36 110
Beverages (including bonuses)	2 120	1 950
Non-branded products	3 755	6 004
Distribution services (including bonuses)	2 420	1 647
Supplementary products	7 073	11 753
<b>Gross revenue</b>	<b>54 088</b>	<b>57 464</b>
Charges of bonuses	(2 103)	(1 956)
<b>Total revenue (excluding bonuses)</b>	<b>51 985</b>	<b>55 508</b>

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 2021 and 31 December 2020, items of expenses were presented as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
<b>Cost of sales</b>	<b>(47 457)</b>	<b>(50 778)</b>
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(43 482)	(47 294)
Wages and salaries, social security costs (Note 12)	(3 159)	(2 977)
Depreciation	(816)	(507)
<b>Administrative expenses</b>	<b>(1 415)</b>	<b>(1 205)</b>
Including:		
Wages and salaries, social security costs (Note 12)	(436)	(490)
PR, nominated broker, secretary, legal services etc.	(260)	(209)
Security	(121)	(90)
Lease and current repair and maintenance	(77)	(65)
Bank service	(74)	(49)
Communication	(97)	(44)
Amortization and depreciation	(77)	(29)
Audit fees	(61)	(38)
Taxes and compulsory payments	(39)	(34)
IT materials, household expenses, reading materials	(14)	(16)
Other	(159)	(141)
<b>Selling and distribution expenses</b>	<b>(2 751)</b>	<b>(2 464)</b>
Including:		
Delivery costs	(858)	(517)
Promotion	(847)	(417)
Wages and salaries, social security costs (Note 12)	(384)	(394)
Lease and current repair and maintenance	(144)	(131)
Packaging	(164)	(82)
Amortization and depreciation	(102)	(78)
Veterinary certificates, medical examination, permits	(46)	(75)
Impairment of inventories	(6)	(72)
Other	(200)	(698)
<b>Other operating (expenses)/income</b>	<b>(192)</b>	<b>(223)</b>
Including:		
(Loss)/Profit on revaluation	-	(225)
Impairment of inventories	(146)	(42)
Impairment of trade receivables	(157)	(53)
Penalties	(19)	(19)
Profit / (loss) on disposal of non-current assets	(333)	(4)
Amortization and depreciation	(8)	(4)
Other	471	124

## 10. NET FOREIGN EXCHANGE GAIN (LOSS)

For the years ended 31 December 2021 and 31 December 2020, net foreign exchange gain (loss), consists of:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Exchange difference in trade and other receivables	(2)	1
Exchange difference in trade and other payables	18	32
Exchange difference in short and long credits	612	(1 536)
Effect of exchange rate changes and restatements on cash and cash equivalents	(29)	(44)
<b>Total net foreign exchange gain (loss)</b>	<b>599</b>	<b>(1 547)</b>

## 11. NET FINANCE EXPENSES

For the years ended 31 December 2021 and 31 December 2020, financial income/(expenses) were presented as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Finance expense		
Interest expense on bank loans	(441)	(481)
Interest expense on lease liabilities	-	(7)
Finance income		
Interest income	1	2
<b>Net finance expense recognised in the statement of comprehensive income</b>	<b>(440)</b>	<b>(486)</b>

## 12. EMPLOYEE BENEFIT EXPENSES

For the years ended 31 December 2021 and 31 December 2020, employee benefit expenses were presented as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Wages and salaries (including key management personnel)	(3 282)	(3 213)
Social security costs	(697)	(648)
<b>Total</b>	<b>(3 979)</b>	<b>(3 861)</b>
<b>Average number of employees</b>	<b>852</b>	<b>860</b>

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Wages and salaries of operating personnel	(3 159)	(2 977)
Wages and salaries of administrative personnel	(436)	(490)
Wages and salaries of distribution personnel	(384)	(394)
<b>Total</b>	<b>(3 979)</b>	<b>(3 861)</b>

#### Wages and salaries of key management personnel:

For the year ended 31 December 2021, remuneration of the Group's key management personnel amounted to GBP 117.5 thousand (2020: GBP 130.8 thousand).

Key management personnel received only short term benefits during the years ended 31 December 2021 and 31 December 2020. 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 2021 and 31 December 2020, income tax expenses were presented as follows:

	Year ended 31 December 2021 £ '000	Year ended 31 December 2020 £ '000
Current tax charge – Ukraine	162	-
Current tax charge - non-Ukraine	-	1
Deferred tax relating to the origination and reversal of temporary differences	(272)	(36)
<b>Total income tax expenses</b>	<b>(110)</b>	<b>(35)</b>

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% (2020: 18%).

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 2021 £ '000	Year ended 31 December 2020 £ '000
<b>Profit before tax:</b>		
Ukraine	1 051	(2 487)
Cyprus	(3 520)	95
Other (BVI, Jersey)	2 798	1 197
<b>Profit before tax, total</b>	<b>329</b>	<b>(1 195)</b>
<b>Tax calculated at domestic tax rates applicable to profits in the relevant countries</b>		
Ukraine (2021: 18%, 2020: 18%)	(189)	(448)
Cyprus (10%)	-	-
	<b>(189)</b>	<b>(448)</b>
<b>Tax calculated at domestic tax rates applicable to net income not subject to tax and expenses not deductible for tax purposes</b>		
Ukraine	(299)	(484)
Cyprus	-	1
	<b>(299)</b>	<b>(483)</b>
<b>Tax charge</b>		
Ukraine	(110)	(36)
Cyprus	-	1
	<b>(110)</b>	<b>(35)</b>
<b>The weighted average applicable tax rate</b>		
Ukraine	18%	18%
Cyprus	8%	8%
BVI, Jersey	Nil	Nil
	<b>26%</b>	<b>26%</b>

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.

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 (at least once every five years) 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 1 December 2020.

As at December 31, 2021, the Group tested property, plant and equipment and capital investments for impairment signs, as a result of which management recognized that the cost of use of property, plant and equipment and capital investments exceeds their carrying amount. Accordingly, for the years ended December 31, 2021, no impairment losses on property, plant and equipment and capital investments were recognized.

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 2021 budget value and takes into consideration trends of value indexes for 2020-2023.**

*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. The discount is 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 2021 and 31 December 2020, property, plant and equipment were presented as follows:

	Assets under Construction	Land and Buildings	Plant and Machinery	Vehicles	equipment Instruments, tools and other	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<b>Cost or valuation</b>						
<b>At 1 January 2020</b>	<b>71</b>	<b>2 898</b>	<b>4 739</b>	<b>694</b>	<b>823</b>	<b>9 225</b>
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)
<b>At 31 December 2020</b>	<b>10</b>	<b>3 750</b>	<b>4 858</b>	<b>493</b>	<b>1 038</b>	<b>10 149</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2020</b>	<b>-</b>	<b>613</b>	<b>909</b>	<b>435</b>	<b>274</b>	<b>2 231</b>
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)
<b>At 31 December 2020</b>	<b>-</b>	<b>27</b>	<b>44</b>	<b>11</b>	<b>133</b>	<b>215</b>
<b>Cost or valuation</b>						
<b>At 1 January 2021</b>	<b>10</b>	<b>3 750</b>	<b>4 858</b>	<b>493</b>	<b>1 038</b>	<b>10 149</b>
Additions	754	-	-	-	-	754
Transfers to/from AUC	(745)	120	526	18	81	-
Disposals	-	(43)	(257)	(12)	(33)	(345)
Exchange differences on translation to the presentation currency	23	147	178	-	32	380
<b>At 31 December 2021</b>	<b>42</b>	<b>3 974</b>	<b>5 305</b>	<b>499</b>	<b>1 118</b>	<b>10 938</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2021</b>	<b>-</b>	<b>27</b>	<b>44</b>	<b>11</b>	<b>133</b>	<b>215</b>
Depreciation charge	-	46	109	44	63	262
Disposals	-	(4)	(30)	(4)	(4)	(42)
Revaluation depreciation	-	161	341	83	98	683
Exchange differences on translation to the presentation currency	-	3	9	8	5	25
<b>At 31 December 2021</b>	<b>-</b>	<b>233</b>	<b>473</b>	<b>142</b>	<b>295</b>	<b>1 143</b>
<b>Net book value at 31 December 2021</b>	<b>42</b>	<b>3 741</b>	<b>4 832</b>	<b>357</b>	<b>823</b>	<b>9 795</b>
<b>Net book value at 31 December 2020</b>	<b>10</b>	<b>3 723</b>	<b>4 814</b>	<b>482</b>	<b>905</b>	<b>9 934</b>
<b>Net book value at 31 December 2019</b>	<b>71</b>	<b>2 285</b>	<b>3 830</b>	<b>259</b>	<b>549</b>	<b>6 994</b>

As at 31 December 2021 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 2021 (2020: GBP 2.562 thousand) were pledged as collateral for loans.

As at 31 December 2021 any prepayments for property, plant and equipment were included within Assets under construction in the amount of GBP 19 thousand (2020: GBP 20 thousand).

As at 31 December 2021 fully depreciated assets have been included within property, plant and equipment with the original cost of GBP 345 thousand (2020: GBP 130 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 £ '000	Rights to use natural resources £ '000	Trademarks £ '000	Total £ '000
<b>Cost or valuation</b>				
<b>At 1 January 2020</b>	<b>69</b>	-	<b>951</b>	<b>1 020</b>
Additions	190	-	-	190
Disposals	-	-	-	-
Exchange differences on translation to the presentation currency	1	-	45	46
<b>At 31 December 2020</b>	<b>260</b>	-	<b>996</b>	<b>1 256</b>
<b>Accumulated amortization</b>				
<b>At 1 January 2020</b>	<b>29</b>	-	<b>498</b>	<b>527</b>
Amortization charge for the year	2	-	62	64
Disposals	-	-	-	-
Exchange differences on translation to the presentation currency	5	-	62	67
<b>At 31 December 2020</b>	<b>36</b>	-	<b>622</b>	<b>658</b>
<b>Cost or valuation</b>				
<b>At 1 January 2021</b>	<b>260</b>	-	<b>996</b>	<b>1 256</b>
Additions	211	53	-	264
Disposals	-	-	-	-
Exchange differences on translation to the presentation currency	(2)	-	(154)	(156)
<b>At 31 December 2021</b>	<b>469</b>	<b>53</b>	<b>842</b>	<b>1 364</b>
<b>Accumulated amortization</b>				
<b>At 1 January 2021</b>	<b>36</b>	-	<b>622</b>	<b>658</b>
Amortization charge for the year	2	-	56	58
Disposals	-	-	-	-
Exchange differences on translation to the presentation currency	(8)	-	(153)	(161)
<b>At 31 December 2021</b>	<b>30</b>	-	<b>525</b>	<b>555</b>
<b>Net book value at 31 December 2021</b>	<b>439</b>	<b>53</b>	<b>317</b>	<b>809</b>
<b>Net book value at 31 December 2020</b>	<b>224</b>	-	<b>374</b>	<b>598</b>
<b>Net book value at 31 December 2019</b>	<b>40</b>	-	<b>453</b>	<b>493</b>

The remaining amortization periods of the intangible assets are as follows:

- Computer software 1-10 years;
- Trademarks 11-18 years;
- Right of use natural resources 15-20 years;

The Group performed its annual impairment test in December 2021 and 2020. 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 2021, 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 1 458 thousand as at 31 December 2021, 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 19.3% (2020: 18.2%). 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 1 548 thousand as at 31 December 2021, 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 19.3% (2020: 18.2%). 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 2021, deferred tax assets and liabilities were presented as follows:

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
<b>Deferred tax assets at the beginning of the year</b>	-	-
<b>Deferred tax liability at the beginning of the year</b>	<b>1 029</b>	<b>242</b>
Deferred tax liability recognised in SOCI during the year	(122)	-
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortization	(150)	(36)
Property, plant and equipment revaluation reserve	-	825
Exchange differences on translation to the presentation currency	39	(2)
<b>Deferred tax assets at the end of the year</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liability at the end of the year</b>	<b>796</b>	<b>1 029</b>

## 17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
Finished goods	2 665	5 060
Raw materials	749	999
Work in progress	339	537
Other inventories	902	721
<b>Total</b>	<b>4 655</b>	<b>7 317</b>

During 2021, GBP 43,512 thousand (2020: GBP 30,355 thousand) was recognised as an expense in cost of sales.

## 18. TRADE AND OTHER RECEIVABLES

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
Trade receivables, net of impairment	5 894	4 513
Other receivables	370	993
Prepayments	499	609
<b>Total</b>	<b>6 763</b>	<b>6 115</b>

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

Maturity of trade receivables as at 31 December 2021 and 31 December 2020 is presented as follows:

	Total £ '000	Neither past due nor impaired £ '000	<30 days £ '000	30-60 days £ '000	61-90 days £ '000	91-120 days £ '000	>120 days £ '000
2021	5 894	4 067	822	149	124	136	597
2020	4 513	4 092	207	34	-	-	180

Provisions were created for impaired trade and other receivables.

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
<b>Impaired trade and other receivables at the beginning of the year</b>	<b>277</b>	<b>251</b>
Accrual / (Reversal)	157	41
Use of allowances	-	(29)
Effect of translation to presentation currency	(166)	14
<b>Impaired trade and other receivables at the end of the year</b>	<b>268</b>	<b>277</b>

## 19. CURRENT TAXES

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
VAT receivable	838	149
Current income tax prepayments	54	63
Other prepaid taxes	28	2
<b>Total</b>	<b>920</b>	<b>214</b>

## 20. OTHER FINANCIAL ASSETS

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
<b>Loans and receivables</b>	<b>40</b>	<b>21</b>
Loans issued to third parties	40	21
Loans issued to employees	-	6
<b>Total</b>	<b>40</b>	<b>27</b>

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 2021 £ '000	As at 31 December 2020 £ '000
Cash on hand - on UAH	7	15
Cash in bank - on UAH	273	49
Cash in Bank - in other currencies	32	92
<b>Total</b>	<b>312</b>	<b>156</b>

## 22. SHARE CAPITAL

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

	Authorised			
	As at 31 December 2021 Number '000	As at 31 December 2021 £ '000	As at 31 December 2020 Number '000	As at 31 December 2020 £ '000
<b>Ordinary shares of 10p each</b>	<b>60 000</b>	<b>6 000</b>	<b>60 000</b>	<b>6 000</b>

	Issued and fully paid at beginning and end of the year			
	As at 31 December 2021 Number '000	As at 31 December 2021 £ '000	As at 31 December 2020 Number '000	As at 31 December 2020 £ '000
Ordinary shares of 10p each	-	-	-	-
At beginning of the year	39 673	3 967	39 673	3 967
Own shares acquired	-	-	-	-
<b>At end of the year (excluding shares held as treasury shares)</b>	<b>39 673</b>	<b>3 967</b>	<b>39 673</b>	<b>3 967</b>

	Treasury shares			
	As at 31 December 2021 Number '000	As at 31 December 2021 £ '000	As at 31 December 2020 Number '000	As at 31 December 2020 £ '000
Ordinary shares of 10p each	-	-	-	-
At beginning of the year	3 145	315	3 145	315
<b>At end of the year</b>	<b>3 145</b>	<b>315</b>	<b>3 145</b>	<b>315</b>

Share capital and treasury shares presented as separate lines in the Consolidated statement of financial position as at 31 December 2021. In the Annual report 2020 the Share capital was presented on a net value reduced by the value of treasury shares.

As at 31 December 2021 and 31 December 2020 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 £ '000	Translation reserve £ '000	Revaluation reserve £ '000	Total other reserves £ '000
<b>At 1 January 2020</b>	<b>4 562</b>	<b>(14 737)</b>	<b>3 437</b>	<b>(6 738)</b>
Depreciation on revaluation of property, plant and equipment	-	(164)	(164)	
Reduction of revaluation reserve	-	-	(98)	<b>(98)</b>
Gain on revaluation of property, plant and equipment	-	-	3 856	<b>3 856</b>
Exchange differences on translation to the presentation currency	-	(494)	-	<b>(494)</b>
<b>At 31 December 2020</b>	<b>4 562</b>	<b>(15 231)</b>	<b>7 031</b>	<b>(3 638)</b>
Depreciation on revaluation of property, plant and equipment	-	-	(683)	<b>(683)</b>
Reduction of revaluation reserve	-	-	-	-
Gain on revaluation of property, plant and equipment	-	-	-	-
Exchange differences on translation to the presentation currency	-	244	-	<b>244</b>
<b>At 31 December 2021</b>	<b>4 562</b>	<b>(14 987)</b>	<b>6 348</b>	<b>(4 077)</b>

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 2021 the Group has two loans: the loan from Creditwest Bank in the amount of 1.735 thousand GBP (in UAH 63.9 million) and the loan from the EBRD in the amount of 4.304 thousand GBP (in EUR 5.127 thousand).

In March 2021 the Group made a principal payment at the amount of EUR 65 435 and an interest payment of EUR 32 240. The Group agreed to defer the principal amount payment of EUR 200 000 due to the loan terms.

On 1 June 2021, Ukrproduct entered discussions with the EBRD to potentially restructure the loan repayment schedule as a result of pressure on the working capital requirements. The Group settled the interest amount due June 2021, however it did not repay the quarterly loan tranche due on that

date. In September 2021 with reference to the loan agreement, the Group settled the payment of interest in the amount of EUR 28 582 and overdue principal in the amount of EUR 107 200. In December 2021 the Group settled only the interest in the amount of EUR 29 899.

Fixed assets with a net book value of GBP 2.562 thousand at 31 December 2021 (2020: GBP 2.562 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. At present the EBRD has taken no action to accelerate repayment of the loan.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit	As At 31 December 2021	As at 31 December 2020
							£ '000	£ '000
EBRD	EUR	Loan	31.03.2011	30.11.2024	5-7%	7 070	4 304	4 956
Creditwest Bank Ukraine	UAH	Credit line	05.02.2018	05.02.2021	15.89%	2 095	1 735	1 672
<b>Total</b>							<b>6 039</b>	<b>6 628</b>

The average interest rate as at 31 December 2021 was 11% (2020: 11%).

### Maturity of financial liabilities

	Year ended 31 December 2021	Year ended 31 December 2020
	£ '000	£ '000
On demand	-	-
In less than 1 year	6 039	6 628
In more than 1 year	-	-
<b>Total</b>	<b>6 039</b>	<b>6 628</b>

### Interest rate profile of financial liabilities

	Floating rate	Fixed rate	As at 31 December 2021	As at 31 December 2020
	£ '000	£ '000	£ '000	£ '000
On demand	-	-	-	-
Expiry within 1 year	4 304	1 735	6 039	6 628
Expiry in more than 1 year	-	-	-	-
<b>Total</b>	<b>4 304</b>	<b>1 735</b>	<b>6 039</b>	<b>6 628</b>

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

	Floating rate liabilities	Fixed rate liabilities	Total as at 31 December 2021	Total as at 31 December 2020
	£ '000	£ '000	£ '000	£ '000
UAH	-	1 735	1 735	1 672
EUR	4 304	-	4 304	4 956
<b>Total</b>	<b>4 304</b>	<b>1 735</b>	<b>6 039</b>	<b>6 628</b>

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

	Book value as at 31 December 2021	Fair value as at 31 December 2021	Book value as at 31 December 2020	Fair value as at 31 December 2020
	£ '000	£ '000	£ '000	£ '000
Bank loans	6 039	6 039	6 628	6 628
<b>Total</b>	<b>6 039</b>	<b>6 039</b>	<b>6 628</b>	<b>6 628</b>

## Reconciliation of liabilities arising from financing activities

	As at 31 December 2020	Financing cash flows	Accrual of interest	Foreign exchange movement	Other changes	Effect from translation to presentation currency	As at 31 December 2021
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Bearing loans and borrowings	6 628	(161)	-	(550)	(151)	273	6 039
Interest	179	(379)	441	(17)	-	(31)	193
<b>Interest-bearing loans and borrowings</b>	<b>6 807</b>	<b>(540)</b>	<b>441</b>	<b>(567)</b>	<b>(151)</b>	<b>242</b>	<b>6 232</b>

## 25. TRADE AND OTHER PAYABLES

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

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
Trade payables	8 847	9 412
Prepayments received	174	272
Accruals	253	209
Interests payable	193	179
Provisions	242	176
Other payables	120	699
<b>Total</b>	<b>9 829</b>	<b>10 947</b>

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 2021, provisions were presented as follows:

	As at 31 December 2021 £ '000	As at 31 December 2020 £ '000
Allowance at the beginning of the year	176	138
Accrual/(Reversal)	262	251
Use of allowances	(304)	(180)
Effect of translation to presentation currency	10	(33)
<b>Allowance at the end of the year</b>	<b>242</b>	<b>176</b>

## 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 2021 £ '000	Year ended 31 December 2020 £ '000
Net profit/loss attributable to ordinary shareholders	439	(1 160)
Weighted number of ordinary shares in issue	39 673	39 673
<b>Basic earnings per share, pence</b>	<b>1.11</b>	<b>(2.92)</b>
Diluted average number of shares	39 673	39 673
<b>Diluted earnings per share, pence</b>	<b>1.11</b>	<b>(2.92)</b>

## 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 2021.

## 28. SHARE-BASED PAYMENTS

The Company operates an equity-settled share based remuneration scheme for employees. During 2021, 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 2021 is set out below:

	UAH	USD	GBP	EUR	Total
<b>Assets</b>					
Trade and other receivables	6 171	93	-	-	6 264
Current taxes	889	31	-	-	920
Other financial assets	40	-	-	-	40
Cash and cash equivalents	286	25	-	1	312
<b>Total assets</b>	<b>7 386</b>	<b>149</b>	<b>-</b>	<b>1</b>	<b>7 536</b>
<b>Liabilities</b>					
Bank borrowings	1 735	-	-	4 304	6 039
Trade and other payable	8 907	16	30	14	8 967
Current income tax liabilities	-	-	-	-	-
Other taxes payable	55	-	-	-	55
<b>Total Liabilities</b>	<b>10 697</b>	<b>16</b>	<b>30</b>	<b>4 318</b>	<b>15 061</b>

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

	UAH	USD	GBP	EUR	Total
<b>Assets</b>					
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
<b>Total assets</b>	<b>5 532</b>	<b>370</b>	<b>2</b>	<b>-</b>	<b>5 904</b>
<b>Liabilities</b>					
Bank borrowings	1 673	-	-	4 956	6 629
Trade and other payable	10 473	11	28	164	10 676
Current income tax liabilities	-	-	-	-	-
Other taxes payable	13	-	-	-	13
<b>Total Liabilities</b>	<b>12 159</b>	<b>11</b>	<b>28</b>	<b>5 120</b>	<b>17 318</b>

3% strengthening of Hryvnia rate against USD and 18% strengthening of Hryvnia rate against EUR the following currencies as at 31 December 2021 and 2020, 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 2021 £ '000	Effect on income before tax in 2020 £ '000
USD	3%	4	11
EUR	18%	(777)	(922)
USD	3%	(4)	(11)
EUR	18%	777	922

## 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 2021 £ '000	Year ended 31 December 2020 £ '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 2021 £ '000	As at 31 December 2020 £ '000
Receivables and prepayments	-	-
Other financial assets	-	-
<b>Trade and other payables</b>	<b>-</b>	<b>5</b>

The Group didn't have commercial relationships with the related parties in 2021. 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.

## 30. 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, the assets and operating activity of the Group may be exposed to the risk in case if any

unfavourable changes that take place in the 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 2021 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. As at 31 December 2021 the Group had been in breach of certain covenants regarding the loan repayments settlement with the EBRD. 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.

**(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 non-cancellable lease commitments is insignificant.

As at 31 December 2021, 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 2021 the Group had been in breach of loan covenants with EBRD. The Group was still in breach of this covenant as at 23 September 2022, 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) 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	21 September 2022
UAH/GBP	41.80
UAH/USD	36.56
UAH/EUR	36.52

**(c) War**

On 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine. The ongoing military attack has caused and continues to cause significant casualties, population displacement, infrastructure damage and disruption to

economic activity in Ukraine. Seaports and airports are closed and damaged. Export through seaports is completely frozen. This raises significant pressure on other means of alternative transportation for export operation. The situation remains highly volatile and the outlook highly uncertain.

On 15 March 2022, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On amendments to the Tax Code of Ukraine and other legislative acts of Ukraine concerning the effect of regulations for the period of martial law" № 2120-IX in order to support Ukrainian business for the period of martial law. The key innovation is that all companies can now waive VAT and income tax (CIT) by switching to a 2% sales tax. For automotive fuel, the excise tax is reset to zero, and the VAT rate is reduced from 20% to 7%.

As of the date of this report, the Group continues to operate. The management of the Group controls all its operations. The Group's production facilities are located in Khmelnytskyi and Zhytomyr regions, where missiles attacks have been incurred. As a result, the Group's business activities have been affected as follows:

- none of the Group's critical facilities or infrastructure has suffered any significant damage;
- as at 23 September 2022 all the Group's assets are located in the de-occupied territories;
- the Group does not have a labor shortage and has managed to retain its staff. Office staff work remotely, while production staff work at their sites;
- the Group have lost sales of dairy products in the occupied territories;
- Black Sea ports in Ukraine remain blocked for export activities. Alternative logistics chains for dairy products exports by other means of transportations have been

- developed;
- the Group concluded contracts with new alternative suppliers.

As of June 2022 the price of energy-intensive products increased by up to 90.9% because of the war and overall input prices are expected to rise considerably. The higher prices of these inputs will translate into higher production costs.

War has interrupted regular economic and livelihood activities and has constrained income flows. In January 2022 Ukraine experienced elevated levels of food price inflation prior to the outbreak of the war. In June 2022, consumer inflation accelerated to 21.5% yoy, up from 18% in May. Concerns exist that the continuation of hostilities and war-induced disruptions could keep food inflation levels persistently high in Ukraine, thus decreasing the purchasing power of local populations adversely affect the Group's net sales.



## Corporate advisers

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