



# **Ukrproduct Group**

## **Annual Report 2022**

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## 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).

While reporting on the results of the financial year 2022, it is necessary to highlight that the unprovoked and illegal aggression of Russia has completely obscured the peace and life of all Ukrainians and placed a heavy toll on the business in Ukraine. The impact of these factors and the resulting uncertainties on the Company’s results, balance sheet and cash flows have been considered and are reflected in the figures reported. The Group has had to adjust to the new emergency conditions, the key objectives of which were to ensure the safety of the employees and to maintain operations and assets. One of the key challenges for the Group’s operations has been the inability to export goods via Ukrainian Black Sea ports, which significantly reduced the Group’s export operations in the first half of 2022. The Group focused its efforts on establishing alternative export routes via the border between Ukraine and the EU.

Ukrproduct’s consolidated revenue in FY2022 fell by 19.9% in local currencies. The general decline in sales in the domestic market is due to a decrease in the solvency of consumers, the outflow of Ukrainian population and the loss of part of the Ukrainian sales market due to active hostilities and the temporary occupation of territories in Ukraine. After currency translation, revenue decreased by 24.8% to £39.1 million year-on-year, due to the 6% impact of foreign exchange rates, in particular reflecting the depreciation of the Ukrainian Hryvnia against the British pound.

In the processed cheese and processed cheese product category, sales amounted to £22.6 million, reflecting a revenue increase of 5.4% compared with the previous year on a nominal basis, although sales represented a decline of 18.3% in volume. Sales have fallen due to market trends, the termination of cooperation with some retail networks and losses of some export sales.

In FY2022, butter sales reduced considerably, on a nominal basis, by 61.6% compared with the previous year, to £3.4 million. This was due to the planned butter reduction, especially low-margin contracts. The Company took a flexible approach by focusing on priority sales channels (export, key distributors), and benefiting from margin improvements. A significant price increase of butter in Ukraine and marginality growth assisted to offset much of the volume decline within the segment.

Sales of spreads increased to £5.6 million in FY2022 compared with £4.4 million in the prior year. This constituted an increase in sales of 35.9%, on a nominal basis, but reduction of 1.1% in volume. This is mainly attributable to the losses of some export sales.

Sales generated from skimmed milk powder decreased by 22.1% on a nominal basis to £2.5 million, compared with £3.4 million in the previous year. In terms of volume, skimmed milk powder sales decreased by 44.6% impacted by difficulties with the Black Sea ports in Ukraine. The Group’s skimmed milk powder sales and exports from Ukraine in the first half of the year reduced by 69% year on year due to the low demand for the supply of skimmed milk powder to outside countries.

Sales of kvass and beverages amounted to £1.1 million in FY2022, corresponding to a decline of 33.7% on a nominal basis and 38.3% in terms of volume, in each instance compared with the previous period. The decrease was principally due to the late start of the season due to active hostilities in key kvass sales regions, impacting the period of active sales which was less than half that achieved in FY2021.

In FY2022, the Group's administrative and selling expenses amounted to £4.1 million; a 2.5% decrease compared to FY2021. The Group optimized costs for payroll, rents, communication and banks services. The Group's Central Warehouse was closed, and its functions were transferred to production warehouses in Zhytomyr. Marketing campaigns were also significantly reduced. As a result of a 87.6% increase in fuel prices, transport and logistics costs increased by 26.0% in FY2022 compared to the previous period, to £1.1 million.

Due to the impact of the war, other operating expenses during the reporting period totaled £1.6 million (2021: £0.2 million), including losses from impairment of trade receivables, write-off of materials and finish goods, fines, and VAT losses.

The Group's operations recorded an EBITDA of £1.7 million, representing an increase of 57.2% year on year. The Group's EBITDA margin improved from 2.2% to 4.6%. This notable performance was largely attributed to a significant reduction in marketing and trade marketing activities, several product price increases, a reduction in the cost of production and an increase in production efficiency, and a focus on the most profitable product groups.

Net loss after tax for FY2022 amounted to a loss of £0.8 million, a decrease of £1.2 million compared to FY2021, stemming from the negative currency translation due to the 26% devaluation of the Ukrainian hryvnia against the Euro.

## **Financial Position**

As at 31 December 2022, Ukrproduct reported net assets of £4.6 million including cash balances of £0.4 million compared to net assets of £5.9 million as at 31 December 2021 and a cash balances of £0.3 million.

For the year ended 31 December 2022, the Group was in breach of several provisions of its loan agreement with the European Bank for Reconstruction and Development ("EBRD") and missed repayments for which the bank has not issued a waiver. The Company have been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. These negotiations with EBRD are ongoing. At present, the EBRD has taken no action to accelerate repayment of the loan.

## Outlook

The Company continues to make every effort to navigate its strategy in a changing business environment and to respond to new challenges. The Group expects that in 2023 the focus will be placed on maintenance of the existing production facilities, maintaining sales volumes and increasing operating efficiency.



Jack Rowell

Non-Executive Chairman



Alexander Slipchuk

Chief Executive Officer

## The Board of Directors

As of the date of the approval of the 2022 Annual Report, the Board members are as follows:

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

All directors were re-elected at Annual General Meeting (AGM) on 4 November 2022.

### Jack Rowell

*Non-Executive Chairman*

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

### Alexander Slipchuk

*Chief Executive Officer*

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

### Sergey Evlanchik

*Executive Director*

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

### Yuriy Hordiyshuk

*Chief Operational Officer*

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

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

### ***Senior Management***

#### **Andrii Honcharuk**

*Chief Financial Officer*

Andrii Honcharuk 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 has 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 2022.

### 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 2022.

## 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. Information in the table has been audited.

	Annual Salary/fee		Bonus		Non-cash compensation		Total cash remuneration	
	2022	2021	2022	2021	2022	2021	2022	2021
	£ 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
	95.0	95.0					95.0	95.0
<b>Non-Executive</b>								
Jack Rowell	22.5	22.5	-	-	-	-	22.5	22.5
<b>General manager</b>								
Yuriy Hordiychuk*	10.9	10.8	-	-	-	-	10.9	10.8

\*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 2022 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 Volodymyr Vardzielov, the CFO. The essential elements of the Group's internal financial control procedures involve:

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

### **Departure from the QCA Code**

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

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

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

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

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

Jack Rowell  
Chairman



## Corporate Social Responsibility Report

### Corporate Social Responsibility

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

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

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

#### Employees

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

#### Health and safety

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

#### Customers

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

## **Environment**

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

## **Food safety**

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

## **Community support**

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

## Directors' Report

The Directors present their report and the audited consolidated financial statements of Ukrproduct Group Ltd (referred to as the “Company” and together with its subsidiaries, “the Group”) for the year ended 31 December 2022.

### Principal Activities and Business Review

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

### Results and Dividends

The results of the Group for the year are set out on the page 25. The Company recorded a net financial loss of £0.8 million, compared to a profit of £0.4 million in 2021. The effect of exchange rates led to the Group reporting a net foreign exchange loss of £1.1 million.

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2022.

### Directors

Details of members of the Board of Directors are shown on page 6.

The Directors' interests in the share capital of the Company as at 31 December 2022 and 31 December 2021 are shown below:

	Shares		Share options	
	2022	2021	2022	2021
<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 82-87.

### **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 2022 was 836 (2021: 852).

### **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**

At the time of publication of the 2022 annual report the war is ongoing and the significant general uncertainties inherent to the continued war exist, which began on 24 February 2022. The Group's management has analyzed the observable impact of the war on its business as described below, and has taken the following actions in response to the current situation:

- For the period after the Russian invasion of Ukraine 58 employees joined Ukrainian military forces and territorial defense. Personnel of production facilities and central office remained in their working area or worked remotely. The Group does not have a labor shortage and has managed to retain its staff;
- No critical assets preventing the Group from continuing operations are damaged or located in the uncontrolled territories. The Group optimized utilization of production facilities to meet domestic demand and export orders;
- All of the Group's inventories are in good condition and are in safe storage.
- Export sales flow via Ukrainian ports was reduced significantly. Alternative export routes are expanded in length and significantly more expensive in comparison with sea ones. Black Sea ports in Ukraine remain blocked for export activities.



- During the fourth quarter of 2022, there were severe power outages in Ukraine caused by Russia's attacks on Ukrainian power generation and distribution infrastructure. These outages caused temporary instability of work of the Group. To mitigate the impact on its business, the Group equipped its key assets with diesel generators. Difficulties with power supply persisted throughout January 2023 and only began to partially improve in February 2023.
- 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 loss of the market in the east and south of Ukraine is expected to be offset partly by increased demand in central and western Ukraine, where a large number of internally displaced persons temporarily reside.

Management acknowledges that future development of military actions and their duration represent a single source of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Despite the single material uncertainty relating to the war in Ukraine, management is continuing to take actions to minimize the impact on the Group and thus believes that application of the going concern assumption for the preparation of these Consolidated financial statements is appropriate.

For the year ended 31 December 2022, the Group was in breach of several provisions of its loan agreement with the EBRD and missed repayments for which the bank has not issued a waiver. The Company has been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. The negotiations with EBRD are ongoing. 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 August 2023. 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 2022 financial year by the resolution of the Directors held on 3 November 2022. 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*

29 June 2023

## 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 United Kingdom. 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:

29 June 2023



## 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 2022, 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 United Kingdom.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2022 and of its results for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the United Kingdom; 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 £3.47m as at 31 December 2022. We included the going concern</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> </ul>



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

<p>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><b>Risk of fraud in revenue recognition</b></p> <p>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 £39.11 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 &amp; 8).</p> <p><b>Risk of Management Override of Controls</b></p>	<ul style="list-style-type: none"> <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> <p>Our main audit procedures in respect of revenue recognition were as follows:</p> <ul style="list-style-type: none"> <li>▪ 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;</li> <li>▪ 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;</li> <li>▪ We performed analytical procedures, including gross profit margin analysis and obtained explanations for significant variances as compared to the previous year;</li> <li>▪ We tested a sample of journal entries relating to income recognition by reference to supporting documents;</li> <li>▪ 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,</li> <li>▪ We reviewed the disclosures related to revenue included in the notes to the consolidated financial statements.</li> </ul> <p><b>Key Observations</b></p> <p>We did not note any material issues arising from the procedures performed in this area.</p> <p>Our main audit procedures in respect of Management Override of Controls were as follows:</p>
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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)

<p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. Also, the Group has voluminous transactions and requires complex calculations.</p>	<ul style="list-style-type: none"> <li>• We have obtained an understanding of the financial reporting process.</li> <li>• We have reviewed opening balances and completeness of journals.</li> <li>• We have reviewed high-risk journals as a part of our testing.</li> <li>• We have reviewed accounting estimates and potential management bias.</li> </ul>
<p><b><i>Risk of Foreign exchange results</i></b></p> <p>The risk in foreign exchange difference is due to the instability of the Ukrainian Hryvnia (UAH) against to the EUR, USD and GBP. In addition, the Group's functional currency is UAH, while the Group's financial statements are presented in GBP. We included the foreign exchange results as a key audit matter as the ongoing Russian military action in Ukraine (refer note 1c, 2.2.1 and Note 10 to the financial statements).</p>	<p><b>Key Observations</b></p> <p>We did not note any material issues arising from the procedures performed in this area.</p> <p>Our main audit procedures in respect of foreign exchange results were as follows:</p> <ul style="list-style-type: none"> <li>• We have tested the appropriate calculation of the movement in the currency translation from functional currency to reporting currency by audit procedures on all translations included in the consolidation file prepared by management.</li> <li>• We have assessed the adequacy of the disclosures relating to exchange differences in the financial statements.</li> </ul>
<p><b><i>Risk of Non-compliance with loan covenants</i></b></p> <p>The Group has ERBD loans and there is a risk that the group doesn't meet the debt service ratio as per stated in the loan agreement. Continuous of violating (same breach in prior year) the Group's loan covenants could have a potential material unfavourable impact to the Group.</p>	<p><b>Key Observations</b></p> <p>We did not note any material issues arising from the procedures performed in this area.</p> <p>Our main audit procedures in respect of Non-compliance with loan covenants were as follows:</p> <ul style="list-style-type: none"> <li>• We have recalculated the loan covenant and confirmed that they are according to the terms of the loan.</li> <li>• We have reviewed the correspondences with EBRD.</li> <li>• We have checked the contact with EBRD in relation to their view and actions on the breach of terms of the loan agreement (loan covenants) and failure to pay interest and capital repayments.</li> </ul>
<p>During the review of loan agreements, we noted that there is non-compliance with certain covenants contained within those agreements. Please refer note 24 to the financial statements).</p>	<p><b>Key Observations</b></p> <p>We have noted a material issue arising from the procedures performed in this area. The specific instance identified by our audit was: <b>Debt Service Ratio</b></p> <p>Based on the agreement, the indicator for debt service ratio should be "&gt;1.2". However, as per our audit recalculation, the indicator is equal to 0.8</p>



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

<p><b>Risk of Subsequent Events</b></p> <p>Due to ongoing Russian invasion in Ukraine, there is a risk that the group hasn't disclosed enough information in relation to subsequent war.</p>	<p>Our main audit procedures in respect of Subsequent events were as follows:</p> <ul style="list-style-type: none"> <li>• We have obtained an understanding of the procedures management has established to ensure that subsequent events are identified.</li> <li>• We enquired of management whether any subsequent events have occurred which might affect the financial statements.</li> <li>• We read minutes of all relevant meetings since the end of the reporting period to identify any relevant subsequent events, to include where applicable: <ul style="list-style-type: none"> <li>a. general meetings;</li> <li>b. management meetings;</li> <li>c. board meetings.</li> </ul> </li> <li>• We read all management and interim financial statements produced since the end of the reporting period.</li> </ul> <p><b>Key Observations</b></p> <p>We did not note any material issues arising from the procedures performed in this area.</p>
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### 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 £391,108 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 £19,555 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





## **NDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)**

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:



## **NDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UKRPRODUCT GROUP LIMITED (CONTINUED)**

- 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.

DocuSigned by:

A stylized signature of Jeff Vincent in black ink, enclosed within a blue DocuSign signature box.  
BB989D6854C74B7...

**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

Dated: 29/6/2023 | 10:13 AM BST



**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
*(in thousand GBP, unless otherwise stated)*

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	Note	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Revenue	8	39 111	51 985
Cost of sales	9	(32 555)	(47 457)
<b>GROSS PROFIT</b>		<b>6 556</b>	<b>4 528</b>
Administrative expenses	9	(1 342)	(1 415)
Selling and distribution expenses	9	(2 719)	(2 751)
Other operating expenses	9	(1 571)	(192)
<b>PROFIT FROM OPERATIONS</b>		<b>924</b>	<b>170</b>
Net finance expenses	11	(466)	(440)
Net foreign exchange (loss)/gain	10	(1 113)	599
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(655)</b>	<b>329</b>
Income tax credit	13	(149)	110
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(804)</b>	<b>439</b>
<b>Attributable to:</b>			
Owners of the Parent		(804)	439
<b>Earnings per share from continuing and total operations:</b>			
Basic (pence)	26	(2.03)	1.11
Diluted (pence)	26	(2.03)	1.11
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Currency translation differences		(550)	244
<b>Items that will not be reclassified to profit or loss</b>			
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>(550)</b>	<b>244</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(1 354)</b>	<b>683</b>
<b>Attributable to:</b>			
Owners of the Parent		(1 354)	683
Non-controlling interests		-	-

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2022**  
*(in thousand GBP, unless otherwise stated)*

	Note	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	7 916	9 795
Intangible assets	15	681	809
		<b>8 597</b>	<b>10 604</b>
<b>Current assets</b>			
Inventories	17	4 296	4 655
Trade and other receivables	18	3 073	6 763
Current taxes	19	591	920
Other financial assets	20	35	40
Cash and cash equivalents	21	403	312
		<b>8 398</b>	<b>12 690</b>
<b>TOTAL ASSETS</b>		<b>16 995</b>	<b>23 294</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	(15 537)	(14 987)
Revaluation reserve	23	6 005	6 348
Retained earnings		5 597	6 057
<b>TOTAL EQUITY</b>		<b>4 594</b>	<b>5 947</b>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	16	530	796
		<b>530</b>	<b>796</b>
<b>Current liabilities</b>			
Bank loans	24	6 116	6 039
Short-term payables		493	587
Trade and other payables	25	5 162	9 829
Current income tax liabilities		48	41
Other taxes payable		52	55
		<b>11 871</b>	<b>16 551</b>
<b>TOTAL LIABILITIES</b>		<b>12 401</b>	<b>17 347</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16 995</b>	<b>23 294</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 June 2023 and were signed on its behalf by:

**Alexander Slipchuk**  
Chief Executive Officer



**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
*(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 2020</b>	<b>4 282</b>	<b>(315)</b>	<b>4 562</b>	<b>7 031</b>	<b>4 935</b>	<b>(15 231)</b>	<b>5 264</b>	<b>-</b>	<b>5 264</b>
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>	<b>4 282</b>	<b>(315)</b>	<b>4 562</b>	<b>6 348</b>	<b>6 057</b>	<b>(14 987)</b>	<b>5 947</b>	<b>-</b>	<b>5 947</b>
Loss for the year	-	-	-	-	(804)	-	(804)	-	(804)
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	(550)	(550)	-	(550)
<b>Total comprehensive income</b>	-	-	-	-	(804)	(550)	(1 354)	-	(1 354)
Reduction of revaluation reserve	-	-	-	-	-	-	-	-	-
Gain on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-
Depreciation on revaluation of property, plant and equipment	-	-	-	(343)	343	-	-	-	-
<b>As At 31 December 2022</b>	<b>4 282</b>	<b>(315)</b>	<b>4 562</b>	<b>6 005</b>	<b>5 596</b>	<b>(15 537)</b>	<b>4 594</b>	<b>-</b>	<b>4 594</b>

**Ukrproduct Group**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**  
*(in thousand GBP, unless otherwise stated)*

	Note	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
<b>Cash flows from operating activities</b>			
(Loss)/Profit before taxation		(655)	329
Adjustments for:			
Exchange differences	10	1 113	(599)
Depreciation and amortization	9	882	1 003
Profit on disposal of non-current assets	9	-	10
Write off of receivables/payables	9	1 065	192
Impairment of inventories	9	121	(41)
Interest income	11	(6)	-
Interest expense on bank loans	11	471	441
<b>Operation cash flow before working capital changes</b>		<b>2 991</b>	<b>1 335</b>
Decrease in inventories		94	2 703
Decrease / (Increase) in trade and other receivables		3 116	(1 558)
Decrease in trade and other payables		(4 986)	(1 118)
<b>Changes in working capital</b>		<b>(1 776)</b>	<b>27</b>
<b>Cash generated from operations</b>		<b>1 215</b>	<b>1 362</b>
Interest received		6	-
Income tax paid		(201)	12
<b>Net cash generated from operating activities</b>		<b>1 020</b>	<b>1 374</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment and intangible assets		( 409)	(723)
Repayments of loans issued		(2)	(11)
<b>Net cash used in investing activities</b>		<b>(411)</b>	<b>(734)</b>
<b>Cash flows from financing activities</b>			
Interest paid	24	(292)	(379)
Repayments of long term borrowing	24	-	(161)
<b>Net cash used in financing activities</b>		<b>(292)</b>	<b>(540)</b>
<b>Net Increase in cash and cash equivalents</b>		<b>317</b>	<b>100</b>
Effect of exchange rate changes on cash and cash equivalents		( 226)	56
<b>Cash and cash equivalents at the beginning of the year</b>		<b>312</b>	<b>156</b>
<b>Cash and cash equivalents at the end of the year</b>	21	<b>403</b>	<b>312</b>

The notes on pages 29 – 84 are an integral part of these consolidated financial statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **1. GROUP AND PRINCIPAL ACTIVITIES**

#### **(a) Introduction**

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

The Group’s overall management and production facilities are based in Ukraine, with the Head Quarters 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 2022 was 836 (2021: 852).

#### **(b) Share capital**

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

	<b>Year ended 31 December 2022</b>	<b>Year ended 31 December 2021</b>
<b>Ukrproduct Group</b>		
Alexander Slipchuk	34.89%	34.89%
Sergey Evlanchik	34.96%	34.96%

As at 31 December 2022, 7.34% (2021: 7.34%) of the Company’s issued share capital was held in treasury.

#### **(c) Ukrainian environment**

On 24 February 2022 the Russian Federation started a full-scale military invasion of Ukraine which, due to broad security concerns, became challenging for the further stable development of economical and finance segments in Ukraine. The operating environment remains risky and highly uncertain .

According to the State Statistics Services of Ukraine the GDP decline in 2022 is estimated at 29.1% compared with a 3.4% growth in 2021. At the beginning of the full-scale invasion, preliminary GDP estimates ranged between 40 and 50%. The consumption expenditures of households fell by 26.7% while the expenditures of the general government sector increased by 18.0%.

At the start of the invasion, all Ukrainian Black Sea ports stopped provision of transshipment services due to the armed conflict in the territory of Ukraine. Notably, some areas fully froze exports made via Ukrainian seaports. According to the deal brokered on 22 July 2022 by the United Nations and Turkey on the Safe Transportation of Grain and Foodstuffs from Ukrainian ports (ISTGFUP), also referred to as “Grain Deal”, three Ukrainian Black Sea ports were unblocked at the beginning of August 2022.

The Ukrainian economy has experienced significant challenges and the government has heavily relied on international financial support. The Ukrainian government received financing and donations from international organizations, such as the International Monetary Fund and the European Union, and directly from numerous countries to support financial stability and to finance social related payments and military needs.

## **1. GROUP AND PRINCIPAL ACTIVITIES (continued)**

### **(c) Ukrainian environment (continued)**

In December 2022, annual inflation in Ukraine reached 26.6%. Processed food products increased in price by 29.3%

At the outbreak of the Russian invasion, the National Bank of Ukraine switched from a flexible to a fixed exchange rate regime at UAH/USD 29.25 and further has increased the official exchange rate of the Ukrainian hryvnia against U.S. dollar by 25%, to UAH/USD 36.5686 from 21 July 2022.

In June 2022 the National Bank of Ukraine increased the key policy rate from 10% to 25% per annum.

According to State Statistics Service estimates, milk production in Ukraine in 2022 amounted to 7.7 million tons, which is 12.1% less than in 2021. In the three quarters of 2022, processing enterprises received 2,056.2 thousand tons of raw milk, which is 15.3% less than in 2021.

Purchase prices for milk, despite the high indicators of the export of dairy products, remained 35.5% lower than in the EU in 2022 and almost 10% lower than in 2021.

The main reason for this is Russia's war against Ukraine with all its consequences. The destruction of raw milk and finished product sales chains in the first months of the war, as well as the destruction of dairy farms and milk processing plants, caused the price of milk to drop by 4.6 euros/100 kg in March 2022.

After that, in the period from May to July 2022, the price in currency stabilized at the level of 37.55-37.76 EUR/100 kg due to the increase in exports. However, the National Bank of Ukraine's increase in the dollar-hryvnia exchange rate in July and its subsequent devaluation at the interbank level affected the price of milk such that it dropped to 32 euros/100 kg. In the end, the price began to gradually rise against the background of the strengthening of the hryvnia and the increase in the price of milk in the hryvnia equivalent. As a result, the price of milk in November 2022 was fixed at the level of 36 euros/100 kg.

In 2022, Ukraine's exported dairy products were worth USD\$344.6 million, which is 39% more than in 2021. The factors that contributed to such growth include temporary cancellation by the Council of the EU of customs duties and fees on Ukrainian exports from 4 June 2022 until 5 June 2023, high world prices for dairy products during the first three quarters of the year and the competitiveness of Ukrainian dairy products on the European market in the Summer-Autumn period. The exception was the fourth quarter whereby prices for dairy products in the world began to fall, and with them the volume of shipments.

The main export categories, in monetary terms, were milk powder (26% of the total structure), butter (24%) and casein (21%).

Against the background of devaluation, hryvnia purchases of the main imported category of dairy products, cheeses, decreased significantly, and domestic cheesemakers began to increase production, both to meet the needs of the domestic market and for export. In FY2022, 9,000 tons of cheese (29.8% more than FY2021) were delivered to foreign markets at a total cost of USD\$42.3 million, which was 58.4% more than the previous year.

At the same time, the volume of imports of dairy products in 2022, compared to the same period last year, decreased by 46% and amounted to 59.9 thousand tons. The largest reduction is recorded in the following categories: milk and condensed cream, reduced by 6.5 times to 1.2 thousand tons, and butter, reduced by 8.1 times to 1.1 thousand tons.

## **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 the 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 United Kingdom (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**

At the time of publication of the annual report the war, which began on 24 February 2022, is ongoing and the significant general uncertainties inherent to the continued war still exist. The Group’s management has analyzed the observable impact of the war on its business as described below, and has taken the following actions in response to the current situation:

- For the period after the Russian invasion of Ukraine 58 employees joined Ukrainian military forces and territorial defense. Personnel of production facilities and central office remained in their working area or worked remotely. The Group does not have a labor shortage and has managed to retain its staff;
- No critical assets preventing the Group to continue operations are damaged or located in the uncontrolled territories. The Group optimized utilization of production facilities to meet domestic demand and export orders;
- All of the Group’s inventories are in good condition and are in safe storage.
- Export sales flow via Ukrainian ports was reduced significantly. Alternative export routes are expanded in length and are significantly more expensive in comparison with sea. Black Sea ports in Ukraine remains blocked for export activities.
- During the fourth quarter of 2022, there were severe power outages in Ukraine caused by Russia's attacks on Ukrainian power generation and distribution infrastructure. These outages caused temporary instability of work of the Group. To mitigate the impact on its business, the Group equipped its key assets with diesel generators. Difficulties with power supply persisted throughout January 2023 and only began to partially improve in February 2023.
- 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 loss of the market in the east and south of the country is expected to be offset partly by increased demand in central and western Ukraine, where a large number of internally displaced persons temporarily reside.

## **2.1. Basis of preparation (continued)**

### **(b) Going concern (continued)**

Management acknowledges that future development of military actions and their duration represent a single source of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Despite the single material uncertainty relating to the war in Ukraine, management is continuing to take actions to minimize the impact on the Group and thus believes that application of the going concern assumption for the preparation of these Consolidated financial statements is appropriate.

For the year ended 31 December 2022, the Group was in breach of several provisions of its loan agreement with the EBRD and missed repayments which the bank has not issued a waiver for. The Company have been holding negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. The negotiations with EBRD are ongoing. At present the EBRD has taken no action to accelerate repayment of the loan.

### **(c) Consolidation Principles**

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2022.

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.



**2.1. Basis of preparation (continued)**  
**(c) Consolidation principles (continued)**

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.

## **2.1 Basis of preparation (continued)**

### **(c) Consolidation principles (continued)**

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		
		2022	2021	
Molochnik LLC*	Ukraine	100%	100%	Holder of some assets
Starokonstantinovskiy Molochniy Zavod SC****	Ukraine	100%	100%	Production
Krasilovsky Molochny Zavod Private Enterprise SC****	Ukraine	100%	100%	Owner of land assets
Molochaia Dolina LLC****	Ukraine	100%	100%	Owner of land assets
Zhiviy Kvas LLC****	Ukraine	100%	100%	Production
Alternative Investments MCVIF**	Ukraine	100%	100%	Asset management
Ukrproduct Group LLC	Ukraine	100%	100%	Holder of some assets and operating companies
LinkStar Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets
Solaero Global Alternative Fund Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets
Dairy Trading Corporation Limited	BVI	100%	100%	Export operations
Ukrproduct Group LTD	Jersey			Parent company traded on AIM

\* The 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".

## 2.2 Significant accounting policies (continued)

### (b) Transactions and balances (continued)

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

Currency	31 December 2022	Average exchange rate for 2022	31 December 2021	Average exchange rate for 2021
UAH/GBP	44,0048	39,8699	36,8392	37,514
UAH/USD	36,5686	32,3684	27,2782	27,2659
UAH/EUR	38,9510	33,9954	30,9226	32,259

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.

## **2.2. Significant accounting policies (continued)**

### **2.2.4. Property, plant and equipment (continued)**

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:

<b>Group of property, plant and equipment</b>	<b>Useful life</b>
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.

### **2.2.5. Assets under construction**

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

### **2.2.6. Intangible assets**

#### **(a) Recognition and measurement of intangible assets**

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

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

The Group identifies the following types of intangible assets:

- Computer software licenses;
- 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.

## **2.2. Significant accounting policies (continued)**

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. Significant accounting policies (continued)**

### **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

### **2.2.7. Financial assets (continued)**

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.



## **2.2. Significant accounting policies (continued)**

### **(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.

## **2.2. Significant accounting policies (continued)**

### **2.2.8. Financial liabilities (continued)**

- 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.

## **2.2. Significant accounting policies (continued)**

### **2.2.11. Revenue recognition (continued)**

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. Significant accounting policies (continued)**

### **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.

## **2.2. Significant accounting policies (continued)**

### **2.2.15. Tax (continued)**

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.

## **2.2. Significant accounting policies (continued)**

### **2.2.19. Leases (continued)**

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.

## **2.2. Significant accounting policies (continued)**

### **2.2.21 Contingent liabilities and assets (continued)**

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.

## **2.2. Significant accounting policies (continued)**

### **2.2.23. Fair value measurement (continued)**

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

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

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

### **2.2.24. Dividends**

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

## **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

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

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

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

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

### **(c) Inventory**

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



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

#### **(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

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

#### **(f) Quality claims (continued)**

variances in quality giving rise to a claim, the potential loss from satisfying the claim and any decision of the Group's management as to how it will respond to the claim.

#### **(g) Transfer pricing**

The transfer pricing methods, established by the Tax Code of Ukraine, are in line with the OECD Guidelines. The Group exports dairy products and skimmed milk powder and performs intercompany transactions, which is in the scope of the Ukrainian TP regulations. The Group has submitted the controlled transaction report for the year ended 31 December 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, the accounting policy is consistent with those applied in the prior reporting year. Some new standards and interpretations have become mandatory for adoption beginning on or after January 01, 2022. New and revised standards and interpretations, adopted by the Group for the first time as at January 01, 2022, are provided below.

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

These amendments 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 Financial Reporting", issued in March 2018, without making significant changes to the requirements of the standard. These amendments did not affect the Group's financial statements.

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

Amendments to IAS 16 prohibit entities to deduct from the historical cost of an item of property, plant and equipment any proceeds from the sale of products manufactured during the delivery of such item to the location and bringing it into condition required for its operation in a manner determined by the management. Instead, the entity should recognize proceeds from the sale of such products, as well as the cost of their production, in profit or loss. These amendments did not affect the Group's financial statements.

##### ***Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" — "Onerous Contracts — Cost of Fulfilling a Contract"***

Amendments to IAS 37 clarify which costs an entity should consider when assessing whether a contract is onerous or unprofitable. According to the amendments, costs directly related to the contract for the provision of goods or services should be taken into account, which include both additional costs for the performance of this contract and allocated costs directly related to the performance of the contract. General and administrative expenses not directly related to the contract are excluded, except when they are clearly subject to reimbursement by the counterparty under the contract. These amendments did not affect 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"***

According to these amendments, subsidiaries, associates and joint ventures have the right to measure accumulated exchange rate differences using the amounts reflected in the parent company's financial statements, based on the date of the parent company's transition to IFRS. These amendments did not affect the Group's financial statements.

#### **4. ADOPTION OF NEW AND REVISED IFRS (continued)**

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

These amendments clarify what amounts of fees an entity takes into account when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the initial financial liability. Such amounts include only fees paid or received between the borrower (the reporting entity) and the lender, including fees paid or received by the lender or borrower on behalf of the other party. These amendments did not affect the Group's financial statements.

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

These amendments eliminate the requirement to exclude from the calculation of cash flows the amounts related to taxation when measuring the fair value of assets falling within to the scope of IAS 41. These amendments did not affect the Group's financial statements.

##### *Amendments to IFRS 16 "Leases" - "Amendment to Illustrative Example"*

The illustration of a lessor's reimbursement of leasehold improvements is removed from the Illustrative Example 13, accompanying this standard, in order to eliminate any disagreement about the interpretation of lease incentives that might arise due to the way how they were illustrated in this example. These amendments did not affect the Group's financial statements.

##### ***IFRS and interpretations issued but not yet effective***

The Group did not adopt the following IFRS, Interpretations to IFRS and IAS, changes and amendments to them, which were issued but not yet effective. The Group plans to apply these changes from the date when they become 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 is effective for reporting periods beginning on or after January 01, 2023; comparative information is required. Early adoption is permitted, provided that an entity also adopts IFRS 9 and IFRS 15 on or before the date of the first adoption of IFRS 17. This standard is not applied to the Group.

##### *Amendments to IAS 1 "Presentation of Financial Statements" - "Classification of current and non-current liabilities"*

These amendments establish that the right of an entity to defer repayment of a liability for at least twelve months after the reporting period must exist at the end of the reporting period and must have an economic sense. The classification of the liability is not affected by the intention and expectation of whether the entity exercises its right to defer settlement of the liability for at least twelve months after the reporting period.

#### **4. ADOPTION OF NEW AND REVISED IFRS (continued)**

Amendments are effective for reporting periods beginning on or after January 01, 2024. Amendments are adopted retrospectively; early adoption is permitted. The amendments may affect the classification of liabilities in the Group's statement of financial position.

##### *Amendments to IAS 1 "Presentation of Financial Statements" - "Non-current liabilities with covenants"*

Following the issue of the amendments to IAS 1 regarding the classification of liabilities as current and non-current, the IFRS Board made additional amendments to IAS 1 in October 2022. Under these amendments, only covenants that an entity must comply with at or before the reporting date, affect the classification of the liability as current or non-current. In addition, an entity must disclose information in the notes that enables users of the financial statements to understand the risk that non-current liabilities with covenants may be repaid within twelve months.

Amendments are effective for reporting periods beginning on or after January 01, 2024. Amendments are adopted retrospectively; early adoption is permitted. The amendments may affect the classification of the liabilities in the Group's statement of financial position.

##### *Amendments to IAS 8 "Accounting policies, changes in accounting estimates and errors" – "Definition of Accounting Estimates"*

These amendments introduce a definition of "accounting estimates". These amendments clarify the distinction between changes in accounting estimates and changes in the 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. Early adoption is permitted if this fact is disclosed. It is expected that these amendments will not significantly affect the Group's financial statements.

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

Amendments to IAS 1 are applicable for annual reporting periods beginning on or after January 01, 2023, with early adoption permitted. It is expected that these amendments will not significantly affect the Group's financial statements.

##### *Amendments to IAS 12 "Income Taxes" - "Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction"*

#### 4. ADOPTION OF NEW AND REVISED IFRS (continued)

These amendments clarify that the exemption from initial recognition specified in the Art. 15 and 24 of the standard is not applied to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition (e.g., leases, decommissioning obligations). The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 01, 2023, with early adoption permitted. It is expected that these amendments will not significantly affect the Group's financial statements.

##### *Amendments to IFRS 16 "Leases" - "Lease liability in a sale and leaseback transactions"*

In June 2020, the IFRS Interpretations Committee adopted a decision on the agenda - "Sale and leaseback with variable payments". This issue was submitted to the IFRS Board, which issued amendments to IFRS 16 in September 2022. These amendments require the seller-lessee to define "lease payments" or "revised lease payments" in such a way that the seller-lessee does not recognize any amount of profit or loss related to the right-to-use retained by the seller-lessee.

Amendments are effective for reporting periods beginning on or after January 01, 2024. Early adoption is permitted. It is expected that these amendments will not significantly 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 2022	Year ended 31 December 2021
	£ '000	£ '000
<b>Financial assets</b>		
<b>Financial assets at amortised cost</b>		
- trade and other receivables (excluding non-financial assets)	2 625	6 264
- cash and cash equivalents	403	312
- other financial assets	35	40
	<b>3 063</b>	<b>6 616</b>

## 5. FINANCIAL RISK MANAGEMENT (continued)

### Financial liabilities

#### Financial liabilities at amortised cost:

	Year ended 31 December 2022	Year ended 31 December 2021
	£ '000	£ '000
- short-term payables	493	587
- current bank loans	6 116	6 039
- trade and other payables (excluding non-financial liabilities)	4 036	8 967
- interest payable	383	193
	<b>11 028</b>	<b>15 786</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

## **5. FINANCIAL RISK MANAGEMENT (continued)**

### **(c) Credit risk (continued)**

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.



## 5. FINANCIAL RISK MANAGEMENT (continued)

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

Bank	Year ended 31 December 2022 Rating	Year ended 31 December 2021 Rating	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
JSC OTP Bank	uaAAA	uaAAA	7	8
PJSC Raiffeisen Bank Aval	uaAAA	uaAAA	28	53
CreditWest	uaAAA	uaAAA	278	146
Other	Caa3	Caa3	90	105
			<b>403</b>	<b>312</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 2022 £ '000 Carrying Value	Year ended 31 December 2022 £ '000 Maximum exposure (unsecured)	Year ended 31 December 2021 £ '000 Carrying Value	Year ended 31 December 2021 £ '000 Maximum exposure (unsecured)
Cash and cash equivalents	403	403	312	312
Trade receivables	2 273	2 273	5 894	5 894
Other receivables	352	352	370	370
Other financial assets	35	35	40	40
	<b>3 063</b>	<b>3 063</b>	<b>6 616</b>	<b>6 616</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-

## **5. FINANCIAL RISK MANAGEMENT (continued)**

### **(d) Liquidity risk (continued)**

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 61 160 (decrease 2021: - 1%-GBP 60 390).

#### *(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 its 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, denominated in euro, and therefore the weakening of the hryvnia can have a significant impact on financial results of the Group in future periods. The sensitivity analysis shows that UAH depreciation against EUR by 3% would cause an exchange rate loss of GBP 195 thousand (2021 by 3%: GBP 174 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

## **5. FINANCIAL RISK MANAGEMENT (continued)**

### **(e) Market risk (continued)**

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.

## 6. CAPITAL MANAGEMENT POLICIES (continued)

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 2022, the D/E ratio consists of approximately 0.48 improved compared to 31 December 2021 by 1.06 bp. In 2022 the management implemented long-term strategy to decrease D/E ratio down to 0.6 (60%).

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Total debt	2 625	6 626
Less: Cash and cash equivalents	(403)	(312)
<b>Net debt</b>	<b>2 222</b>	<b>6 314</b>
Total equity	4 594	5 947
<b>D/E ratio</b>	<b>48.3%</b>	<b>106.1%</b>

## 7. SEGMENT INFORMATION

At 31 December 2022, the Group was organised internally 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 2022 as reported to the Board 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>31 571</b>	<b>1 095</b>	<b>2 727</b>	<b>3 144</b>	<b>574</b>	<b>-</b>	<b>39 111</b>
<b>Gross profit</b>	<b>5 788</b>	<b>444</b>	<b>(262)</b>	<b>584</b>	<b>2</b>	<b>-</b>	<b>6 556</b>
Administrative expenses	(862)	(38)	(94)	(108)	-	(240)	(1 342)
Selling and distribution expenses	(2 145)	(76)	(190)	(219)	-	(89)	(2 719)
Other operating expenses	-	-	-	-	-	(1 571)	(1 571)
<b>Profit from operations</b>	<b>2 781</b>	<b>330</b>	<b>(546)</b>	<b>257</b>	<b>2</b>	<b>(1 900)</b>	<b>924</b>
Finance expenses, net	-	-	-	-	-	(466)	(466)
Loss from exchange differences	-	-	-	-	-	(1 113)	(1 113)
<b>Loss before taxation</b>	<b>2 781</b>	<b>330</b>	<b>(546)</b>	<b>257</b>	<b>2</b>	<b>(3 479)</b>	<b>(655)</b>
Taxation	-	-	-	-	-	(149)	(149)
<b>Loss for the year</b>	<b>2 781</b>	<b>330</b>	<b>(546)</b>	<b>257</b>	<b>2</b>	<b>(3 628)</b>	<b>(804)</b>
Segment assets	13 085	454	1 130	-	-	-	14 669
Unallocated corporate assets	-	-	-	-	-	2 326	2 326
<b>Consolidated total assets</b>	<b>13 085</b>	<b>454</b>	<b>1 130</b>	<b>-</b>	<b>-</b>	<b>2 326</b>	<b>16 995</b>
Segment liabilities	3 645	-	-	311	-	-	3 956
Unallocated corporate liabilities	-	-	-	-	-	7 915	7 915
Unallocated deferred tax	-	-	-	-	-	530	530
<b>Consolidated total liabilities</b>	<b>3 645</b>	<b>-</b>	<b>-</b>	<b>311</b>	<b>-</b>	<b>8 445</b>	<b>12 401</b>
Depreciation and amortisation	471	18	393	-	-	-	882

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

## 7. SEGMENT INFORMATION (continued)

The segment results for the year ended 31 December 2021 as reported to the Board 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>-</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>-</b>	<b>4 528</b>
Administrative expenses	(983)	(147)	175	(68)	(42)	(350)	(1 415)
Selling and distribution expenses	(2 420)	(618)	720	(294)	(50)	(89)	(2 751)
Other operating expenses	-	-	-	-	-	(192)	(192)
<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)	(440)
Loss from exchange differences	-	-	-	-	-	599	599
<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	110
<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	-	-	-	22 065
Unallocated corporate assets	-	-	-	-	-	1 229	1 229
<b>Consolidated total assets</b>	<b>19 198</b>	<b>913</b>	<b>1 954</b>	<b>-</b>	<b>-</b>	<b>1 229</b>	<b>23 294</b>
Segment liabilities	8 348	-	-	406	-	-	8 754
Unallocated corporate liabilities	-	-	-	-	-	7 703	7 703
Unallocated deferred tax	-	-	-	-	-	890	890
<b>Consolidated total liabilities</b>	<b>8 348</b>	<b>-</b>	<b>-</b>	<b>406</b>	<b>-</b>	<b>8 593</b>	<b>17 347</b>
Depreciation and amortization	783	176	44	-	-	-	1 003

## 7. SEGMENT INFORMATION (continued)

*Secondary reporting format - geographical segments:*

Sales by country (consignees)	Year ended 31 December 2022 £ '000	Sales by country (consignees)	Year ended 31 December 2021 £ '000
Ukraine	29 935	Ukraine	41 805
Republic of Iraq	4 280	Republic of Iraq	4 811
Azerbaijan	1 754	Azerbaijan	1 981
Moldova	1 006	Moldova	775
Poland	736	Poland	231
The Netherlands	500	The Netherlands	990
Singapore	309	Singapore	376
Lebanon	219	Lebanon	233
Jordan	75	Jordan	-
Georgia	37	Georgia	125
Uzbekistan	32	Uzbekistan	83
Palestine	20	Palestine	-
Kazakhstan	-	Kazakhstan	161
Turkey	-	Turkey	99
Other countries	208	Other countries	315
<b>Total</b>	<b>39 111</b>	<b>Total</b>	<b>51 985</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 2022 and 31 December 2021, sales revenue was presented as follows:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Branded (including bonuses)	32 595	38 720
Beverages (including bonuses)	1 267	2 120
Non-branded products	2 727	3 755
Distribution services (including bonuses)	3 144	2 420
Supplementary products	574	7 073
<b>Gross revenue</b>	<b>40 307</b>	<b>54 088</b>
Charges of bonuses	(1 196)	(2 103)
<b>Total revenue (excluding bonuses)</b>	<b>39 111</b>	<b>51 985</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 2022 and 31 December 2021, items of expenses were presented as follows:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
<b>Cost of sales</b>	<b>(32 555)</b>	<b>(47 457)</b>
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(29 582)	(43 482)
Wages and salaries, social security costs (Note 12)	(2 434)	(3 159)
Depreciation	(539)	(816)
<b>Administrative expenses</b>	<b>(1 342)</b>	<b>(1 415)</b>
Including:		
Wages and salaries, social security costs (Note 12)	(430)	(436)
PR, nominated broker, secretary, legal services etc.	(332)	(260)
Security	(116)	(121)
Lease and current repair and maintenance	(65)	(77)
Bank service	(28)	(74)
Communication	(79)	(97)
Amortization and depreciation	(74)	(77)
Audit fees	(105)	(61)
Taxes and compulsory payments	(38)	(39)
IT materials, household expenses, reading materials	(10)	(14)
Other	(65)	(159)
<b>Selling and distribution expenses</b>	<b>(2 719)</b>	<b>(2 751)</b>
Including:		
Delivery costs	(1 081)	(858)
Promotion	(414)	(847)
Wages and salaries, social security costs (Note 12)	(259)	(384)
Lease and current repair and maintenance	(45)	(144)
Packaging	(191)	(164)
Amortization and depreciation	(238)	(102)
Veterinary certificates, medical examination, permits	(32)	(46)
Impairment of inventories	(2)	(6)
Other	(457)	(200)
<b>Other operating (expenses)/income</b>	<b>(1 571)</b>	<b>(192)</b>
Including:		
Impairment of inventories	(119)	(146)
Impairment of trade receivables	(1 065)	(157)
Penalties	(97)	(19)
Profit / (loss) on disposal of non-current assets	(310)	(333)
Amortization and depreciation	(31)	(8)
Other	57	471



## 10. NET FOREIGN EXCHANGE (LOSS)/ GAIN

For the years ended 31 December 2022 and 31 December 2021, net foreign exchange gain (loss), consists of:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Exchange difference in trade and other receivables	180	(2)
Exchange difference in trade and other payables	(59)	18
Exchange difference in short and long credits	(1 172)	612
Effect of exchange rate changes and restatements on cash and cash equivalents	(62)	(29)
<b>Total net foreign exchange gain (loss)</b>	<b>(1 113)</b>	<b>599</b>

## 11. NET FINANCE EXPENSES

For the years ended 31 December 2022 and 31 December 2021, financial (expenses) / income were presented as follows:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
<b>Finance expense</b>		
Interest expense on bank loans	(471)	(441)
<b>Finance income</b>		
Interest income	6	1
<b>Net finance expense recognised in the statement of comprehensive income</b>	<b>(466)</b>	<b>(440)</b>

## 12. EMPLOYEE BENEFIT EXPENSES

For the years ended 31 December 2022 and 31 December 2021, employee benefit expenses were presented as follows:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Wages and salaries (including key management personnel)	(2 615)	(3 282)
Social security costs	(508)	(697)
<b>Total</b>	<b>(3 123)</b>	<b>(3 979)</b>
 <b>Average number of employees</b>	 <b>836</b>	 <b>852</b>

## 12. EMPLOYEE BENEFIT EXPENSES (continued)

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Wages and salaries of operating personnel	(2 434)	(3 159)
Wages and salaries of administrative personnel	(430)	(436)
Wages and salaries of distribution personnel	(259)	(384)
<b>Total</b>	<b>(3 123)</b>	<b>(3 979)</b>

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

For the year ended 31 December 2022, remuneration of the Group's key management personnel amounted to GBP 117.5 thousand (2021: GBP 117.5 thousand).

Key management personnel received only short term benefits during the years ended 31 December 2022 and 31 December 2021. 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 2022 and 31 December 2021, income tax expenses were presented as follows:

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
Current tax charge – Ukraine	410	162
Current tax charge - non-Ukraine	-	-
Deferred tax relating to the origination and reversal of temporary differences	(261)	(272)
<b>Total income tax expenses</b>	<b>149</b>	<b>(110)</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% (2021: 18%).

### 13. INCOME TAX EXPENSES (continued)

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

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
<b>Profit before tax:</b>		
Ukraine	481	1 051
Cyprus	(12)	(3 520)
Other (BVI, Jersey)	(1 124)	2 798
<b>Profit before tax, total</b>	<b>(655)</b>	<b>329</b>
<b>Tax calculated at domestic tax rates applicable to profits in the relevant countries</b>		
Ukraine (2022: 18%, 2021: 18%)	87	(189)
Cyprus (10%)	-	-
	<b>87</b>	<b>(189)</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	62	(299)
Cyprus	-	-
	<b>62</b>	<b>(299)</b>
<b>Tax charge</b>		
Ukraine	149	(110)
Cyprus	-	-
	<b>(149)</b>	<b>(110)</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.

### **13. INCOME TAX EXPENSES (continued)**

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

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

### **14. PROPERTY, PLANT AND EQUIPMENT**

In accordance with IAS 16 "Property, Plant and Equipment", the Group carries out revaluations, with sufficient regularity (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, 2022, 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, 2022, 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 2022 budget value and takes into consideration trends of value indexes for 2020-2024.*

#### **14. PROPERTY, PLANT AND EQUIPMENT (continued)**

*Discount rate – Discount rate assumes current market estimates risks, specific for each CGU, inclusive of cash cost and individual risks and corresponding assets excluded from the cash flow valuation. The discount rate calculation is 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 segments – 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 "Zhyvyy 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 2022 and 31 December 2021, property, plant and equipment were presented as follows:

	Assets under Construction	Land and Buildings	Plant and Machinery	Vehicles	Instruments, tools and other equipment	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
<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>Cost or valuation</b>						
<b>At 1 January 2022</b>	<b>42</b>	<b>3 974</b>	<b>5 305</b>	<b>499</b>	<b>1 118</b>	<b>10 938</b>
Additions	382	-	-	-	-	382
Transfers to/from AUC	(380)	39	250	7	84	-
Disposals	-	(69)	(410)	-	(104)	(583)
Exchange differences on translation to the presentation currency	(13)	(590)	(535)	(96)	(17)	(1 251)
<b>At 31 December 2022</b>	<b>31</b>	<b>3 354</b>	<b>4 610</b>	<b>410</b>	<b>1 081</b>	<b>9 486</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2022</b>	<b>-</b>	<b>233</b>	<b>473</b>	<b>142</b>	<b>295</b>	<b>1 143</b>
Depreciation charge	-	73	172	61	199	505
Disposals	-	(7)	(60)	-	(5)	(72)
Revaluation depreciation	-	87	142	73	41	343
Exchange differences on translation to the presentation currency	-	(48)	(99)	(68)	(134)	(349)
<b>At 31 December 2022</b>	<b>-</b>	<b>338</b>	<b>628</b>	<b>208</b>	<b>396</b>	<b>1 570</b>
<b>Net book value at 31 December 2022</b>	<b>31</b>	<b>3 016</b>	<b>3 982</b>	<b>202</b>	<b>685</b>	<b>7 916</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>

#### **14. PROPERTY, PLANT AND EQUIPMENT (continued)**

As at 31 December 2022 the Group has no contractual commitments to purchase property, plant and equipment.

Fixed assets with a net book value of GBP 2.446 thousand at 31 December 2021 (2021: GBP 2.562 thousand) were pledged as collateral for loans.

As at 31 December 2022 any prepayments for property, plant and equipment were included within Assets under construction in the amount of GBP 7 thousand (2021: GBP 19 thousand).

As at 31 December 2022 fully depreciated assets have been included within property, plant and equipment with the original cost of GBP 516 thousand (2021: GBP 345 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	Rights to use natural resources	Trademarks	Total
	£ '000	£ '000	£ '000	£ '000
<b>Cost or valuation</b>				
<b>At 1 January 2021</b>	<b>260</b>	<b>-</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>-</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>-</b>	<b>525</b>	<b>555</b>
<b>Cost or valuation</b>				
<b>At 1 January 2022</b>	<b>469</b>	<b>53</b>	<b>842</b>	<b>1 364</b>
Additions	383	-	-	383
Disposals	(21)	-	-	(21)
Exchange differences on translation to the presentation currency	(449)	(9)	98	(360)
<b>At 31 December 2022</b>	<b>382</b>	<b>44</b>	<b>940</b>	<b>1 366</b>
<b>Accumulated amortization</b>				
<b>At 1 January 2022</b>	<b>30</b>	<b>-</b>	<b>525</b>	<b>555</b>
Amortization charge for the year	27	2	62	91
Disposals	(21)	-	-	(21)
Exchange differences on translation to the presentation currency	(6)	-	66	60
<b>At 31 December 2022</b>	<b>30</b>	<b>2</b>	<b>653</b>	<b>685</b>
<b>Net book value at 31 December 2022</b>	<b>352</b>	<b>42</b>	<b>287</b>	<b>681</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>-</b>	<b>374</b>	<b>598</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;



## 15. INTANGIBLE ASSETS (continued)

The Group performed its annual impairment test in December 2022 and 2021. 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 2022, 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 1 302 thousand as at 31 December 2022, 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 20,1% (2021: 19.3%). 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 1 428 thousand as at 31 December 2022, 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 20,1% (2021: 19.3%). 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 2022, deferred tax assets and liabilities were presented as follows:

	As at 31 December 2022 £ ‘000	As at 31 December 2021 £ ‘000
Deferred tax assets at the beginning of the year		-
Deferred tax liability at the beginning of the year	796	1 029
Deferred tax liability recognised in SOCI during the year	(183)	(122)
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortization	(76)	(150)
Exchange differences on translation to the presentation currency	(7)	39
Deferred tax assets at the end of the year		-
Deferred tax liability at the end of the year	530	796

## 17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
Finished goods	1 854	2 665
Raw materials	1 257	749
Work in progress	385	339
Other inventories	800	902
<b>Total</b>	<b>4 296</b>	<b>4 655</b>

During 2022, GBP 29,582 thousand (2021: GBP 43,512 thousand) was recognised as an expense in cost of sales.

## 18. TRADE AND OTHER RECEIVABLES

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
Trade receivables, net of impairment	2 273	5 894
Other receivables	352	370
Prepayments	448	499
<b>Total</b>	<b>3 073</b>	<b>6 763</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 2022 and 31 December 2021 is presented as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
	£ '000	£ '000	<30 days £ '000	30-60 Days £ '000	61-90 days £ '000	91-120 days £ '000	>120 Days £ '000
2022	2 273	1 315	310	76	15	9	548
2021	5 894	4 067	822	149	124	136	597

Provisions were created for both impaired trade and other receivables and expected credit losses on receivables which are not considered to be impaired.

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
<b>Impaired trade and other receivables at the beginning of the year</b>	<b>268</b>	<b>277</b>
Accrual / (Reversal)	(1 065)	157
Use of allowances	-	-
Effect of translation to presentation currency	2 424	(166)
<b>Impaired trade and other receivables at the end of the year</b>	<b>1 627</b>	<b>268</b>

## 19. CURRENT TAXES

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
VAT receivable	521	838
Current income tax prepayments	40	54
Other prepaid taxes	30	28
<b>Total</b>	<b>591</b>	<b>920</b>

## 20. OTHER FINANCIAL ASSETS

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
<b>Loans and receivables</b>		
Loans issued to third parties	35	40
<b>Total</b>	<b>35</b>	<b>40</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 2022 £ '000	As at 31 December 2021 £ '000
Cash on hand - on UAH	36	7
Cash in bank - on UAH	232	273
Cash in Bank - in other currencies	135	32
<b>Total</b>	<b>403</b>	<b>312</b>

## 22. SHARE CAPITAL

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

	Authorised			
	As at 31 December 2022 Number '000	As at 31 December 2022 £ '000	As at 31 December 2021 Number '000	As at 31 December 2021 £ '000
<b>Ordinary shares of 10p each</b>	<b>60 000</b>	<b>6 000</b>	<b>60 000</b>	<b>6 000</b>
<b>Issued and fully paid at beginning and end of the year</b>				
	As at 31 December 2022 Number '000	As at 31 December 2022 £ '000	As at 31 December 2021 Number '000	As at 31 December 2021 £ '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>

## 22.SHARE CAPITAL (continued)

	Treasury shares			
	As at 31 December 2022 Number '000	As at 31 December 2022 £ '000	As at 31 December 2021 Number '000	As at 31 December 2021 £ '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 2022. In the Annual report 2021 the Share capital was presented on a net value reduced by the value of treasury shares.

As at 31 December 2022 and 31 December 2021 the Group 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 2021</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)	(683)
Exchange differences on translation to the presentation currency	-	244	-	244
<b>At 31 December 2021</b>	<b>4 562</b>	<b>(14 987)</b>	<b>6 348</b>	<b>(4 077)</b>
Depreciation on revaluation of property, plant and equipment	-	-	(343)	(343)
Exchange differences on translation to the presentation currency	-	(550)	-	(550)
<b>At 31 December 2022</b>	<b>4 562</b>	<b>(15 537)</b>	<b>6 005</b>	<b>(4 970)</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 2022 the Group has two loans: the loan from Creditwest Bank in the amount of 1.451 thousand GBP (in UAH 63.860 million) and the loan from the EBRD in the amount of 4.665 thousand GBP (in EUR 5.309 thousand).

For the year ended 31 December 2022, the Group was in breach of several provisions of its loan agreement with the EBRD. With the beginning of the military aggression of the Russian Federation against Ukraine on 24 February 2022 the Group suspended all the principal payments and interests of EBRD loans as a result of force majeure circumstances, which the bank has not issued a waiver for.

Ukrproduct has been in negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. The negotiations with EBRD are ongoing. At present the EBRD has taken no action to accelerate repayment of the loan

Fixed assets with a net book value of GBP 2.102 thousand at 31 December 2022 (2021: 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.

According to the terms of the agreements with the EBRD, in case of non-fulfilment of any of the obligations under agreement, including financial covenants, the EBRD may demand from the Group full return of all outstanding loan amounts. 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.

<b>Bank</b>	<b>Currency</b>	<b>Type</b>	<b>Opening date</b>	<b>Termination date</b>	<b>Interest rate</b>	<b>Limit</b>	<b>As At 31 December 2022</b>	<b>As at 31 December 2021</b>
						<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>
EBRD	EUR	Loan	31.03.2011	30.11.2024	5-7%	7 347	4 665	4 304
Creditwest Bank	UAH	Credit line	05.02.2018	05.02.2021	15.89%	1 477	1 451	1 735
Ukraine								
<b>Total</b>							<b>6 116</b>	<b>6 039</b>

The average interest rate as at 31 December 2022 was 11% (2021: 11%).

## 24. BANK LOANS AND SHORT-TERM PAYABLES (continued)

### *Maturity of financial liabilities*

	Year ended 31 December 2022 £ '000	Year ended 31 December 2021 £ '000
On demand	-	-
In less than 1 year	6 116	6 039
In more than 1 year	-	-
<b>Total</b>	<b>6 116</b>	<b>6 039</b>

### Interest rate profile of financial liabilities

	Floating rate £ '000	Fixed rate £ '000	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
On demand	-	-	-	-
Expiry within 1 year	4 665	1 451	6 116	6 039
Expiry in more than 1 year	-	-	-	-
<b>Total</b>	<b>4 665</b>	<b>1 451</b>	<b>6 116</b>	<b>6 039</b>

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

	Floating rate liabilities £ '000	Fixed rate liabilities £ '000	Total as at 31 December 2022 £ '000	Total as at 31 December 2021 £ '000
UAH	-	1 451	1 451	1 735
EUR	4 665	-	4 665	4 304
<b>Total</b>	<b>4 665</b>	<b>1 451</b>	<b>6 116</b>	<b>6 039</b>

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

	Book value as at 31 December 2022 £ '000	Fair value as at 31 December 2022 £ '000	Book value as at 31 December 2021 £ '000	Fair value as at 31 December 2021 £ '000
Bank loans	6 116	6 116	6 039	6 039
<b>Total</b>	<b>6 116</b>	<b>6 116</b>	<b>6 039</b>	<b>6 039</b>

### Reconciliation of liabilities arising from financing activities

	As at 31 December 2021 £ '000	Financing cash flows £ '000	Accrual of interest £ '000	Foreign exchange move- ment £ '000	Other changes £ '000	Effect from translation to presentation currency £ '000	As at 31 December 2022 £ '000
Bearing loans and borrowings	6 039	(1)	-	1 180	(9)	(1 093)	6 116
Interest	193	(292)	550	61	-	(130)	383
<b>Interest-bearing loans and borrowings</b>	<b>6 232</b>	<b>(293)</b>	<b>550</b>	<b>1 241</b>	<b>(9)</b>	<b>(1 223)</b>	<b>6 499</b>

## 25. TRADE AND OTHER PAYABLES

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

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
Trade payables	3 956	8 847
Prepayments received	119	174
Accruals	199	253
Interests payable	383	193
Provisions	425	242
Other payables	80	120
<b>Total</b>	<b>5 162</b>	<b>9 829</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 2022, provisions were presented as follows:

	As at 31 December 2022 £ '000	As at 31 December 2021 £ '000
<b>Allowance at the beginning of the year</b>	<b>242</b>	<b>176</b>
Accrual/(Reversal)	367	262
Use of allowances	(354)	(304)
Effect of translation to presentation currency	171	108
<b>Allowance at the end of the year</b>	<b>425</b>	<b>242</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 2022 £ '000	Year ended 31 December 2021 £ '000
Net profit/loss attributable to ordinary shareholders	(804)	439
Weighted number of ordinary shares in issue	39 673	39 673
Basic earnings per share, pence	<b>(2.03)</b>	<b>1.11</b>
Diluted average number of shares	39 673	39 673
Diluted earnings per share, pence	<b>(2.03)</b>	<b>1.11</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 2022.

## 28. SHARE-BASED PAYMENTS

The Company operates an equity-settled share based remuneration scheme for employees. During 2022, the Group did not issue options to any 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 2022 is set out below:

	UAH	USD	GBP	EUR	Total
<b>Assets</b>					
Trade and other receivables	2 566	57	2	-	2 625
Current taxes	574	-	-	17	591
Other financial assets	35	-	-	-	35
Cash and cash equivalents	273	125	-	5	403
<b>Total assets</b>	<b>3 448</b>	<b>182</b>	<b>2</b>	<b>22</b>	<b>3 654</b>
<b>Liabilities</b>					
Bank borrowings	1 451	-	-	5 158	6 609
Trade and other payable	3 928	12	87	9	4 036
Current income tax liabilities	48	-	-	-	48
Other taxes payable	52	-	-	-	52
<b>Total Liabilities</b>	<b>5 479</b>	<b>12</b>	<b>87</b>	<b>5 167</b>	<b>10 745</b>

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>



## 29. CURRENCY ANALYSIS (continued)

3% strengthening of Hryvnia rate against the US dollar and 18% strengthening of Hryvnia rate against the Euro the following currencies as at 31 December 2022 and 2021, 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 the British pound exchange rate does not have an impact on the result as all the balances in the British pound are attributable to the Group's companies where the British pound is a functional currency.

	Increase/ decrease in rate	Effect on income before tax in 2022 £ '000	Effect on income before tax in 2021 £ '000
USD	3%	5	4
EUR	18%	(926)	(777)
USD	3%	(5)	(4)
EUR	18%	926	777

## 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.

Remuneration of key management personnel is disclosed in Note 12.

The Group had no commercial relationships with the related parties in 2022. There were no guarantees given to or provided by the Group to related parties and vice versa.

The ultimate controlling owners and beneficiaries of the related parties were Mr. Alexander Slipchuk and Mr. Sergey Evlanchik.

## **31. COMMITMENTS AND CONTINGENCIES**

### **(a) Economic environment**

The Group carries out most of its operations in Ukraine. Laws and other regulatory acts affecting the activities of Ukrainian enterprises may be subject to changes and amendments within a short period of time. As a result, 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 2022 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 2022 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.

## 31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### (d) Litigations and claims

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

### (e) Other

The amount of non-cancellable lease commitments is insignificant.

As at 31 December 2022, 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 2022 the Group had been in breach of loan covenants with EBRD. The Group was still in breach of this covenant as at 01 June 2023. Ukrproduct has been in negotiations with the EBRD to potentially restructure the loan repayment schedule since June 2021. The negotiations with EBRD are ongoing.

### (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	29 June 2023
UAH/GBP	46.31
UAH/USD	36.57
UAH/EUR	40.00

## **32. SUBSEQUENT EVENTS (continued)**

### **(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.

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 30 June 2023 all the Group's assets are located in the non-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.