ANNUAL REPORT 2014

UKRPRODUCT

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1 Chairman and Chief Executive Statement

Over the year 2014 the highly unstable political and economic environment in Ukraine provided ongoing challenges for Ukrproduct Group. The most important macroeconomic factors affecting us were the very significant volatility and devaluation of the Hryvnia, escalating inflation and struggling consumption in the domestic market. Furthermore, the tensions in the Eastern part of Ukraine and Crimea caused unstable supplies to these areas leading to a reduction of the actual market capacity. The Company has been addressing these issues by strengthening its sales strategy in the rest of Ukraine.

In the dairy market, whilst Ukrproduct has not itself supplied Russia, the ban on export of dairy products to Russia led to an oversupply of hard cheese in the domestic market whilst at the same time resulted in lower raw milk prices due to increased availability in the summer period. However, on an annual basis average raw milk prices in 2014 increased by approximately 8% y-o-y that coupled with the increased cost of imported raw materials and higher energy costs placed further pressure on unit costs.

BRANDED DAIRY PRODUCTS

The sales were challenged by the market situation and the limited purchasing power of the local population. However, profitability improved as consumer price increases compensated for rising input costs. Overall sales of branded products in local currency decreased by 5% in Hryvnia terms compared to the previous year with packaged butter and hard cheese categories being affected the most. On the positive side consumer price increases resulted in margins improvement thus gross profit in the branded products category grew by 21% in Hryvnia terms.

In respect of its market share Ukrproduct Group has remained among the market leaders in its core categories of processed cheese and butter. The Company is also among top-five producers of kvass in Ukraine with 6.2% market share and is the only mass manufacturer of “fresh” Kvass in Ukraine.

Inthe **butter** segment, the Company experienced a decrease in both volumes and revenues by 39% and 27% respectively, however margins improved substantially resulting in a gross profit increase of 67% in Hryvniaterms. In the second half of

2014, the Company launched a comprehensive advertising and promotion campaign for its flagship “Our Dairyman” brand. This initiative proved to be effective resulting in positive sales trends towards the end of the year.

The overall market of **spreads** in Ukraine grew as a result of consumers switching from traditional butter to more affordable substitutes. Thus Ukrproduct’s category of spreads showed a 17% y-o-y increase in sales, however profitability was reduced as result of increased input costs leading to an 83% fall in gross profit in Hryvniaterms.

Processed cheese showed a 5% decrease in revenues but as the contribution margin improved compared with the previous year this resulted in a 16% gross profit increase y-o-y in Hryvniaterms.

Hard cheese sales have been the most affected by the restrictions on exports to Russia with local dumping of product by our competitors. As a result year-on-year sales fell by 36% and the segment hardly broke-even on the gross profit level.

The Hryvniadevaluation prompted the increased focus on export sales of both branded products and skimmed milk powder and led to the significant improvement of the exportrevenues by 34% year-on-year. The advantageous trend in the Skimmed Milk Powder segment which largely contributed to the Group’s profits in the first half year reversed towards the end of 2014. Consequently, the Group actively sought third party orders in order to capitalise on the Company’s efficient milk protein processing facilities which were upgraded with funds provided by the EBRD. This initiative was successful with orders being received from multinationals such as Pepsico and Danone and increasing utilisation rates of the facility. On an annual basis this segment showed a robust 71% increase in sales and a more than 4 times increase in gross profit in Hryvna terms.

BEVERAGES

Kvass sales benefitted from the special focus of marketing and sales teams and showed a healthy 10% increase to the previous year, a good result particularly due to the challenging supply situation in Crimea that has accounted for a substantial part of summer kvass sales. Gross profits declined by 4% compared to the previous year despite the increase in sales due to increased sugar and energy costs.

THIRD PARTY (DISTRIBUTION AND PRODUCTION) SERVICES

The services were developed with the focus on growing quality business with sustainable margins. The Company has increased the efficiency of its production capacities utilization via placement of the third party orders for skimmed milk. As a result the revenues of the third party distribution and production increased by 35% y-o-y and their gross profitability increased by 52%.

FINANCES

Overall the Company saw a 43% year-on-year increase in EBITDA and a more than doubled operating profit for the full year 2014 in Hryvniaterms. Moreover, the operating cash-flow has been substantially improved during the year. However, the significant Hryvniadevaluation has offset such operating improvement via a negative foreign exchange difference charge. The effect of exchange rate led to the Group reporting a loss for FY2014. Ukrproduct Group is substantially a Hryvniabusiness and a sustained devaluation affects the translation of its financial performance in other currencies.

Ukrproduct Group has ensured sufficient bank facilities for working capital. As at the date of this announcement the Group is engaged in negotiations with the European Bank for Reconstruction and Development ("EBRD") to restructure the loan repayment schedule taking into account significant Hryvniadevaluation which we anticipate completing in the second half of 2015.

On the operational side the second stage of modernization project with the European Bank for Reconstruction and Development is now being finalized. Meanwhile the Company is continuing to see the positive effect of the completed phases that has become even more relevant given the rise in energy costs. Additionally, the Company has been adjusting its business model including optimisation of sales and logistics structure. This has proved to be successful and has resulted in improved efficiency of operations. The financial outcomes of these initiatives are now being seen.

TRADING OUTLOOK

Given the volatile environment in the part of the Eastern Ukraine and Crimea, Ukrproduct has been looking to recover sales volumes via adjustment of its regional focus. To this end the Company invested in a comprehensive marketing program launched in Autumn 2014 for its flagship brand "Our Dairyman". These initiatives resulted in positive sales trends for the last quarter of the financial year and have continued subsequently. Additionally, the Group has been optimising its product offering to become more relevant to the current market environment. Finally, all these efforts are underpinned by the further improvement in productivity.

The negotiations with EBRD with regards to restructuring of the loan repayment are constructive and we look forward to the approval of new terms adjusted to the current environment in the second half of 2015.

J Rowell | Sergey Evlanchik

Jack Rowell
Chairman

Sergey Evlanchik
Chief Executive Officer

2 The Board of Directors

As of the date of the approval of the 2014 Annual Report, the Board members are as follows:

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

Jack Rowell

Non-executive Chairman

Dr. 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, Dr. 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.

Sergey Evlanchik
Chief Executive Officer

Sergey Evlanchikis responsible for the Group's overall performance and strategy implementation and is a founder of Ukrproduct Group. He 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 Ukrproduct Group in 2004. Sergey then led the Group to its successful listing on the AIM market of the London Stock Exchange in 2005.In 2011 under the leadership of Sergey Evlanchik the Group secured debt finance with EBRD focused on energy and production efficiency upgrade of the existing production facilities.

Alexander Slipchuk
Executive Director

Alexander Slipchuk studied at Far-Eastern High Engineering Marine School in Russia and graduated as a maritime navigator in 1989. Together with his partner 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 Ukrproduct Group. Later in 1998, Alexander took on the executive positions at the Molochnik and the Starakonstantinovskiy Dairy plants, Ukrproduct's two main operating assets.

Yuriy Hordiychuk
Chief Operational Officer

Yuri Hordiychuk has been with the Group since 2002. Firstly, he was Director of the Provision of Raw Materials at the company, and in 2005 was promoted to Director of Production. The next significant step in the career of Mr. Hordiychuk was taken in 2008, when he was promoted to General Director of the Company. Yuri has more than ten years of experience of administrative activity and a degree in "Production Organization Management". In 2006, Mr. Hordiychuk graduated with MBA from the School of Economics (Russia) and earned a degree in "Logistics and Supply Chains Management.

3 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 Remuneration Committee held two meetings during 2014.

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 plans to consider developing long-term equity incentive arrangements to make the overall Executive Remuneration structure more performance-related, more competitive and aligned with shareholders' interests.

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 company or subsidiary'spolicy for compensation for loss of office is to provide compensation which reflects the Group or that subsidiary company'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.

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 and terms and conditions of Service Agreements.

Directors' remuneration

Details of the Directors' cash remuneration are outlined below:

	Annual Salary/fee		Bonus		Non-cash compensation		Total cash remuneration	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Executive*								
Alexander Slipchuk	35	35	—	—	—	—	—	35
Sergey Evlanchik	45	45	—	—	—	—	—	45
Yuriy Hordiychuk	30	30	—	—	—	—	—	30
Tetyana Komarova	—	20	—	—	—	—	—	20
Kateryna Kryuchko	—	20	—	—	—	—	—	20
Non-executive**								
Dr Jack Rowell	33.75	33.75	—	—	—	—	—	33.75

* Given the trading performance of the Company the executives have decided to forfeit their respective fees for the third and forth quarter of 2014.

**The Non-executive Director has decided to forfeit his fee for the forth quarter 2014

Share based payments

In 2009 the company granted share options to Jack Rowell.In February 2013 given the decline of market share price the exercise price for these options was reset to 10 pence and the exercise period extended until 2017. As at the year end these options were not exercised. The details of the options outstanding at 31 December 2014 are shown below.

Directors	Share Options	Exercise Price, pence	Exercise Period
Jack Rowell	130,290	10.0	to 05/02/2017

4 Corporate Governance Report

Corporate Governance Policy

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles set out in The Combined Code on Corporate Governance (the “Code”) revised in July 2006 by the Financial Reporting Council. Under the rules of AIM, a market operated by the London Stock Exchange, the company is not required to comply with the Code and the Board considered that the size of the Group does not warrant compliance with all of the Code’s requirements. The Board fully supports the principles on which the Code is based and seeks to comply with best practice in such respects as they consider appropriate for a Group of its size and nature. The Board has a wide range of experience directly relevant to the Group and its activities and its structure ensures that no one individual or group dominates the decision making process.

The Board

The Board consists of one non-executive and three Executive Directors. The roles of the Chairman of the Board and the Chief Executive of the Group are held separately with a clear division of responsibility between them. The Chairman of the Board is an independent non-executive Director.

Within the scope of the corporate governance procedures, the Board meets regularly to consider the financial results, budgets, and major items of capital expenditure of all the Group’s companies. This body is also responsible for formulating, reviewing and approving the Group’s strategy and the phases of its development.

TheBoard met four times during 2014.

Board Committees

The Board is assisted by the Audit and Remuneration Committees.

Audit Committee

The Audit Committee consists of one non-executive Director, Jack Rowell. The member of the Audit Committee has relevant financial experience. This Committee, inter alia, is responsible for reviewing the Annual and Interim financial statements, in addition to the systems of internal control and risk management, and also for ensuring the integrity of the financial information reported to the shareholders.

The Audit Committee met twice during 2014.

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 Executive Directors, 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 Remuneration Committee held two meetings during 2014.

Relations with shareholders

The Group maintains regular contact with its institutional and private shareholders, fund managers, financial analysts and brokers through a series of presentations, conference calls and meetings. All corporate materials, including annual reports, financial results statements and other information, are available on the Group's website www.ukrproduct.com

The Chief Executive Officer and other Directors holds conference calls and meetings with major shareholders on a regular basis. The Board believes that it is essential to discuss with its major shareholders and keep them updated with regards to the Group's financial performance, strategy and business developments. The Chairman is also accessible to major shareholders, if such meetings are required.

The Board invites all shareholders to attend the company's Annual General Meeting and encourages them to exercise their voting right and participate with questions.

Internal Control

The Group adheres to comprehensive and strictly regulated budgeting and reporting procedures that are aimed at more efficient internal control and risk management. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, however, it is recognised that any control system can only provide reasonable and not absolute assurance against material misstatement or loss.

The principal elements of the internal control system are as follows:

- documented policies, procedures and authorisation levels;
- clearly defined lines of responsibility in the organisational structure of the Group;
- a management structure which facilitates ease of communication both vertically and horizontally;
- annual budgeting and monthly reporting procedures.

The annual budgets consist of monthly budgets, which are updated each month once actual figures become available. Due to the dynamic development of the macroeconomic environment of the country the Group operates in, variances in actual figures for sales, prices and other underlying assumptions from those forecasted may occur. Hence, the budget is flexed to better reflect the future of the Group. Such variances by each company within the Group are discovered and recommendations for further actions are formulated.

The internal control system is further enforced by the Group's internal audit department. The main objectives of the internal audit function are to ensure the safety of the Group's assets and the reliability of accounting records. The internal audit department is responsible for auditing the financial statements and accounting procedures of the companies within the Group, as well as for disclosing and reducing various types of risks related to Group operations. Each company within the Group has a designated auditor, who systematically performs the audits.

The Group's controlling and risks analysis department is responsible for identifying the possible issues in the Group's processes, the ongoing optimization of operations and risk management.

5 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 a 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 to fully monitor 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.

6 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 as "the Group") for the year ended 31 December 2014.

Principal Activities and business review

Ukrproduct Group Ltd (the company or "Ukrproduct") is a holding Group for a group of food and beverages businesses located in Ukraine. The principal activities of Ukrproduct Group are the production and distribution of highly branded dairy foods and beverages (kvass) in Ukraine and the 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 page … and show a net loss for the period of GBP 3.478 million (2013: GBP 0.704 million).

Whereas it is Company policy to pay dividend Board has decided not to recommend the payment of the final dividend in respect of the year ended 31 December 2014.

Directors

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

The Directors' interests in the share capital of the company as at 31 December 2014 and 31 December 2013 are shown below:

	Shares		Share options	
	2014	2013	2014	2013
Executive				
Sergey Evlanchik	14,967,133	14,482,383	—	—
Alexander Slipchuk	14,939,133	14,487,383	—	—
Non-executive				
Dr Jack Rowell	118,690	118,690	130,290	130,290

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's of Association.

Financial Risks Facing the Group

The principal 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 ….

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 2014 was 1,423 (2013: 1,583).

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

As described in Note 2(b) and Note 32 of the consolidated financial statement the Group incurred a loss of **£**3,478k for the year ended 31 December 2014. This is primarily due to the volatile political and economic situation in Ukraine. This has resulted in a number of challenges to the Group, including but not limited to the significant devaluation of the local currency and the increase in raw milk prices. Furthermore as at the date of this report the Group is in negotiations with the European Bank for Reconstruction and Development to restructure the repayment of the loan.

Meanwhile following a review of the Group's financial position and its budgets and plans, the directors have concluded that the Group has sufficient financial resources to meet working capital requirements for a period of up to 12 months from the date of these financial statements.

Annual General Meeting

Ukrproduct's AGM will be held on 24 July, 2015. The Notice of AGM and agenda will be sent to shareholders no less than 14 days prior to the date of the meeting.

Auditors

Baker Tilly Channel Islands Limited was re-appointed as the Group's auditors for the 2014 financial year by the resolution of the Annual General Meeting (AGM) of Shareholders held on June 25, 2014. A resolution to re-appoint them shall be proposed at the forthcoming AGM.

Statement as to disclosure of information to the auditor

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

Jack Rowell
Chairman
24 June 2015

7 Statement of directors responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 december 2014

The directors are responsible for the preparation of the Consolidated financial statements in accordance with applicable Jersey law and other regulations and enactments in force at the time. The Companies (Jersey) Law 1991, as amended requires the directors to prepare financial statements for each year in accordance with Generally Accepted Accounting Principles. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company Law, the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of its profit or loss for the period ended.

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

— select suitable accounting policies and then apply them consistently;

— make judgments and estimates that are reasonable and prudent;

— state that the financial information complies with IFRS, subject to any material departures disclosed and explained in the consolidated financial statements; and

— prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The directors are also responsible for:

— implementing and maintaining an efficient and reliable system of internal controls in the Group;

— keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;

— taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and

— the maintenance and integrity of the Group's website.

On behalf of the Directors:

Sergey Evlanchik

Sergey Evlanchik
Chief Executive Officer

8 Independent auditor's report to the members of Ukrproduct Group Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ukrproduct Group Limited ("the company" and together with its subsidiaries is referred to as "the Group"), for the year ended 31 December 2014, which comprise the consolidated statements of income, comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991, as amended. Our audit work is undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APBs) Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. Our responsibilities do not extend to any other information.

Opinion on consolidated financial statements

In our opinion the consolidated financial statements:

— give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of Group's loss for the year then ended;

— have been properly prepared in accordance with IFRS as adopted by the European Union; and

— have been prepared in accordance with the requirements of the Companies (Jersey) Law, 1991 as amended.

Emphasis of Matter

IIn forming our opinion on the consolidated financial statements, which is not qualified, we draw your attention to the following matters:

a) Going concern

As described in Note 2(b) of the consolidated financial statements, the Group incurred a loss of **£**3,478k for the year ended 31 December 2014. This is primarily due to the volatile political and economic situation in Ukraine. This has resulted in a number of challenges to the Group, including but not limited to the significant devaluation of the local currency and the increase in raw milk prices.

As described in Note 2(b) and Note 32 of the consolidated financial statements, the Group has borrowing arrangements with the European Bank for Reconstruction and Development ("EBRD"). The borrowing arrangements are subject to repayment and loan covenants, some of which have not been met. The Group has received a letter from the EBRD on 12 June 2015, which confirms that the EBRD has not exercised its rights to require compliance with the loan agreement. These rights extend to the ability of the EBRD to demand immediate repayment of the loan. It is the view of the directors that the Group continues to have the support of the EBRD and as at the date of the approval of the consolidated financial statements are negotiating a restructuring of the loan agreement. Although the EBRD have, on this occasion, not exercised their rights set out in the loan agreement, there is a significant uncertainty as to their future actions should the Group continue to breach the repayment and loan covenants. In addition there is a significant uncertainty on the likely outcome of the negotiations for the restructuring of the loan agreement.

The above matters indicate the existence of material uncertainties which may cast significant doubt about the Group's abilities to continue as a going concern. The consolidated financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Matters on which we are required to report by exception

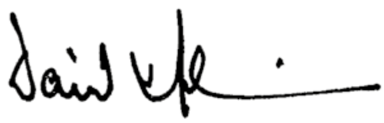
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

— proper accounting records have not been kept; or

— proper returns adequate for our audit have not been received from branches not visited by us; or

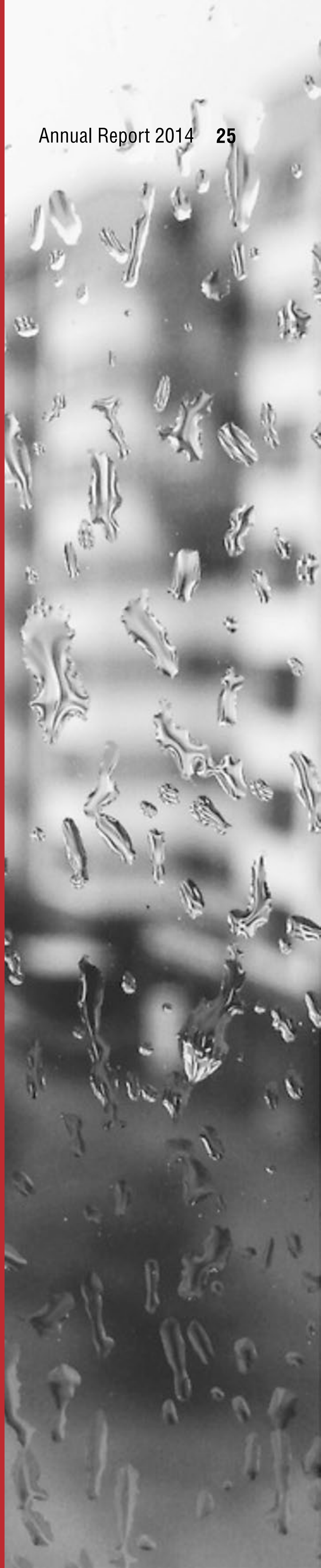
— the financial statements are not in agreement with the accounting records and returns; or

— we have not received all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit.



David Hopkins
For and on behalf of Baker Tilly Channel Islands Limited
Chartered Accountants
St Helier, Jersey
24 June 2015

9 Consolidated Financial statements



9.1 Consolidated statement of comprehensive income for the year ended 31 December 2014

(in thousand GBP, unless otherwise stated)

	Note	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Revenue	8	31,876	52,202
Cost of sales	9	(25,423)	(45,012)
GROSS PROFIT		**6,453**	**7,190**
Administrative expenses	9	(1,963)	(2,725)
Selling and distribution expenses	9	(2,797)	(3,240)
Other operating expenses	9	(508)	(408)
PROFIT FROM OPERATIONS		**1,185**	**817**
Net finance expenses	10	(761)	(1,009)
Effect of foreign currency translation		(3,857)	(361)
LOSS BEFORE TAXATION		**(3,433)**	**(553)**
Income tax expenses	13	(45)	(151)
LOSS FOR THE YEAR		**(3,478)**	**(704)**
Attributable to:			
Owners of the Parent		(3,478)	(704)
Non-controlling interests		—	—
Earnings per share:	26		
Basic		(8,77)	(1,77)
Diluted		(8,78)	(1,77)

	Note	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
OTHER COMPREHENSIVE INCOME:			
Items that may be subsequently reclassified to profit or loss			
Currency translation differences		(7,000)	(429)
Items that will not be reclassified to profit or loss			
Reduction of revaluation reserve		(21)	(32)
Income from changes in tax rates		—	38
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(7,021)**	**(423)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(10,499)**	**(1,127)**
Attributable to:			
Owners of the Parent		(10,499)	(1,127)
Non-controlling interests		—	—

9.2 Consolidated statement of financial positionas at 31 december 2014

(in thousand GBP, unless otherwise stated)

	Note	Year ended 31.12.2014 £'000	Year ended 31.12.2013 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	9 592	18 185
Intangible assets	15	829	1 136
Deferred tax assets	16	2	66
		10 423	**19 387**
Current assets			
Inventories	17	2 085	3 010
Trade and other receivables	18	3 674	6 919
Current taxes	19	1 177	2 399
Other financial assets	20	108	176
Cash and cash equivalents	21	215	1 006
		7 259	**13 510**
TOTAL ASSETS		**17 682**	**32 897**

	Note	Year ended 31.12.2014 £'000	Year ended 31.12.2013 £'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	22	3 967	3 967
Other reserves	23	(5 753)	1 430
Retained earnings		9 358	12 672
		7 572	**18 069**
Non-controlling interests		—	—
TOTAL EQUITY		**7 572**	**18 069**
Non-Current Liabilities			
Bank loans and overdrafts	24	4 728	5 118
Deferred tax liabilities	16	302	636
		5 030	**5 754**
Current liabilities			
Bank loans and overdrafts	24	2 454	5 802
Trade and other payables	25	2 583	3 226
Current income tax liabilities		14	18
Other taxes payable		29	28
		5 080	**9 074**
TOTAL LIABILITIES		**10 110**	**14 828**
TOTAL EQUITY AND LIABILITIES		**17 682**	**32 897**

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 23rd June 2015 and were signed on its behalf by:

Sergey Evlanchik
Chief Executive Officer
2015

Sergey Evlanchik

9.3 Consolidated statement of changes in equity as at 31 december 2014

(in thousand GBP, unless otherwise stated)

	Attributable to owners of the parent		
	Share capital	Share premium	Merger reserve
	£'000	£'000	£'000
As at 1 January 2013	**4,082**	**4,555**	**(367)**
Profit for the year	—	—	—
Other comprehensive income			
Income from changes of tax rates	—	—	—
Currency translation differences	—	—	—
Total comprehensive income	**–**	**–**	**–**
Transactions with owners			
Dividends paid (Note 27)	—	—	—
Total transactions with owners	**–**	**–**	**–**
Depreciation on revaluation of property, plant and equipment	—	—	—
Reduction of revaluation reserve	—	—	—
Group restructuring completion	—	—	367
Acquiring of shares	(115)	7	—
As at 31 December 2013	**3,967**	**4,562**	**–**

Revaluation reserve £'000	Retained earnings £'000	Translation reserve £'000	Total £'000	Non-controlling interests £'000	Total Equit £'000
3,877	**13,496**	**(6,339)**	**19,304**	**—**	**19,304**
—	(704)	—	(704)	—	(704)
38	—	—	38	—	38
—	—	(429)	(429)	—	(429)
38	**(704)**	**(429)**	**(1,095)**	**—**	**(1,095)**
—	—	—	—	—	—
–	**–**	**–**	**–**	**–**	**–**
(247)	247	—	—	—	—
(32)	—	—	(32)	—	(32)
—	(367)	—	—	—	—
—	—	—	(108)	—	(108)
3,636	**12,672**	**(6,768)**	**18,069**	**—**	**18,069**

	Attributable to owners of the parent		
	Share capital	Share premium	Merger reserve
	£'000	£'000	£'000
As at 31 December 2013	**3,967**	**4,562**	**–**
Loss for the year	—	—	—
Other comprehensive income			
Income from changes of tax rates	—	—	—
Currency translation differences	—	—	—
Total comprehensive income	**–**	**–**	**–**
Transactions with owners			
Dividends paid (Note 27)	—	—	—
Total transactions with owners	**–**	**–**	**–**
Depreciation on revaluation of property, plant and equipment	—	—	—
Reduction of revaluation reserve	—	—	—
Acquiring of shares	—	—	—
As at 31 December 2014	**3,967**	**4,562**	**–**

			Non-controlling interests	Total Equit
Revaluation reserve £'000	Retained earnings £'000	Translation reserve £'000	Total £'000	£'000	£'000
3,636	**12,672**	**(6,768)**	**18,069**	**—**	**18,069**
—	(3,478)	—	(3,478)	—	(3,478)
—	—	—	—	—	—
—	—	(7 000)	(7 000)	—	(7,000)
—	**(3,478)**	**(7,000)**	**(10,478)**	**—**	**(10,478)**
—	—	—	—	—	—
–	–	–	–	–	–
(162)	162	—	—	—	—
(21)	2	—	(19)	—	(19)
—	—	—	—	—	—
3,453	**9,358**	**(13,768)**	**7,572**	**—**	**7,572**

9.4 Consolidated statement of cash flows as at 31 december 2014

(in thousand GBP, unless otherwise stated)

	Note	Year ended 31.12.2014 £'000	Year ended 31.12.2013 £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		(3,433)	(553)
Adjustments for:			
Exchange difference		3,857	361
Depreciation and amortisation	11	866	1,417
(Profit)/loss on disposal of non-current assets		74	5
Write off of receivables/payables		279	(3)
Impairment of inventories		76	144
Impairment of available for sale investments		—	31
Loss from disposal of subsidiaries		6	19
Interest income	10	(4)	(3)
Interest expense on bank loans	10	765	1,012
Operation cash flow before working capital changes		**2,486**	**2,430**
(Increase) / decrease in inventories		(661)	202
Decrease in trade and other receivables		195	290
Increase / (decrease) in trade and other payables		979	(1,358)
Changes in working capital		**513**	**(866)**
Cash generated from operations		**2,999**	**1,564**

	Note	Year ended 31.12.2014 £'000	Year ended 31.12.2013 £'000
Interest received		4	3
Income tax paid		(45)	(236)
Net cash generated by / (used in) operating activities		**2,958**	**1,331**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment property, plant and equipment and intangible assets		(486)	(1,585)
Proceeds from sale of property, plant and equipment		19	41
Repayments of loans issued		(15)	17
Net cash used in investing activities		**(482)**	**(1,527)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquiring of shares		—	(108)
Interest paid		(765)	(1,012)
(Decrease) / increase in short term borrowing		(1,575)	1,239
Increase in long term borrowing		—	1,145
Repayments of long term borrowing		(541)	(383)
Net cash generated by financing activities		**(2 881)**	**881**
Net decrease in cash and cash equivalents		**(405)**	**685**
Effect of exchange rate changes on cash and cash equivalents		(386)	(94)
Cash and cash equivalents at the beginning of the year		**1,006**	**415**
Cash and cash equivalents at the end of the year	**21**	**215**	**1,006**

9.5 Notes to consolidated financial statements for the year ended 31 December 2014

(in thousand GBP, unless otherwise stated)

1. GROUP AND PRINCIPAL ACTIVITIES

(a) Introduction

The Company is a public limited liability entity registered in Jersey with a registered office at 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands. The Group's overall management and production facilities are based in Ukraine, with the HQ in Kyiv. The Group commands leading positions in the Ukrainian processed cheese and packaged butter markets and owns a range of widely recognisable trademarks in Ukraine, including "Nash Molochnik" (translated as Our Dairyman), "Narodniy Product" (People's Product) "Molendam" and "Vershkova Dolina" (Creamy Valley). The average number of employees of the Group during the year ended 31 December 2014 was 1,423 (2013: 1,583).

(b) Ukrainian environment

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings.

In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which is not recognised by Ukraine and the international community. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in Donetsk and Lugansk regions escalated into military clashes and armed conflict between armed supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces. As at the date these consolidated financial statements were authorised for issue, the instability and unrest continue, and part of the Donetsk and Lugansk regions remains under the control of the self-proclaimed republics. As a result, Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Since the beginning of the year, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 49% calculated based on the National Bank of Ukraine exchange rate of UAH to US Dollar (USD). From 31 December 2014 to the date of the issuance of these consolidated financial statements, the UAH depreciated against USD by 46%.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

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 property, plant and equipment and an intangible asset (customer list) which have been measured at fair value. The consolidated financial statements are presented in British Pounds Sterling (GBP) and all values are rounded to the nearest thousand (**£**000) except where otherwise indicated.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (collectively "IFRS").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Further information is provided in note 3.

(b) Going concern

The Group incurred a loss of GBP 3,478 thousand for the year ended 31 December 2014, decreasing the retained earnings at that date to GBP 9,358 thousand. In addition, due to significant devaluation of Ukrainian Hryvnia the burden of loans denominated in foreign currencies has increased. As at 31 December 2014 the loans, denominated in foreign currency, was the following: UAH 1,345 thousand, EUR 5,693 thousand and USD 144 thousand (Note 24). Interest under these loan agreements is paid according to a fixed schedule annexed to the Treaty. Moreover, the Group did not make the principal amount payment of EUR 300 thousand due in March 2015 and of EUR 300 thousand due in June 2015 under the terms of its Loan Agreement with the European Bank for Reconstruction and Development (the "EBRD") dated March 31, 2011. Such breach of the provisions relating to the loan repayment gives the bank a formal right to demand early repayment of loans. The Board notified the EBRD in advance about all breaches of terms of the Loan Agreement and expected to obtain a waiver on the date of signing these consolidated financial statements. However, the EBRD did not provide waiver in respect of breach of the repayment schedule in 2015. The representatives of EBRD provided a letter on 12 June 2015 to the Group's Board stating that: 1) EBRD is aware of the breach of the repayment schedule for the period ended 31 March 2015; 2) EBRD is currently considering a restructuring of the terms of the Loan Agreement, including extension of the maturity date under the Loan Agreement and; 3) as of the date of signing of the letter did not exercise any of its rights in accordance with the Agreement. The Board believes that the EBRD will not demand accelerated repayment of the loans due to the breach of the repayment schedule in 2015. Based on the existence of these conditions, the consolidated financial statements have been prepared on a going concern basis, because management believes that it has employed sufficient and appropriate measures to underpin its cost cutting strategy including but not limited to: reconstruction of manufacturing facilities in Starokonstantinov location, decrease in the number of subsidiaries and streamlining its business processes aimed to minimise non-value adding activities and related costs etc

(c) Consolidation principles

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2014.

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

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

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns
  Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers

all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

If the Group loses control over a subsidiary, it:

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

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

Acquisition-related costs are expensed as incurred.

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

Consolidated financial statements of the Group include following companies:

Group's company	Country of incorpo-ration	Effective ownership ratio As at 31 December		Principal activities	Consolidation method
		2014	2013		
Molochnik LLC*	Ukraine	100%	100%	Holder of some assets	Acquisition
Starokonstantinovskiy Molochniy Zavod SC****	Ukraine	100%	100%	Production	Acquisition
Starkon-Moloko LLC*	Ukraine	100%	100%	Owner of property & equipment	Acquisition
Krasilovsky Molochny Zavod Private Enterprise SC****	Ukraine	100%	100%	Owner of land assets	Acquisition
Molochaia Dolina LLC****	Ukraine	100%	0%	Owner of land assets	Acquisition
Zhiviy Kvas LLC****	Ukraine	100%	100%	Production	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC*	Ukraine	—	100%	To be constructed	Acquisition
Milk investments Private Enterprise SC*	Ukraine	100%	100%	Owner of equipment	Acquisition
Invest Garantiya Private Enterprise****	Ukraine	100%	100%	Owner of equipment	Acquisition
Business Invest Management LLS*	Ukraine	100%	100%	Owner of equipment	Acquisition
Favorit-Konsulting Private Enterprise***	Ukraine	100%	100%	Owner of equipment	Acquisition
Avtopark Starokonstantinov LLS***	Ukraine	100%	100%	Owner of fleet of vehicles	Acquisition
ATP Centr LLC***	Ukraine	100%	100%	Owner of fleet of vehicles	Acquisition

Group's company	Country of incorporation	Effective ownership ratio As at 31 December 2014	2013	Principal activities	Consolidation method
Ukrprodexport Private Enterprise SC*	Ukraine	100%	100%	Export operations	Acquisition
Ukrproduct-Logistic LLC *	Ukraine	100%	100%	Logistics	Acquisition
Gollandska Sirovarnya MolendamLLC***	Ukraine	100%	100%	Sales & Distribution	Acquisition
Molochniy Torgoviy Souys LLC*****	Ukraine	—	100%	Sales & Distribution	Acquisition
Lider-Product LLC*****	Ukraine	100%	100%	Sales & Distribution	Acquisition
Premierproduct-Dnipro Private Enterprise SC*******	Ukraine	100%	100%	Sales & Distribution	Acquisition
Premierproduct-Jitomir Private Enterprise SC**	Ukraine	100%	100%	Sales & Distribution	Acquisition
Premierproduct-Lviv Private Enterprise SC*******	Ukraine	—	100%	Sales & Distribution	Acquisition
Alternatyvni investytsiyi UCVF***	Ukraine	100%	100%	Asset management	Acquisition
Ukrproduct Group CJSC	Ukraine	100%	100%	Holder of some assets and operating companies	Acquisition
LinkStar Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets	Acquisition
Solaero Global Alternative Fund Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets	Acquisition
Dairy Trading Corporation Limited	BVI	100%	100%	Export operations	Acquisition
Reliable Logistics Services ltd	BVI	100%	100%	Holder of distribution	Acquisition
St. Invest Holding LTD	BVI	100%	100%	Holder of distribution network	Acquisition
Ukrproduct Group LTD	Jersey			Listed on LSE	Parent

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

** The companies are held through LinkStar Limited which is a 100%-owned subsidiary of the Company

*** Subsidiaries of Solaero Global Alternative Fund Limited, the Group's specialised distribution companies.

**** Subsidiaries of Krasilovsky Molochny Zavod Private Enterprise SC.

***** Subsidiaries of Molochnik LLC, the Group's specialised distribution companies.

****** Subsidiaries of Alternatyvni investytsiyi UCVF.

Alternatyvni investytsiyi UCVF is a limited life entity and is due to cease to exist on 5 April 2022.

On 14 January 2014 the Group signed an agreement on acquisition of 100% of share capital of the holder of land assets “Molocha dolina” LLC (previously under common control). The result of the transaction is reflected in the statement of comprehensive income.

(d) Reorganisation

A reorganisation of the Group continued in 2014 and resulted in the withdrawal of Molochniy Torgoviy Souys LLC via a merger with Starokonstantinovskiy Molochniy Zavod SC for the purpose of improving the administration and reporting processes.

(e) Accounting for acquisitions of companies under common control

Acquisitions of controlling interests in companies that were previously under the control of the ultimate beneficiaries of the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the ultimate beneficiaries of the Company. The assets and liabilities acquired are recognised at their book values. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as a part of merger reserve. The cash consideration for such acquisitions is recognised as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid.
No goodwill is recognised where the Group acquires additional interests in the acquired companies from the ultimate controlling shareholders. The difference between the share of net assets acquired and the cost of investment is recognised directly in equity.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

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 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 presentational currency for consolidated IFRS financial statements and has concluded that the Group should use British Pounds Sterling (hereinafter “GBP” or) as the Group’s presentational 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 mostly 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 income statement within “Effect of foreign currency translation“.

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;

— All exchange differences resulting from the application of the translation methods described above are recognised directly in equity as a separate component of equity;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component of equity within “Translation reserve”.

The principal UAH exchange rates used in the preparation of Consolidated financial statements are as follows:

Currency	31 December 2014	Average exchange rate for 2014	31 December 2013	Average exchange rate for 2013
GBP/UAH	24,53	19,50	13,20	12,45
USD/UAH	15,77	11,87	7,99	7,99
EUR/UAH	19,23	15,68	11,04	10,62

— 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 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 Income Statement 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 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 income statement (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 operating profit.

(c) Depreciation and useful life

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

Depreciation is applied to all items of property, plant and equipment with the exception of land. 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. As of January 1, 2011 the Group applied the production method of depreciation to all production equipment as management considered this method to be the most appropriate for the production assets.

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

Group of property, plant and equipment	Useful life
Buildings	10–50 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.

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 during construction. Upon the 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 2.2.20. In case no indication exists that the asset may be impaired, 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, except for the customer list which is initially carried at fair value and subsequently amortised.

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

The Group identifies the following types of intangible assets:

- Computer software licenses;
- Trademarks;
- The customer list.

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

Trademarks are shown at historical cost.

The customer list was initially measured at fair value at the date of revaluation obtained by using the estimates of the independent valuers.

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 (7-10 years). The amortisation expense is included within Administrative expenses in the Consolidated Income Statement.

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 (20 years). The amortisation expense is included within Selling and Distribution expenses in the Consolidated Income Statement.

Amortisation is calculated using the straight-line method to allocate the cost of the customer list over its estimated useful life (20 years). The amortisation expense is included in Other operating expenses in the Consolidated Income Statement.

(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 IAS 39 ''Financial Instruments: Recognition and Measurement" either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

Goodwill is not amortised but is subject to testing for impairment as at the reporting date or more frequently, if events or changes in circumstances indicate the possibility of reducing its usefulness. At the acquisition date, goodwill is allocated to each asset or group of assets that generate cash, and benefits from which are expected to be received upon consolidation. The amount of impairment is determined by assessing the recoverable amount, which may be obtained for a cash generating asset (group of cash generating assets) to which goodwill relates. Where the recoverable amount is less than the book value of cash generating asset (group of cash generating assets), impairment is recognised.

2.2.7. FINANCIAL ASSETS

The Group classifies its financial assets as: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for-sale financial assets. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category comprises only "in-the-money" derivatives. They are carried at the reporting date at fair value with changes in fair value recognised in the income statement. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest method less any impairment.

From time to time, the Group may renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

(iii) Financial assets held to maturity

The Group has not classified any of its financial assets as held to maturity.

(iiii) Available-for-sale (AFS) financial assets

The Group has not classified any of its financial assets as AFS.

(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 income statement for trading investments; and recognised in equity for assets classified as available-for-sale.

(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

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

Loans and receivables 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 assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(e) Derecognition

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

2.2.8. FINANCIAL LIABILITIES

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

Financial liabilities held at amortised cost include the following items:

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

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

(b) Subsequent measurement

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

Borrowings and liabilities initially recognised at fair value less transaction costs, are subsequently measured at amortised 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 recognised as share premium.

2.2.10. 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 shareholders' equity (excluding the capital increase through contributions from members of the enterprise), provided that the amount of income can be reasonably estimated. Revenue is reflected in the amount of the fair value of assets received.

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

2.2.11. EXPENSES RECOGNITION

Expenses are recognised by the Group when the following conditions are met: the amount of expenses can be reliably measured, it is probable that future economic, outflow will occur.

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 of 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.

2.2.12. 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.

2.2.13. 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.

2.2.14. 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 Income Statement 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 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 (and practically adopted) at that date.

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

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

Deferred tax assets and liabilities are not discounted.

2.2.15. 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 income statement 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 income statement over the remaining vesting period. Where equity instruments are granted to persons other than employees, the income statement 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 income statement over the vesting period. The fair value of options to be expensed is determined on the basis of adjusted Black-Scholes model as set out in note 28.

2.2.16. SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognised in the period in which an employee has rendered service to the Group. The Group recognises the undiscounted amount of short-term employee benefits a liability (accrued expense), after deducting any amount already paid.

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

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Leases other than finance leases are classified as operating leases.

(a) Group as a lessee

Operating lease expenses are recognised as expenses in the period to which they relate, on a straight-line basis over the lease period.

(b) Group as a lessor

Operating lease income is recognised in “Revenue” as income in the period to which it relates, over the lease term on a systematic and rational basis.

2.2.20. IMPAIRMENT OF ASSETS

In respect of all assets, except for inventories, assets resulting from advances to employees, financial assets, and assets held for trading, 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 reporting 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 unlikely.

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.

2.2.22. RELATED PARTIES

Parties are considered to be related if one of the parties has a possibility to control or considerably influence the operational and financial decisions of another company, which is defined in IAS 24 “Related Party Disclosures”.

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.

2.2.23. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

2.2.24. DIVIDENDS

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

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 method, comparison (market) method and revenue (income) method.

(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) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Further information is contained in note 15.

(d) 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 impact 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.

(e) 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.

(f) 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.

(g) Quality claims

The Group supplies consumers and industrial customers in Ukraine with dairy products manufactured in accordance with the current laws, food safety standards and technical requirements of the relevant Ukrainian authorities. The Group voluntarily applies non-domestic standards — ISO and HASSP — to some of the Group's operations. For the industrial customers both domestically and outside of Ukraine, the food products are manufactured to the technical specifications agreed with the buyers in advance of the sale. In instances where the quality criteria and/or technical specifications are not met or the delivery of products are made close to expiry date, a quality claim may arise and the corresponding contingent liability may be disclosed in the notes to the financial statements. Realisation of any such contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to quality claims requires the Group's management to make determinations about the future matters that may, at the time of determination, be beyond management's control. Among the factors considered in making decisions on quality claims provisions are: the nature of the claim, the quantifiable variances in quality giving rise to a claim, the potential loss from satisfying the claim and any decision of the Group's management as to how it will respond to the claim.

4. ADOPTION OF NEW AND REVISED IFRS

4.1. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2014:

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities — Transition Guidance.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2014. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU:

IFRS 7 (Amendments) Financial instruments: Disclosures – Disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015).

IFRS 9 Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition (effective for annual periods beginning on or after 1 January 2015).

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. The Group's budget for 2014 incorporated the forecasted inflation rates. The Group considers that there are no material risks related to the inflation.

(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;

— loans issued;

— cash and cash equivalents;

— bank loans and overdrafts;

— trade and other payables.

The principal financial instruments are as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
FINANCIAL ASSETS		
Loans and receivables:		
— trade and other receivables (excluding non-financial assets)	3 080	1 124
— cash and cash equivalents	215	1 006
— other financial assets	108	176
	3 403	**2 306**

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
FINANCIAL LIABILITIES		
Held at amortised cost:		
— non-current bank loans	4 728	5 118
— current bank loans	2 110	5 348
— overdrafts	344	454
— trade and other payables (excluding non-financial liabilities)	2 311	2 435
	9 493	**13 355**

(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 polices 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 Board receives monthly updates from Head of Internal Audit through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal operating auditors review the risk management policies and processes and report their findings to CEO and the Audit Committee, if and when necessary. The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are laid out below.

(c) Credit risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. 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 the own balance sheet being the main indicators of creditworthiness. While starting the commercial relationship with the Group, a new customer is offered the terms that are substantially tighter than those for the existing customers and stipulate, as a rule, the cash-on-delivery payments terms and no-returns policy (quality-related claims exempted). If the relationship progresses successfully, the terms are gradually relaxed to fall in line with the Group's normal business practices and local specifics as required by the market. The Group's periodic review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the CEO. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only.

Quantitative disclosures of the credit risk exposure in relation to Trade and other receivables, which are neither past due nor impaired, are made in note 18. The Group does not rate trade receivables by category or recoverability as the Group's historical default rates have been negligible in the past (less than 0.01%); 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.

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

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

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

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

Bank	year ended 31.12.2014 Rating	year ended 31.12.2013 Rating	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
UBS AG	A2	A2	116	—
JSC OTP Bank	Caa3	B2	88	870
PJSC Raiffeisen Bank Aval	Caa2	Caa1	3	106
Other			4	26
			211	**1,002**

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 31.12.2014, £'000 Carrying Value	Year ended 31.12.2014, £'000 Maximum exposure (unsecured)	Year ended 31.12.2013, £'000 Carrying Value	Year ended 31.12.2013, £'000 Maximum exposure (unsecured)
Trade receivables	3,039	3,039	5,509	5,431
Loans issued	108	108	176	196
	3,147	**3,147**	**5,685**	**5,627**

(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.

The Group's operating divisions (plants) have different liquidity requirement profiles. As the Group's products have short- 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 main element of the Group's liquidity management is to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its long-term borrowings.

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

Maturities of the Group's financial instruments are disclosed further in the notes 18, 25 of these financial statements.

(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) Cash flow and fair value interest-rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises only from overdrafts, and is considered to be insignificant. The Group analyses the interest rate exposure on a monthly basis.

A sensitivity analysis is performed by applying various interest rate scenarios to the borrowings. A change of interest rate by 7 percentage points (being the maximum reasonably possible expectation of changes in interest rates) would cause a change in interest expense by GBP 505,610 (2013: GBP 336,786).

(ii) Foreign exchange risk

All of the Group's production facilities are located in Ukraine and the Board believes that the foreign exchange risk is minimal in this regard. The Group's international operations consist primarily of the export of skimmed milk powder, whey and casein to the various markets around the world. The primary currency for export sales is the US Dollar. The Group's established corporate policy towards minimising the potential foreign exchange risk is to require the customers to pay for the export shipments of the skimmed milk powders in full and in advance. The Group's purchases of the raw milk, semi-processed materials and other components of the manufacturing cost are made in Ukraine and are entirely Hryvnia-denominated. All outstanding balances of trade payables by the Group are in Hryvnias. Currency analysis is provided in Note 29.

The Group has a long-term loan from European Bank of Reconstruction and Development ("EBRD") for the purpose of modernization of Starokonstantinovskiy Molochniy Zavod SC. This debt is denominated in Euro. Therefore, the Group is exposed to the exchange rate risk that lies in the possibility of Euro (EUR) appreciation against Hryvna (UAH). The sensitivity analysis shows that EUR appreciation against Hryvna by 5% would cause exchange rate loss of GBP 294,000 (2013: GBP 329,000).

(iii) Commodity price risk

The Ukraine economy has been characterized by high rates of inflation. The Group tends to experience inflation-driven increase in certain costs, including salaries and rents, fuel costs which are sensitive to rises in the general price level in Ukraine. In this situation, due to competitive pressures, it may not be able to raise the prices charged for products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Ukraine could increase the Group's cost and decrease its operating margins.

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

The Group is also exposed to commodity price risk for skimmed milk powder ("SMP"). The price for this product is determined by the world and domestic market. The profitability of SMP was adversely affected by higher raw milk prices and excess stock of SMP in Ukraine, which resulted in an unexpected price decrease on the domestic market.

A 10% change in the SMP prices would lead to the change in Gross Profit of GBP 296,183 in 2015. The first stage of the modernisation project of Starokonstantinovskiy Molochniy Zavod SC financed by the European Bank of Reconstruction and Development ("EBRD") was completed and it is expected that it will allow greater utilisation and efficiency of its production process, reducing any impact of changes in skimmed milk products.

(f) Operational risk

Operational risk is a risk arising from systems failure, human error, fraud or external events. When controls fail to work, operational risks can damage goodwill, have legal consequences or lead to financial losses. The Group can not 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 balance sheet) less cash and cash equivalents.

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

However as at December 31, 2014 despite the fact that the Company did not increase the amount of its borrowings the amount of debt increased as result of the Hryvnia devaluation leading to the D/E ratio at 0.92. In management's opinion this excessive D/E ratio is the result of force-majeur circumstances.

The D/E ratios at 31 December 2014 and at 31 December 2013 were as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Total debt	7,182	10,920
Less: Cash and cash equivalents	(215)	(1,006)
Net debt	**6,967**	**9,914**
Total equity	**7,572**	**18,069**
D/E ratio	**92,0%**	**54,9%**

7. SEGMENT INFORMATION

At 31 December 2014, the Group was organised internationally into four main business segments:

1) Branded products — processed cheese, hard cheese, packaged butter and spreads.

2) Beverages — kvass.

3) Non-branded products — skimmed milk powder, other skimmed milk products

4) Distribution services — resale of third-party goods and provision of transport services.

The segment results for the year ended 31 December 2014 are as follows:

	Branded products £'000	Beverages £'000	Non-branded products £'000	Distribution services £'000	Un-allo-cated £'000	Total £'000
SALES	**20,948**	**1,497**	**7,969**	**1,462**	**—**	**31,876**
Gross profit	3 985	644	1 550	274	—	6,453
Administrative expenses	(947)	(183)	(301)	(38)	(494)	(1,963)
Selling and distribution expenses	(1,837)	(409)	(506)	(41)	(4)	(2,797)
Other operating expenses	—	—	—	—	(508)	(508)
PROFIT FROM OPERATIONS	**1,201**	**52**	**743**	**195**	**(1,006)**	**1,185**
Finance expenses, net	—	—	—	—	(761)	(761)
Loss from exchange differences	—	—	—	—	(3,857)	(3,857)
PROFIT BEFORE TAXATION	**1,201**	**52**	**743**	**195**	**(5,624)**	**(3,433)**
Taxation	—	—	—	—	(45)	(45)
PROFIT FOR THE YEAR	**1,201**	**52**	**743**	**195**	**(5,669)**	**(3,478)**
Segment assets	9,196	1,345	4,341	52	—	14,934
Unallocated corporate assets	—	—	—	—	2,746	2,746
Unallocated deferred tax	—	—	—	—	2	2
CONSOLIDATED TOTAL ASSETS	**9,196**	**1,345**	**4,341**	**52**	**2,748**	**17,682**
Segment liabilities	1 985	—	—	—	—	1,985
Unallocated corporate liabilities	—	—	—	—	7,823	7,823
Unallocated deferred tax	—	—	—	—	302	302
CONSOLIDATED TOTAL LIABILITIES	**1,985**	**—**	**—**	**—**	**8,125**	**10,110**
Other segment information:						
Depreciation and amortisation	426	119	321	—	—	866
Capital expenditure	244	3	162		79	488

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

The segment results for the year ended 31 December 2013 are as follows:

	Branded products £'000	Beverages £'000	Non-branded products £'000	Distribution services £'000	Un-allo-cated £'000	Total £'000
SALES	**40,393**	**2,114**	**8,008**	**1,687**	**–**	**52,202**
Gross profit	5,125	1,050	734	281	—	7,190
Administrative expenses	(1,863)	(181)	(204)	(59)	(418)	(2,725)
Selling and distribution expenses	(2 310)	(520)	(86)	(142)	(182)	(3,240)
Other operating expenses	—	—	—	—	(408)	(408)
PROFIT FROM OPERATIONS	**952**	**349**	**444**	**80**	**(1,008)**	**817**
Finance expenses, net	—	—	—	—	(1,009)	(1,009)
Income from exchange differences	—	—	—	—	(361)	(361)
PROFIT BEFORE TAXATION	**952**	**349**	**444**	**80**	**(2,378)**	**(553)**
Taxation	—	—	—	—	(151)	(151)
PROFIT FOR THE YEAR	**952**	**349**	**444**	**80**	**(2,529)**	**(704)**
Segment assets	16,461	2,621	7,299	477	—	26,858
Unallocated corporate assets	—	—	—	—	5,973	5,973
Unallocated deferred tax	—	—	—	—	66	66
CONSOLIDATED TOTAL ASSETS	**16,461**	**2,621**	**7,299**	**477**	**6,039**	**32,897**
Segment liabilities	2,285	—	236	—	—	2,521
Unallocated corporate liabilities	—	—	—	—	11,671	11,671
Unallocated deferred tax	—	—	—	—	636	636
CONSOLIDATED TOTAL LIABILITIES	**2,285**	**–**	**236**	**–**	**12,307**	**14,828**
Other segment information:						
Depreciation and amortisation	658	147	489	—	123	1,417
Capital expenditure	797	121	379	—	288	1,585

Secondary reporting format — geographical segments:

Sales by country (consignees)	year ended 31.12.2014 £'000	Sales by country (consignees)	year ended 31.12.2013 £'000
Ukraine	26,297	Ukraine	48,053
Singapore	2,049	Netherlands	1,446
Netherlands	1,170	Azerbaijan	704
Azerbaijan	644	Moldova	646
Estonia	408	Estonia	384
Moldova	382	Lithuania	344
UAE	378	UAE	180
Lithuania	204	—	—
—	—	—	—
Other countries	344	Other countries	445
Total	**31,876**	**Total**	**52,202**

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 customers volume of sales to which exceeds 10% from the total amount.

8. REVENUE

For the years ended 31 December 2014 and 31 December 2013, sales revenue was presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
GENERAL REVENUE	**33,201**	**53,674**
Branded (including bonuses)	22,055	41,688
Beverages (including bonuses)	1,687	2,243
Non-branded products	7,970	8,008
Distribution services (including bonuses)	1,489	1,735
Charge of bonuses	(1,325)	(1,472)
Total revenue (excluding bonuses)	**31,876**	**52,202**

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 2014 and 31 December 2013, items of expenses were presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
COST OF SALES	**(25,423)**	**(45,012)**
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(22,504)	(40,569)
Wages and salaries, social security costs (Note 12)	(2,193)	(3,236)
Depreciation (Note 11)	(726)	(1,207)

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
ADMINISTRATIVE EXPENSES	**(1,963)**	**(2,725)**
Including:		
Wages and salaries, social security costs (Note 12)	(1,077)	(1,377)
PR, nominated broker, secretary, legal services etc.	(283)	(257)
Lease and current repair and maintenance	(101)	(330)
Security	(92)	(139)
Bank service	(73)	(136)
Communication	(58)	(98)
Taxes and compulsory payments	(43)	(50)
Amortisation and depreciation (Note 11)	(46)	(61)
Audit fees	(40)	(56)
IT materials, household expenses, reading materials	(22)	(99)
Other	(128)	(122)
SELLING AND DISTRIBUTION EXPENSES	**(2,797)**	**(3,240)**
Including:		
Wages and salaries, social security costs (Note 12)	(966)	(1,365)
Delivery costs	(787)	(759)
Promotion	(578)	(417)
Lease and current repair and maintenance	(140)	(264)
Amortisation and depreciation (Note 11)	(85)	(96)
Impairment of inventories	(76)	(144)
Veterinary certificates, medical examination, permits	(68)	(58)
Royalty	(6)	(5)
Other	(91)	(132)

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
OTHER OPERATING EXPENSES	**(508)**	**(408)**
Including:		
Amortisation and depreciation (Note 11)	(9)	(53)
Impairment of available for sale investments	—	(31)
Profit / (loss) on disposal of non-current assets	(73)	(5)
Wages and salaries, social security costs (Note 12)	(1)	(1)
Impairment of trade receivables	(284)	—
Other	(141)	(318)

10. NET FINANCE COSTS

For the years ended 31 December 2014 and 31 December 2013, financial income/(expenses) were presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Finance income		
Interest income	4	3
Total interest income	**4**	**3**
Finance expense		
Interest expense on bank loans	(765)	(1,012)
Total finance expense	**(765)**	**(1,012)**
Net finance expense recognised in income statement	**(761)**	**(1,009)**

11. DEPRECIATION AND AMORTISATION

For the years ended 31 December 2014 and 31 December 2013, amortization and depreciation were presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Cost of sales	(726)	(1,207)
Administrative expenses	(46)	(61)
Selling and distribution expenses	(85)	(96)
Other operating expenses	(9)	(53)
Total depreciation and amortization	**(866)**	**(1 417)**

12. EMPLOYEE BENEFIT EXPENSES

For the years ended 31 December 2014 and 31 December 2013, employee benefit expenses were presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Wages and salaries (including key management personnel)	(3,251)	(4,400)
Social security costs	(986)	(1,578)
	(4,237)	**(5,978)**
Average number of employees	1,423	1,583
Wages and salaries of operating personnel	(2,193)	(3,236)
Wages and salaries of administrative personnel	(1,077)	(1,377)
Wages and salaries of distribution personnel	(966)	(1,365)
Wages and salaries of personnel related to other operating expenses	(1)	(1)
	(4,237)	**(5,979)**

Wages and salaries of key management personnel:

For the year ended 31 December 2014, remuneration of the Group's key management personnel amounted to GBP 235,000 (2013: GBP 183,750).

Key management personnel received only short term benefits during the years ended 31 December 2014 and 31 December 2013.

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 2014 and 31 December 2013, income tax expenses were presented as follows:

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
Current tax charge — Ukraine	53	149
Current tax charge — non-Ukraine	—	5
Deferred tax relating to the origination and reversal of temporary differences	(8)	(3)
Total income tax expenses	**45**	**151**

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% (2013: 19%).

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 31.12.2014 £'000	year ended 31.12.2013 £'000
PROFIT BEFORE TAX:		
Ukraine	795	128
Cyprus	(26)	221
Other (BVI, Jersey, loss before tax in Ukraine)	(4,202)	(902)
PROFIT BEFORE TAX, TOTAL	**(3,433)**	**(553)**
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (2014: 18%, 2013: 19%)	143	24
Cyprus (10%)	—	22
BVI, Jersey (0%)	—	—
	143	**46**
Tax calculated at domestic tax rates applicable to net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	(98)	122
Cyprus	—	(17)
BVI, Jersey	—	—
	(98)	**105**
Tax charge		
Ukraine	45	146
Cyprus	—	5
BVI, Jersey	—	—
	45	**151**
The weighted average applicable tax rate		
Ukraine	**18%**	**19%**
Cyprus	0%	10%
BVI, Jersey	Nil	Nil
	-4%	**-8%**

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

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16 "Property, Plant and Equipment", the Group carries out revaluations, with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. As at 31 December 2014, a review was conducted and showed that the carrying value of assets remained appropriate

The Group is divided into two cash generating units (hereinafter CGU):

Dairy production

The Dairy production is the aggregation of assets which produces butter, cheese, protein and skimmed milk products. This is comprised of:

— The manufacturing facilities of SE Starokostiantynivskyi Molochnyi Zavod and its two structural divisions in the city of Zhytomyr and the city of Letychiv,

— Group's vehicle fleet which is used for transportation of raw materials and finished dairy products,

— Trademarks of dairy segment “Nash Molochnik” (“Our Dairyman”), “Vershkova Dolyna” (“Creamy Valley”) and “Narodnyi Product” (“People’s Product”) and,

— Goodwill arising from the purchase of the raw milk zone and the manufacturing capacities in the city of Letychiv.

Beverages production

The Beverage production is the aggregation of assets which produces Zhyvyi Kvass Arseniyivskyi. This is comprised of:

— The manufacturing capacities of LLC Zhyvyi Kvass; and

— The trademark “Arseniyivskyi”.

Key assumptions used in value in use calculations

The calculation of value in use for both dairy and beverages units is most sensitive to the following assumptions:

Gross margins — Gross margins are based on budgeted values for 2015 and consider product prices and cost indexes trends over 2016-2020 years.

Discount rates — Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group’s investors. The cost of debt is based on the interest bearing borrowings which the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually and using publicly available market data. WACC applied in the model for both CGUs is equal to 26%.

Product price growth — Obtained from published consumer price index for Ukraine or world price trends for exported product groups.

Raw materials price inflation — Estimates are obtained from published indexes for Ukraine.

Growth rates estimates — Rates are based on published industry research applicable for the Ukraine.

Market share assumptions — When using industry data for growth rates, these assumptions are important because management assesses how the unit’s position, relative to its competitors, might change over the forecast period.

Industry forecasts have not been used for forecasting of sales in the butter, hard cheese and processed cheese categories, as they are not in line with Group management plans for further expansion of dairy products market share through the development of the brands "Nash Molochnyk", "Vershkova Dolyna" and "Molendam". Hard cheese produced by the Group takes an additional market share which is supported by the average actual dynamics for 2011-2014.

Industry forecasts have not been used for forecasting the sales in Kvass (beverages) category, as the Group produces a unique product Zhyvyi (Live) Kvass which has no competing beverage of its nature in the Ukraine. The sales are historically increasing every year and are expected to do so in the short and medium term. The model is based on management's own forecasted sales dynamics.

Based on the assumptions described above, using sensitivity analysis we indicate that an impairment of the Dairy production CGU at WACC growth of 2% and for Beverages production CGU at WACC growth of 3%.

With regard to the assessment of value in use of both CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

As at 31 December 2014 and 31 December 2013, property, plant and equipment were presented as follows:

	Assets under Construction £'000	Land and Buildings £'000	Plant and Machinery £'000	Vehicles £'000	Instruments, tools and other equipment £'000	Total £'000
COST OR VALUATION						
At 1 January 2013	**940**	**9,832**	**12,600**	**3,671**	**1,227**	**28,270**
Additions	1,491	—	54	—	43	1,588
Transfers to/from AUC	(718)	40	503	38	137	—
Disposals	—	—	(19)	(102)	(118)	(239)
Exchange differences on translation to the presentation currency	(60)	(180)	(269)	(47)	(35)	(591)
At 31 December 2013	**1,653**	**9,692**	**12,869**	**3,560**	**1,254**	**29,028**
ACCUMULATED DEPRECIATION						
At 1 January 2013	**29**	**3,212**	**3,628**	**2,277**	**677**	**9,823**
Depreciation charge	—	374	654	137	165	1,330
Disposals	—	—	(6)	(31)	(125)	(162)

	Assets under Construction £'000	Land and Buildings £'000	Plant and Machinery £'000	Vehicles £'000	Instruments, tools and other equip-ment £'000	Total £'000
Exchange differences on translation to the presentation currency		(52)	(56)	(27)	(13)	(148)
At 31 December 2013	29	3,534	4,220	2,356	704	10,843
COST OR VALUATION						
At 1 January 2014	**1,653**	**9,692**	**12,869**	**3,560**	**1,254**	**29,028**
Additions	593	—	—	—	38	631
Transfers to/from AUC	(1,716)	384	859	18	455	—
Disposals	(11)	(12)	(28)	(124)	(60)	(235)
Exchange differences on translation to the presentation currency	(472)	(3,650)	(4,940)	(957)	(740)	(10,759)
At 31 December 2014	**47**	**6,414**	**8,760**	**2,497**	**947**	**18,665**
ACCUMULATED DEPRECIATION						
At 1 January 2014	**29**	**3,534**	**4,220**	**2,356**	**704**	**10,843**
Depreciation charge	5	223	353	85	124	790
Disposals	(5)	(7)	(6)	(62)	(54)	(134)
Exchange differences on translation to the presentation currency	—	(874)	(808)	(488)	(256)	(2,426)
At 31 December 2014	**29**	**2,876**	**3,759**	**1,891**	**518**	**9,073**
Net book amount at 31 December 2014	**18**	**3,538**	**5,001**	**606**	**429**	**9,592**
Net book amount at 31 December 2013	**1,624**	**6,158**	**8,649**	**1,204**	**550**	**18,185**
Net book amount at 31 December 2012	**911**	**6,619**	**8,972**	**1,395**	**550**	**18,447**

Fixed assets with a net book value of GBP 8,446,038 at 31 December 2014 (2013: GBP 16,312,555) were pledged as collateral for loans.

As at December 31, 2014 the Group has no contractual commitments on purchase of property, plant and equipment.

Borrowing costs for the tranches from EBRD for the second stage of reconstruction of SE Starokostiantynivskyi Molochnyi Zavod was capitalised during March-December of 2014. They amounted to GBP 31,847 (2013: 33,757). Average rate for EBRD loan 7,094% used to determine the amount of borrowing costs eligible for capitalisation.

As at December 31, 2014 any prepayments for property, plant and equipment were included within Assets under construction in the amount of GBP 8,000 (2013: GBP 599,000)

As at December 31, 2014 fully depreciated assets included within property, plant and equipment with the original cost of GBP 149,000 (2013: GBP 565,000)

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

15. INTANGIBLE ASSETS

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

	Computer software £'000	Trade marks £'000	Customer list £'000	Goodwill £'000	Total £'000
COST OR VALUATION					
At 1 January 2013	**32**	**883**	**692**	**104**	**1,711**
Additions	2	—	—	—	2
Disposals	(2)	—	—	—	(2)
Exchange differences on translation to the presentation currency	(1)	(21)	—	—	(22)
At 31 December 2013	**31**	**862**	**692**	**104**	**1,689**
ACCUMULATED AMORTISATION					
At 1 January 2013	**26**	**196**	**251**	**–**	**473**
Amortisation charge for the year	3	49	35	—	87
Disposals	—	—	—	—	—
Exchange differences on translation to the presentation currency	(1)	(6)	—	—	(7)
At 31 December 2013	**28**	**239**	**286**	**–**	**553**

	Computer software £'000	Trade marks £'000	Customer list £'000	Goodwill £'000	Total £'000
COST OR VALUATION					
At 1 January 2014	**31**	**862**	**692**	**104**	**1,689**
Additions	41	—	—	—	41
Disposals	(5)	—	—	(104)	(109)
Exchange differences on translation to the presentation currency	(21)	(137)	(189)	—	(347)
At 31 December 2014	**46**	**725**	**503**	**–**	**1,274**
ACCUMULATED AMORTISATION					
At 1 January 2014	**28**	**239**	**286**	**–**	**553**
Amortisation charge for the year	3	47	26	—	76
Disposals	—	—	—	—	
Exchange differences on translation to the presentation currency	(19)	(173)	8	—	(184)
At 31 December 2014	**12**	**113**	**320**	**–**	**445**
Net book amount at 31 December 2014	**34**	**612**	**183**	**–**	**829**
Net book amount at 31 December 2013	**3**	**623**	**406**	**104**	**1,136**
Net book amount at 31 December 2012	**6**	**687**	**441**	**104**	**1,238**

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

— Computer software 2–9 years;

— Trademarks 11–18 years;

— Customer list 11 years.

Acquired intangible assets and Goodwill

The intangible asset "Customer list" represents the captive individual suppliers of raw milk. In Ukraine, where about 80% of the entire milk comes from individual producers, the existing supplier base is very important for the dairy producers and thus is valuable. The acquired asset "Customer list" was recognised in the accounts on the basis of the Purchase Price Allocation (PPA) exercise conducted within the 12-month period following the acquisitions of two plants.

The asset was valued by an independent valuer Uvecon using the sales comparison method and depreciated replacement cost (DRC) methods (for tangible assets) and income and cost advantage methods (intangible assets). The result of the impairment test, what was held in 2014, was that the carrying value of the intangible asset as at December 31, 2014 is considered appropriate. It's impracticable to provide information about the carrying amount of customer list if it was measured using the cost model without undue cost and efforts. There is no revaluation surplus that relates to Customer list at the beginning and end of the period.

The Group regularly monitors the carrying value of its acquired intangible assets, goodwill and events or changes in circumstances that indicate there may be an impairment. The result of the review, undertaken at 31 December 2014, was that impairment needs to be recognised.

After having analysed all key factors the Group`s Management decided that as of December 31, 2014 the Goodwill lost its value.

16. DEFERRED TAX ASSETS AND LIABILITIES

For the year ended 31 December 2014, deferred tax assets and liabilities were presented as follows:

	As at 31.12.2014 £'000		As at 31.12.2013 £'000	
Deferred tax assets at the beginning of the year	**(66)**	**—**	**(46)**	**—**
Deferred tax liability at the beginning of the year	**—**	**636**	**—**	**670**
Deferred tax asset recognised in income statement during the year	42	—	(22)	—
Deferred tax liability recognised in income statement during the year	—	(15)	—	77
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortisation	—	(36)	—	(58)
Effect from tax rate change (2013: 19%; 2014: 18%)	—	—	—	(38)
Exclusion from Group	—	—	—	—
Exchange differences on translation to the presentation currency	22	(283)	2	(15)
Deferred tax assets at the end of the year	**(2)**	**—**	**(66)**	**—**
Deferred tax liability at the end of the year	**—**	**302**	**—**	**636**

17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31.12.2014 £'000	As at 31.12.2013 £'000
Finished goods	942	1 156
Raw materials	571	1 053
Work in progress	31	167
Other inventories	541	634
	2,085	**3,010**

During 2014, GBP 19,752 (2013: GBP 32,314) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. Inventories with a net book value of GBP 839,785 at 31 December 2014 (2013:GBP 336,332) were pledged as collateral for loans.

18. TRADE AND OTHER RECEIVABLES

As at the reporting dates receivables were presented as follows:

	As at 31.12.2014 £'000	As at 31.12.2013 £'000
Trade receivables	3,039	5,509
Other receivables	93	469
Prepayments	542	941
	3,674	**6,919**

The Group's management believes that the carrying value for trade and other receivables is a reasonable approximation of their fair value. The amount of overdue but unimpaired accounts receivable is insignificant and is not disclosed in this note.

Maturity of trade receivables as at 31 December 2014 and 31 December 2013 is presented as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	61-90 days	91-120 days	>120 days
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2014	3,039	2,277	162	179	107	202	112
2013	5,509	4,283	178	509	312	46	181

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

For the year ended 31 December 2014, provisions were presented as follows:

	As at 31.12.2014 £'000		As at 31.12.2013 £'000	
Impaired trade and other receivables at the beginning of the year	**123**	**—**	**126**	**—**
Holiday allowance at the beginning of the year	**—**	**40**	**—**	**126**
Accrual	239	878	—	277
Use of allowances	(14)	(827)	—	(364)
Effect of translation to presentation currency	(128)	(49)	(3)	1
Impaired trade and other receivables at the end of the year	**220**	**—**	**123**	**—**
Holiday allowance at the end of the year	**—**	**42**	**—**	**40**

19. CURRENT TAXES

As at the reporting dates current taxes were presented as follows:

	As at 31.12.2014 £'000	As at 31.12.2013 £'000
VAT receivable	1,081	2,241
Current income tax prepayments	80	140
Other prepaid taxes	16	18
	1,177	**2,399**

20. OTHER FINANCIAL ASSETS

Loans and receivables	As at 31.12.2014 £'000	As at 31.12.2013 £'000
Loans issued to related parties	—	—
Loans issued to third parties	86	174
Loans issued to employees	22	2
	108	**176**

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 31.12.2014 £'000	As at 31.12.2013 £'000
Cash — in UAH	4	4
Bank — in UAH	27	911
Bank — in other currencies	184	91
	215	**1,006**

22. SHARE CAPITAL

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

	AUTHORISED			
	As at 31.12.2014 Number '000	As at 31.12.2014 £'000	As at 31.12.2013 Number '000	As at 31.12.2013 £'000
Ordinary shares of 10p each	60,000	6,000	60,000	6,000

ISSUED AND FULLY PAID AT BEGINNING AND END OF THE YEAR				
	As at 31.12.2014 Number '000	As at 31.12.2014 £'000	As at 31.12.2013 Number '000	As at 31.12.2013 £'000
Ordinary shares of 10p each				
At beginning of the year	39,673	3,967	40,818	4,082
Own shares acquired	—	—	(1,145)	(115)
At end of the year (excluding shares held as treasury shares)	**39,673**	**3,967**	**39,673**	**3,967**

HELD AS TREASURY SHARES				
	As at 31.12.2014 Number '000	As at 31.12.2014 £'000	As at 31.12.2013 Number '000	As at 31.12.2013 £'000
Ordinary shares of 10p each				
At beginning of the year	3,145	315	2,000	200
Own shares acquired	—	—	1,145	115
At end of the year	**3,145**	**315**	**3,145**	**315**

As at 31 December 2014 and 31 December 2013 the Company held a total of 3 144 800 Ordinary Shares as treasury shares and the total number of Ordinary Shares in issue (excluding shares held as treasury shares) was 39 673 049

Subsequent events is disclosed in note 32.

23. OTHER RESERVES

At the reporting date other reserves were presented as follows:

	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Revaluation reserve £'000	Total other reserves £'000
At 1 January 2013	**4,555**	**(367)**	**(6,339)**	**3,877**	**1,726**
Own shares acquisition	7	—	—	—	7
Depreciation on revaluation of property, plant and equipment	—	—	—	(247)	(247)

	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Revaluation reserve £'000	Total other reserves £'000
Impact of the change in tax rate	—	—	—	38	38
Reduction of revaluation reserve	—	—	—	(32)	(32)
Group restructuring completion (Note 2.1 (c))	—	367	—	—	367
Exchange differences on translation to the presentation currency	—	—	(429)	—	(429)
At 31 December 2013	**4,562**	**–**	**(6,768)**	**3,636**	**1,430**
Depreciation on revaluation of property, plant and equipment	—	—	—	(162)	(162)
Impact of the change in tax rate	—	—	—	—	—
Reduction of revaluation reserve	—	—	—	(21)	(21)
Exchange differences on translation to the presentation currency	—	—	(7,000)	—	(7,000)
At 31 December 2014	**4 562**	**–**	**(13 768)**	**3 453**	**(5 753)**

The following describes the nature and purpose of each reserve within owners' equity.

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.
Merger	Losses arising on the application of the pooling of interests method of consolidation used to account for the merger of Ukrproduct Group Ltd and its subsidiaries.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Translation	Amount of all foreign exchange differences arising from the translation of the financial information of foreign subsidiaries.

24. BANK LOANS AND OVERDRAFTS

As at 31, December 2014, the Group had received EUR 8.3 mln of an EUR 11 mln credit line facility from the European Bank for Reconstruction and Development (EBRD) for the financing of a project to increase energy efficiency and productivity of the Starokonstantinovskiy Molochniy Zavod SC plant.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit £'000	As at 31.12.2014 £'000	As at 31.12.2013 £'000
EBRD	EUR	Loan	31.03.2011	10.06.2018	≈ 7,2%	8,626	5,693	6,580
OTP Bank	UAH	Credit line	30.05.2011	09.07.2017	21,0%	1,631	1,001	2,676
OTP Bank	USD	Credit line	30.05.2011	09.07.2017	12,0%		144	
Aval Bank	UAH	Overdraft	31.05.2013	22.04.2015	19,9%	408	344	454
Credit Europe Bank	UAH	Credit line	11.02.2013	11.02.2016	current market rate	652	—	1,210
							7,182	**10,920**

The average interest rate as at 31 December 2014 was 9. 34% (2013: 14.4%).

Maturity of financial liabilities

	year ended 31.12.2014 £'000	year ended 31.12.2013 £'000
On demand	344	454
In less than 1 year*	2,110	5,348
In more than 1 year*	4,728	5,118
	7,182	**10,920**

Interest rate profile of financial liabilities

	Floating rate £'000	Fixed rate £'000	As at 31.12.2014 £'000	As at 31.12.2013 £'000
On demand	344	—	344	454
Expiry within 1 year	965	1,145	2,110	5,348
Expiry in more then 1 years	4,728	—	4,728	5,118
	6,037	**1,145**	**7,182**	**10 920**

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

	Floating rate liabilities £'000	Fixed rate liabilities £'000	Total as at 31.12.2014 £'000	Total as at 31.12.2013 £'000
UAH	—	1 345	1 345	4 340
USD		144	144	—
EUR	5 693	—	5 693	6 580
	5 693	**1 489**	**7 182**	**10 920**

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

	Book value as at 31.12.2014 £'000	Fair value as at 31.12.2014 £'000	Book value as at 31.12.2013 £'000	Fair value as at 31.12.2013 £'000
Bank loans	6 838	6 838	10 466	10 466
Bank overdrafts	344	344	454	454
	7 182	**7 182**	**10 920**	**10 920**

*extendable according to 3-year agreement with bank.

25. TRADE AND OTHER PAYABLES

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

	As at 31.12.2014 £'000	As at 31.12.2013 £'000
Trade payables	1,942	2,332
Other payables	371	337
Prepayments received	42	254
Accruals	187	263
Provisions	41	40
	2,583	**3,226**

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

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 31.12.2014 £'000	Year ended 31.12.2013 £'000
Net profit attributable to ordinary shareholders	(3,478)	(704)
Weighted number of ordinary shares in issue	39,673,049	39,804,751
Basic earnings per share, pence	**(8.77)**	**(1.77)**
Diluted average number of shares	39,629,619	39,816,596
Diluted earnings per share, pence	**(8.78)**	**(1.77)**

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 2014.

28. SHARE-BASED PAYMENTS

The Company operates an equity-settled share based remuneration scheme for employees.

	2014 Weighted average exercise price	Number	2013 Weighted average exercise price	Number
Outstanding at beginning of the year	0.100	130,290	0.128	130,290
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Lapsed during the year	—	—	—	—
Change in option terms	—	—	(0.028)	—
Outstanding at the end of the year	0.100	130,290	0.100	130,290
Exercisable at the end of the year	0.100	130,290	0.100	130,290

During the period under review the Company did not grant options to any parties.

All options granted to the Directors are exercisable over a period of four years. As at the year end these options were not exercised.

Taking into account the fair value estimate of options granted at the grant date, no remuneration charge was recognised in the Consolidated Statement of Comprehensive Income in 2014.

The fair value of options granted in 2009 was calculated based on the following data

Item	2009
Option pricing model used	Adjusted Black-Scholes
Weighted average share price at the grant date	0.1275
Exercise price	0.1280
Weighted-average contractual life, years	4,0
Expected volatility	25%
Expected dividend yield	5%
Expected dividend growth rate	0%
Weighted-average risk-free interest rate	1.92%

29. CURRENCY ANALYSIS

Currency analysis for the year ended 31 December 2014 is set out below:

	UAH	USD	GBP	EUR	Total
ASSETS					
Trade and other receivables	2,909	763	—	2	3,674
Current taxes	1,177	—	—	—	1,177
Other financial assets	108	—	—	—	108
Cash and cash equivalents	31	184	—	—	215
Total assets	**4,225**	**947**	**–**	**2**	**5,174**
LIABILITIES					
Bank borrowings	1,345	144	—	5,693	7,182
Trade and other payable	2,346	47	—	190	2,583
Current income tax liabilities	14	—	—	—	14
Other taxes payable	29	—	—	—	29
Total Liabilities	**3,734**	**191**	**–**	**5,883**	**9,808**

Currency analysis for the year ended 31 December 2013 is set out below:

	UAH	USD	GBP	EUR	Total
ASSETS					
Trade and other receivables	5,652	1,263	—	4	6,919
Current taxes	2,399	—	—	—	2,399
Other financial assets	176	—	—	—	176
Cash and cash equivalents	915	—	—	91	1,006
Total assets	**9,142**	**1,263**	**–**	**95**	**10,500**

	UAH	USD	GBP	EUR	Total
LIABILITIES					
Bank borrowings	4,340	—	—	6,580	10,920
Trade and other payable	2,665	321	—	240	3,226
Current income tax liabilities	18	—	—	—	18
Other taxes payable	28	—	—	—	28
Total Liabilities	**7,051**	**321**	**–**	**6,820**	**14,192**

50% strengthening of Hryvnia rate against the following currencies as at 31 December 2014 and 2013, would increase /decrease the amount of profits /or losses for the period by the amounts mentioned below. This analysis was conducted based on the assumption that all other variables, in particular, interest rates, remained unchanged. The change of GBP exchange rate does not have impact on the result as all the balances in GBP are attributable to the Group's companies where GBP is a functional currency.

	Increase/ decrease in rate	Effect on income before tax in 2014 £'000	Effect on income before tax in 2013 £'000
USD	50%	378	377
EUR	50%	(2,941)	(2,690)
USD	-50%	(378)	(377)
EUR	-50%	2,941	2,690

30. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

Sales of goods and services to related parties and purchases from related parties are summarised below. All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Company.

	Year ended 31.12.2014 £'000	Year ended 31.12.2013 £'000
Sales	683	429
Other operational incomes	—	—
Purchases	65	46

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

	As at 31.12.2014 £'000	As at 31.12.2013 £'000
Receivables and prepayments	369	97
Loans issued	—	—
Trade and other payables	(72)	(76)

In 2014, the Group's commercial relationships with the related parties comprised sales, purchases, provision. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given to or provided by from the Group to related parties and vice versa.

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

31. COMMITMENTS AND CONTINGENCIES

(a) Economic environment

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

(b) Taxation

As a result of the unstable economic environment in Ukraine, the Ukrainian tax authorities pay increasing attention to business communities. In this regard, local and national tax legislation are constantly changing. Provisions of various legislative and regulatory legal acts are not always clearly-worded, and their interpretations depend on the opinion of tax authority officers and the Ministry of Finance. It is common practice for disagreements between local, regional and republican taxation authorities to arise. A system of fines and penalties for claimed or revealed violations exists in corresponding regulatory legal acts, laws and decisions. Penalties include confiscation of amount in dispute (in case of law violation) as well as fines. These facts create tax risks, which means that the Group may be exposed to the risk of additional tax liabilities, fines and penalties. These risks far exceed risks in countries with advanced tax systems.

(c) 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 2014 and 2013 the Group had no liabilities for supplementary pensions, health care, insurance benefits or retirement indemnities to its current or former employees.

(d) Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. Group's management is confident that as at 31 December 2014 the Group is not in breach of its loan agreements.

The amount of uncancellable lease commitments is insignificant.
As of December 31, 2014 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

After the reporting year end, the Group did not meet the repayment terms and loan covenants of the loan agreement with European Bank for Reconstruction and Development ("EBRD") (Note 24) of EUR 300 thousand due in March 2015 and of EUR 300 thousand due in June 2015. Such breach entitles the EBRD the right to demand early repayment of loans. The management beforehand had notified the EBRD about all breaches of terms of the loan agreement and loan covenants and requested to obtain a waiver on the date of signing these consolidated financial statements. However, the EBRD did not provide waiver in respect of breach of the repayment schedule in 2015. The representatives of EBRD provided a letter on 12 June 2015 to the Group's Board stating that: 1) EBRD is aware of the breach of the repayment schedule for the period ended 31 March 2015; 2) EBRD is currently considering a restructuring of the terms of the Loan Agreement, including extension of the maturity date under the Loan Agreement and; 3) as of the date of signing of the letter did not exercise any of its rights in accordance with the Agreement. The management believes that the EBRD will not demand accelerated repayment an interest repayments of the loans due to the breach of the repayment schedule in 2015.

(b) Foreign exchange rates

Post year end, the Ukrainian Hryvnia continued to devalue against the US Dollar. In particular according is the National Bank of Ukraine the following are key exchange rates:

Currency	23 June 2015
UAH/GBP	33.96
UAH/USD	21.52
UAH/EUR	24.12

(c) Stock Listing

On February 2, 2015 Ukrproduct Group's shares were admitted to trading on the Ukrainian stock market. No new ordinary shares have been issued and accordingly the total number of shares in issue remains unchanged. Management expects that the listing on the Ukrainian Stock Exchange will allow better access to the local investors and will contribute to improving the liquidity of Company's shares.

10 Corporate advisers

Group secretary

Bedell Secretaries Limited

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St Helier

Jersey JE2 3RA

Nominated adviser

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Nominated broker

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Registrars

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Halesowen B63 3DA

11 Shareholder Information

Registered office

PO Box 75

26 New Street

St Helier

Jersey JE2 3RA

Registered number 88352 in Jersey

Financial Calendar

31 December 2014	Financial year end
24 June 2015	Announcement of full year 2014 results
24 July 2015	Annual General Meeting

Analysis of shareholding — at 31 December 2014

Size of shareholdings	Number of holders	% of total	Total holdings, shares	% of total
Up to 5,000 shares	34	33	59,428	0.14
5,001 to 50,000 shares	30	29	561,119	1.31
50,001 to 200,000 shares	23	23	2,748,81	6.42
Over 200,000 shares	17	15	39,449,221	92.13
TOTAL	**103**	**100,00%**	**42,817,849**	**100.00**

As at December 31, 2014 the founding shareholdersMessrs Sergey Evlanchik and Alexander Slipchuk held 14,967,133 (34.96%) and 14,939,133 (34.89%) respectively;3,144,800 or approximately 7.34% were held treasury shares and 9,766,783 shares or approximately 22.81% were in the Free Float.

Administrative enquiries

All enquiries relating to individual shareholder matters should be made to the registrar at: Neville Registrars,Neville House, 18 Laurel Lane, Halesowen, B63 3DA. The registrar will assist with enquiries regarding any change of circumstances (e.g. name, address, bank account details, bereavement, lost certificates, dividend payment and transfer of shares). All correspondence should be clearly marked “Ukrproduct Group Ltd” and quote the full name and address of the registered holder of the shares.

Investor Relations

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