UKRPRODUCT

Annual Report 2013

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Jan Vermeer
The Milkmaid
1658–1660

Chairman and Chief Executive Statement

Chairman and Chief Executive Statement

Market environment

Over the year 2012 Ukrproduct Group Limited operated in an environment that was determined by a number of factors both positive and challenging. High effective inflation together with negative expectations around the government elections which took place in October further constrained consumer spending already affected by relatively high unemployment.

The Dairy market was mainly affected by the restriction on hard cheese exports to Russia and the consequent oversupply on the domestic market of hard cheese, butter and Skimmed Milk Powder in Q1–Q3'2012. On the positive side, the restrictions on exports to Russia, together with the re–introduction of the milk subsidy regime benefitting milk producers, led to the availability of higher milk volumes in Ukraine. These reflected positively on the margins. However this trend was interrupted as the Government introduced the populist inflationary minimum raw milk price starting from September to gain the support of milk producing households ahead of the elections.

Branded Dairy Products

Over the year 2012 the Company successfully focused on increasing the profitability of its branded dairy sales which translated in the gross profits increasing by 21% whilst the revenues showed a 3% increase year–on–year.

The butter market in Ukraine grew, mostly due to an increase in bulk butter output caused by the lack of hard cheese exports to Russia. Ukrproduct therefore successfully focused on improving the sales margins rather than pursuing market share. Thus, despite some decrease in sales revenues compared to 2011, the Group achieved an increase in aggregate a gross profit of 12%. The Company remained the market leader of the packaged butter segment in Ukraine with the market share estimated at 22.6% (compared to 23% in 2011).

The market of processed cheese expanded largely as the domestic output grew along with the increase in imports and a decrease in exports. The Company enhanced its market leadership achieving a market share of 20.5% (16.3% in 2011). Sales showed a material increase both in revenue and tonnage terms which was aligned to the increase in profitability compared to 2011.

The Company's hard cheese category benefitted from the new focus and fine–tuned product offering which allowed the launch into the retail chains. As a result, its market position and profitability are showing a continuous growth although from a small base.

Skimmed Milk Powder

The profitability in the Skimmed Milk Powder (SMP) segment remained a challenge despite the gradual recovery of the world prices started in Q4'2012. The Company thus focused on securing the local supplies to multinational companies where its better quality allowed higher margins. Otherwise output was limited to that necessary as the by–product of profitable butter production. At the same time Ukrproduct explored and applied alternative models of dairy protein utilization to improve profitability. As result the gross profitability showed a gradual recovery trend compared to 2011 although still below the break–even point.

Export

Export sales of branded products showed an increase across all product categories benefitting from expanded geography of sales and a wider product line. In its core categories of butter and processed cheeses Ukrproduct holds the largest share of export among the Ukrainian operators. SMP provided better opportunities for domestic sales and therefore its export has been reduced.

Beverages

The performance of the recently acquired business of kvass, a traditional fermented beverage, continued its success through the year. The sales demonstrated a significant increase with encouraging margins compared to 2011. The gross profitability more than doubled being unhindered by the economic environment. The Company expanded the regional coverage especially into the resort areas and strengthened the presence in the existing regions, supported by strong sales and marketing in the high season and the launch of new pack sizes. As result kvass has improved its market position. Promoted as both a healthy and refreshing drink it is now ranked among the five largest players on the domestic market.

Distribution services

In line with its strategy the Company continued to explore development opportunities for distribution services to third parties based on its pan–Ukrainian logistics system. Revenues were further improved. This business unit pre–viously included kvass distribution prior to its acquisition by the Company.

Operational highlights

A big step forward was made with the completion of the first stage of the plant modernization project with finance from the European Bank for Reconstruction and Devel–opment (EBRD). The Company has seen the first benefits from this major capital expenditure which translated into improved energy efficiency and productivity at the Starokostiantyniv Dairy Plant, driving down the unit cost. The savings from this project are on–going and underpin the repayment of the loan to EBRD.

Additionally, and in line with its strategy, the Company has further optimized its manufacturing capacities and consolidated the butter production on a single platform at the Starokostiantyniv Dairy Plant.

Management team

In the end of 2012 Ukrproduct Group took the decision to strengthen its Board composition by appointing three new Executive Directors to the positions of Chief Finan–cial Officer, Chief Operation Officer and Chief Strategy and Marketing Officer. Already working successfully in the Company they have proven experience in the industry and we believe they will make an appropriate contribution to the success of Ukrproduct and help it to achieve its challenging goals. The appointments were formalized on 17 January 2013.

Outlook and strategy

Outlook is to a similar economic environment. In the Dairy sector further market consolidation with stronger quality competition is expected. Strategically Ukrproduct will pursue growth in building on its good market posi–tions in packaged butter and processed cheese with hard cheese a development opportunity. Also kvass has more available growth opportunities with new retailers and through strengthening the brand in existing channels. Margins will be supported by the on–going cost reduc–tion program including capital investment.

Overall although in challenging markets Ukrproduct looks to consolidate its progress and further improve going forward.

Jack Rowell
(Chairman)

Sergey Evlanchik
(CEO)

Constant Troyon
Herdsman
1860

Key Financial Data 2012

Key Financial Data 2012

The Ukrainian economy

- The general economy is uncertain due to politi–cal factors
- Real GDP remained nearly flat year–on year (source: State Statistics Committee)
- Milk subsidy regime restored but the milk prices remain subject to State Authorities regulation
- SMP profitability remained subdued but showed the trend to recovery towards the end of the year
- Persisting issues with VAT refund

Revenue

- Overall revenue increased by 19% to GBP 60.2 m
- Branded dairy products increased by 2.6% y–o–y to GBP 35.6 m
- Beverages (recently acquired kvass business) showed the revenue GBP 2.4 m or 4% of total sales*
- Distribution services increased by 60% y–o–y to GBP 13.4 m*
- Skimmed milk products increased by 18.5% to GBP 8.9 m

Gross profit

- Overall Gross Profit increased by 33% to GBP 9.0 m
- Branded dairy products increased by 21.3% y–o–y to GBP 7.6 m
- Beverages showed GBP 1.2 m
- Distribution services decreased by 50.7% y–o–y to GBP 478k
- Skimmed milk products reduced its losses by 45.5% to minus GBP 249 k

EBITDA increased by 68% to GBP 3.2 m (2011: GBP 1.9 m)

Tax decreased to GBP 333 k (2011: GBP 431 k)

Profit after Tax more than doubled to GBP 852 k (2011: GBP 400 k)

Ukrproduct's financial position

- As at December 31, 2012 cash balance stood at GBP 415 k (2011: GBP 512 k)
- Additional banking facilities are available for all foreseen requirements

Tetyana Komarova

Chief Financial Officer

17 April 2013

* Earlier sales of kvass were reflected in Distribution services.

Floris van Dijck
Still life with cheese
1615

Ukrproduct at a Glance

Ukrproduct at a Glance

KEY FIGURES

	Year ended 31 December 2012	% change from 2011
Revenue	GBP 60.2 m	+19%
Gross Profit	GBP 9.0 m	+33%
Net Profit	GBP 0.85 m	+113%
Earnings per share	GBp 2.09	+109%

PRODUCTION & DISTRIBUTION

- Two major dairy manufacturing plants are ISO–certified
- Annual production capacity of 56,000 tonnes of dairy products
- Annual production capacity of 54,000 tonnes of kvass
- Ukraine–wide distribution network
- Provides distribution and logistics services to third parties

MARKET POSITION

Packaged Butter

Market Share: 22.6% (1st place)[1]

Ukrproduct Group is the market leader for packaged butter in Ukraine.

Processed Cheese

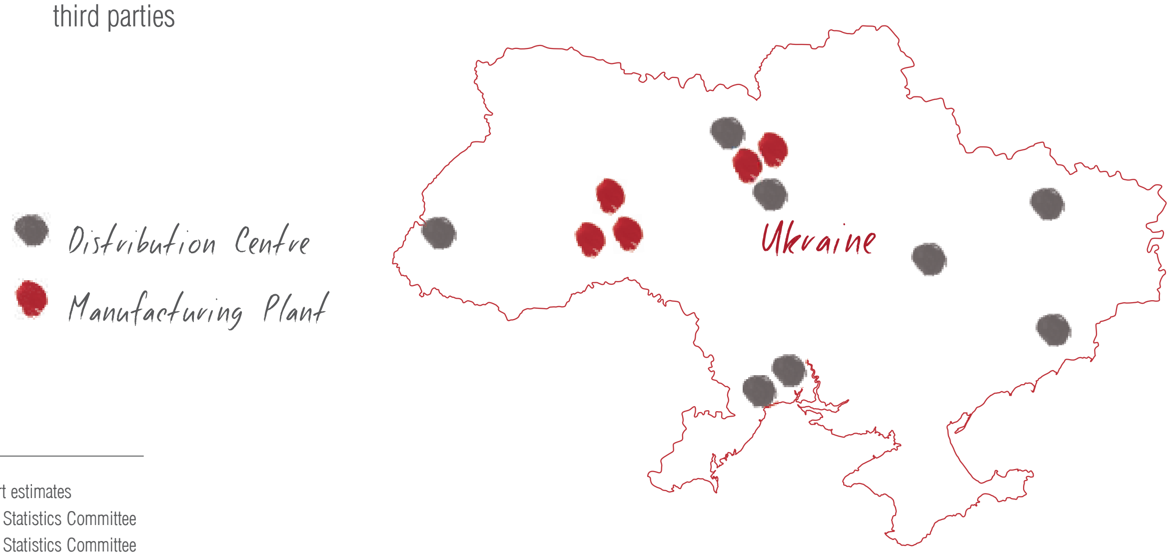
Market Share: 20.5% (1st place)[2]

Ukrproduct Group offers a range of processed cheese products under well–recognised brands which focus on the mass, middle and premium markets.

Kvass

Market Share: 5.5% (5th place)[3]

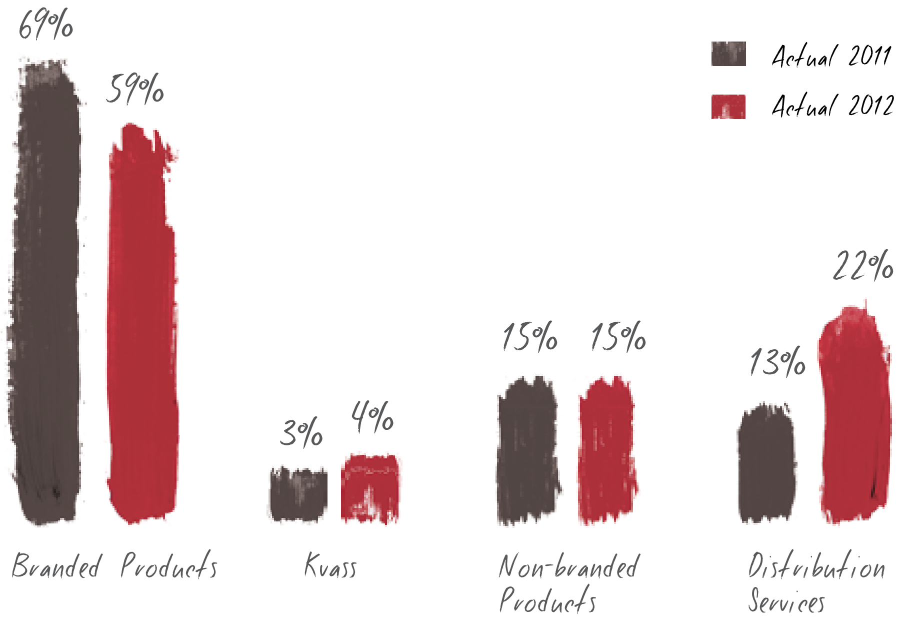
Ukrproduct produces «Arseniivskyi» branded kvass, traditional naturally fermented beverage made from rye, black bread or barley.



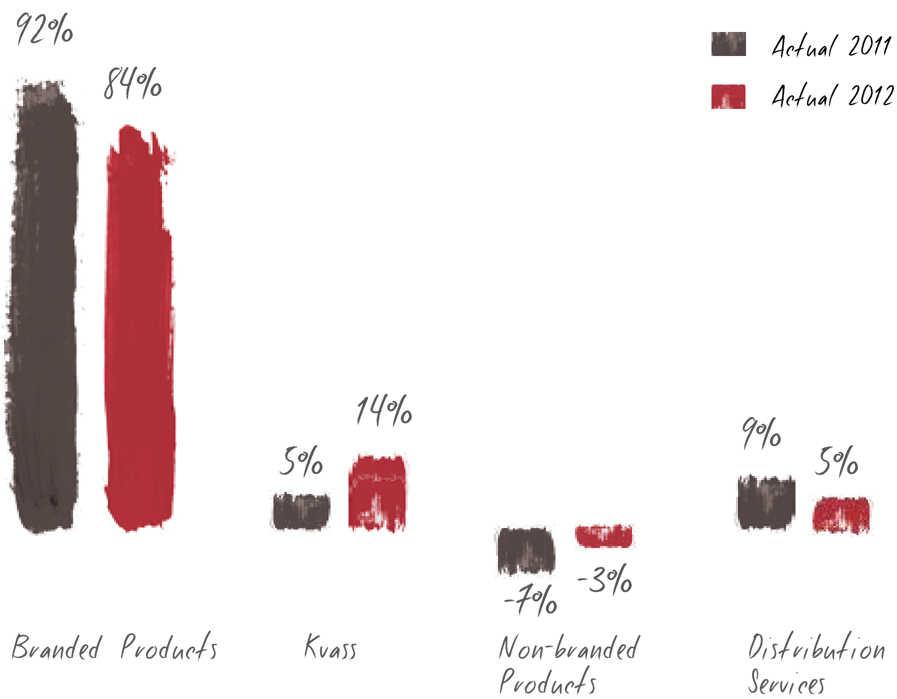
[1] Expert estimates
[2] State Statistics Committee
[3] State Statistics Committee

PRODUCTS & SERVICES

Contribution to Revenue, %



Contribution to Gross Profit, %



Adriaen van de Velde
Cows on a Meadow
1658

Financial Review

Financial Review

Revenue

Revenue for the year stood at £60.2m (£50.5m in 2011). The revenue growth was c 19% year–on–year, largely driven by incorporation of kvass and further changes in sales and marketing strategy in dairy products and distribution services.

The revenue from branded dairy products showed a growth of 2.6% year–on–year. This growth in the current economic environment was made possible due to strong sales team efforts as well as launch of new private label projects with national retailers in the second half of the year. The dairy branded segment continued to account for the majority of the Group's revenue, representing 59% of total sales.

Beverages (kvass – traditional fermented drink) showed the revenue of £2.4m or 4% of total sales. The Beverages category was separated following the recent acquisition of kvass business by the Group. Prior to that, sales of kvass were included in «Distribution services».

The growth in revenue from non–branded category (mainly SMP) was 18.5% year–on–year. In 2012 we have changed our emphasis from top to bottom line and focused on the efficiency of this operation and strict control over the profitability of protein utilization program.

Distribution services showed a significant increase of 59.9% year–on–year. In 2012 the Group has increased its export activity through selling additional products. Although due to VAT refund issues we had to impose some limits on our export operations.

Gross profit

In 2012 the availability of greater milk supply and the re–introduction of the milk subsidy regime resulted in the decrease of price of raw milk. Later in the year this improvement was counterbalanced again by the state authorities artificially raising the raw milk prices sourced from the household; at the same time the possibility to reflect this increase on the selling prices was very limited. The kvass acquisition and development enhanced margins.

The Group's Gross profit increased by 33% to £9.0m (2011: £6.8m). Gross profit margin increased by 11.9% year–on–year to 15% (2011: 13.4%). The gross profit of Branded dairy products increased by 17.7% year–on–year to 21.3% (2011: 18.1%). The aggregate result was undermined by negative gross profit of £0.2m in the non–branded products, which despite showing a significant improvement year–on–year still remained below the break–even level.

The Group's Administrative, Selling and Distribution expenses increased by 20.6% largely due to acquisition of kvass business which entailed additional promotion and logistics costs. Additionally these overheads efficiently supported the growth of categories of branded dairy products and distribution services including promotion, transportation and team motivation programs. The management constantly works on reducing and keeping costs under control in order to be more competitive in the challenging environment.

EBITDA

Given the sales and gross margin improvement in 2012 EBITDA significantly increased by 68% year–on–year to £3.2m (2011: £1.9m). Depreciation and amortization expenses increased by 17% year–on–year from £890k in 2011 to £1164k following the addition of depreciation of new production equipment facilities acquired as part of upgrade project.

Profit after tax

Profit after tax more than doubled to £852k in 2012

(2011: £400 k). A decline in effective income tax rate allowed the decrease of the Group income tax expenses by £98k year–on–year.

Earnings per Share and Dividends

The Group's basic earnings per share (EPS) and the diluted earnings per share increased by 109% year–on–year from 1.0 pence in 2011 to 2.09 pence in 2012.

Whereas it is Company policy to pay dividend given the major capital expenditure project at Starokostiantyniv Dairy Plant the Board has decided not to recommend the payment of the final dividend in respect of the year ended 31 December 2012.

Capital expenditure

Capital expenditure featured the major project funded by the EBRD of Euro 7 m was completed at the Starokostiantyniv Dairy Plant. It came into effect in the second half improving productivity, quality and in particular reducing the utility costs energy especially.

Working capital

Working capital control procedures were tightened and with ratios improving and significant working capital being released.

Cash Flow

The Group's cash balance stood at £ 0.42 m as at December 31, 2012 compared to £ 0.51 m as at December 31, 2011. The cash generation by activities for 2012 is as follows:

- Net cash generated by operating activities totalled £1.9m compared to minus £0.3m in 2011;
- Net cash used by investing activities totalled £3.3 m compared to £3,5 m in 2011;
- Cash from financing activities amounted to £ 1.3 m compared to £ 3.6 m in 2011.

The Group's cash resources are sufficient to meet current debt obligations in the short and medium term.

Bank Facilities

As at 31 December 2012 Ukrproduct had the total amount of borrowings of £9.0m (2011: £7.4m). The share of long–term loans (EBRD) made up 54.7% of the total portfolio (2011: 52.2%). Other credit facilities are nominated in UAH.

Financial Reporting

The financial statements included in this report were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Tetyana Komarova

Chief Financial Officer

17 April 2013

Clara Peeters
Still Life With Cheeses, Almonds and Pretzels
c. 1615

The Board of Directors

The Board of Directors

Name	Position	Date appointed
Jack Rowell	Non–executive Chairman	November 2004
Sergey Evlanchik	Chief Executive Officer	April 2008
Alexander Slipchuk	Executive Director	November 2004
Tetyana Komarova	Chief Financial Officer	January 2013
Yuriy Hordiychuk	Chief Operational Officer	January 2013
Kateryna Kryuchko	Chief Marketing and Strategy Officer	January 2013

Jack Rowell

Non–executive Chairman

Dr. Rowell has acted as Chairman of a number of com–panies 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 nation–al 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 Evlanchik is responsible for the Group's over–all 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, Al–fa–Broker in 1994 in the Far East of the Russian Federa–tion. 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.

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.

Tetyana Komarova

Chief Financial Officer

Tetyana Komarova has over 15 years of experience and prior to joining Ukrproduct Group held senior financial positions in leading dairy companies in Ukraine. Between April 2009 and September 2011 Mrs. Komarova served as Chief Financial Officer of Terra Food Group, one of the leading Ukrainian Food and Agri–Holding. Prior to that between June 2005 and April 2009 Mrs. Komarova held the position of Chief Financial Officer of the Ukrainian branch of Wimm Bill Dann Group, one of the Russia's leading branded food–and–beverage companies. Tetyana is a graduate of Kharkov State economic University and also holds a Senior Executive MBA degree awarded by the Business School MIM–Kyiv.

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 him 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».

Kateryna Kryuchko

Chief Marketing and Strategy Officer

Kateryna Kryuchko rejoined Ukrproduct in 2010 after serving as Head of Advertising at Technocom, the leading Ukrainian producer of precooked meals and seasonings, from 2007 to 2008, and as Director of Marketing at KWB from 2006 to 2007. From 2002 to 2004, Kateryna held the position of Director of Marketing at Ukrproduct and was instrumental in positioning Ukrproduct as the truly national leader in the processed cheese and packaged butter markets in Ukraine. Upon her return to the Group Kateryna continued to enhance the Groups leading po–sition on the markets of processed cheese and packaged butter. She also managed the promotion of one of the Group's most successful brand kvass «Arseniivskyi» and contributed to the development of the Group's hard cheese category. She graduated from The Kyiv Polytech–nic Institute with two specialist degrees in Marketing and Applied Mathematics.

Nicolaes Berchem
Mountain Landscape with Shepherds and Flock
1673

Remuneration Committee Report

Remuneration Committee Report

This report is prepared by the Remuneration Committee of the Board and sets out the Group's policy on the re–muneration 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 de–termine 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 2012.

Remuneration Policy

The Group's remuneration policy is to provide remunera–tion 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–re–lated, 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 in–definite period and may be terminated with three months notice given by either party at any time. The company or subsidiary's policy 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 de–cision 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	
	2012 £ 000	2011 £ 000	2012 £ 000	2011 £ 000	2012 £ 000	2011 £ 000	2012 £ 000	2011 £ 000
Executive								
Olena Yakovenko	40	40	–	–	–	–	40	40
Alexander Slipchuk	70	70	–	–	–	–	70	70
Sergey Evlanchik	90	90	–	–	–	–	90	90
Non–executive								
Dr Jack Rowell	45	45	–	–	–	–	45	45

Share based payments

In 2009 the company granted share options to Jack Rowell, the Chairman. Details of the options outstanding at 31 December 2012 are shown below. The Directors' Remuneration disclosed above does not include any amounts for the value of options to acquire shares of the company.

Directors	Share Options	Exercise Price, pence	Exercise Period
Jack Rowell	130,290	12.8	to 06/07/2013

As at the year end date, these options were not exercised.

Jacob van Strij
Dutch Landscape with Cattle and Farm

Corporate Governance Report

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 five 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.

The Board met six times during 2012 and all the directors attended all meetings, with the exception of Mrs Olena Yakovenko, who attended four of six meetings, missing two for health reasons.

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 2012.

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 2012.

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 Chief Financial Officer hold conference calls and meetings with major share–holders 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 compa–ny'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 regu–lated 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 inter–nal 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 authorisa–tion 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 proce–dures.

The annual budgets consist of monthly budgets, which are updated each month once actual figures become available. Due to the dynamic development of the macro–economic environment of the country the Group operates in, variances in actual figures for sales, prices and other underlying assumptions from those forecasted may oc–cur. 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 op–erations. Each company within the Group has a designat–ed 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 opera–tions and risk management.

Nicolas Gillis
Still Life With Cheese, Sausage, Fish and Bread

Corporate Social Responsibility Report

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 employ–ees, 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 be–lieves that a diverse mix of the workforce facilitates inno–vation, 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 encour–age 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 underly–ing 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 respec–tive 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 environ–mental practices and seeks to minimise a negative impact that its operations or products might have on the pro–duction 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 of 2008–2012 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.

Adriaen van de Velde
The Hut
1671

Directors' Report

Directors' Report

The Directors present their report and the audited con–solidated financial statements of Ukrproduct Group Ltd (referred to as the company and together with its subsid–iaries as «the Group») for the year ended 31 December 2012.

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 and in the Financial Review.

Results and Dividends

The results of the Group for the year are set out on page 44 and show a profit for the period of GBP 0.852 million (2012: GBP 0.4 million).

Whereas it is Company policy to pay dividend given the major capital expenditure project at Starokostiantyniv Dairy Plant the Board has decided not to recommend the payment of the final dividend in respect of the year ended 31 December 2012.

Directors

Details of members of the Board of Directors are shown on pages 20–23.

The Directors' interests in the share capital of the compa–ny as at 31 December 2012 and 31 December 2011 are shown below:

	Shares		Share options	
	2012	2011	2012	2011
Executive				
Sergey Evlanchik	14,422,383	14,422,383	–	–
Alexander Slipchuk	14,487,383	14,487,383	–	–
Non–executive				
Dr. Jack Rowell	38,690	38,690	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 busi–ness 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, liquidi–ty 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 finan–cial 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 74.

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 competi–tive remuneration and incentive schemes. The Directors also consider it a priority to give employees the oppor–tunity to communicate their ideas and opinions to all levels of management, both directly and through various surveys. The average number of employees totalled 1,640 in 2012 (2011: 1,751).

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

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 26 June, 2013. The Notice of AGM and agenda will be sent to shareholders no less than 18 days prior to the date of the meeting.

Auditors

Baker Tilly Channel Islands Limited was re–appointed as the Group's auditors for the 2012 financial year by the resolution of the Annual General Meeting (AGM) of Shareholders held on June 7, 2012. A resolution to re–appoint them shall be proposed at the forthcoming AGM.

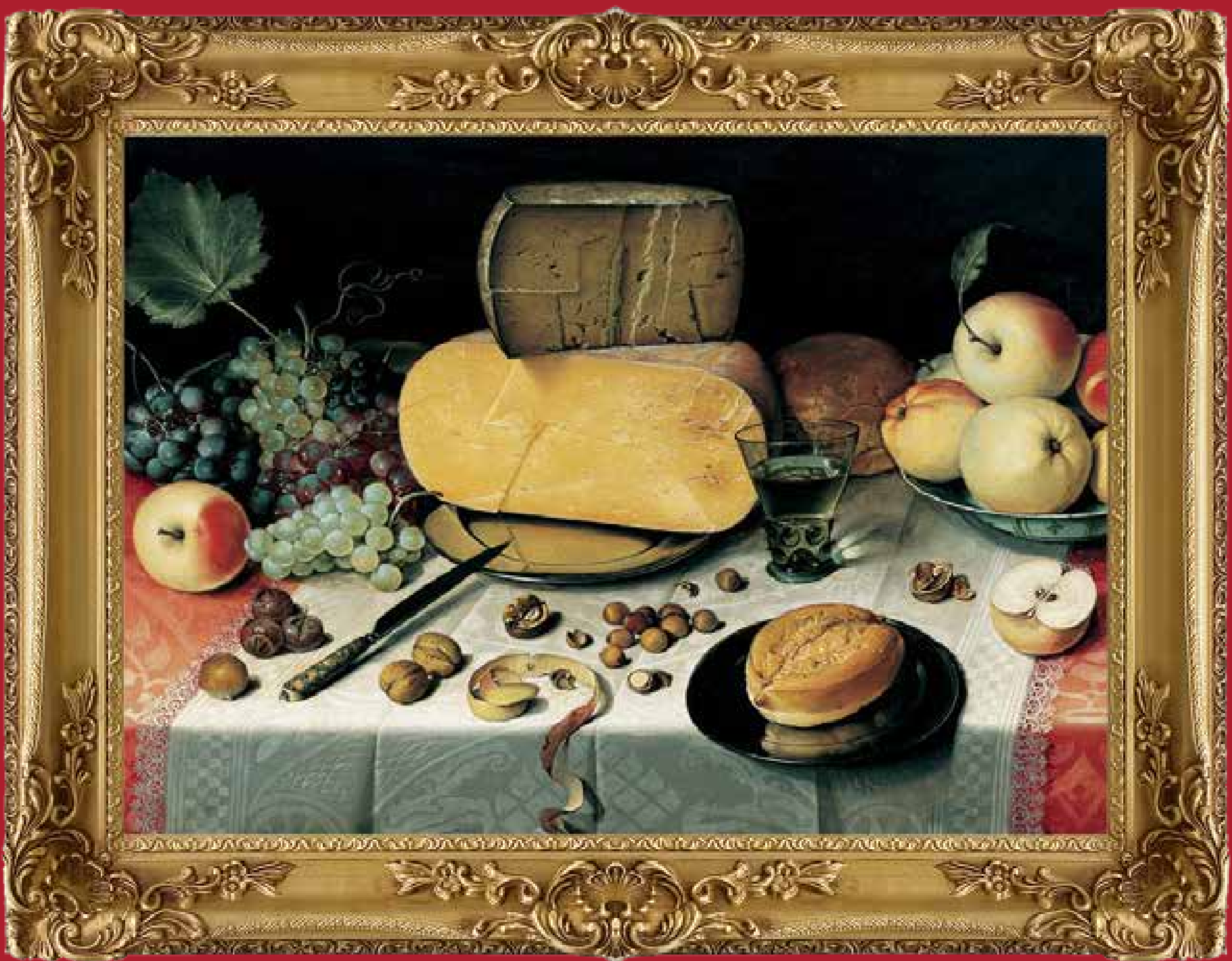
Statement as to disclosure of in–formation to the auditor

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

17 April 2013



Floris van Dyck
Still Life with Fruit, Nuts and Cheese
1613

Statement of Directors Responsibilities

Statement of Directors Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Years Ended 31 December 2012 and 31 December 2011

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 General 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 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 comply with IFRS, subject to any material departures disclosed and explained in the financial information;
- prepare the financial information 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.

Jack Rowell

Chairman Ukrproduct Group Ltd

17 April 2013

Independent Auditor's Report to the Members of Ukrproduct Group limited

We have audited the consolidated financial statements of Ukrproduct Group Limited (the company which together with its subsidiaries is referred to as«the Group») for the year ended 31 December 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes (the financial statements). The financial reporting framework that has been applied in their preparation is applicable Jersey 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 has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the 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 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit 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.

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.

David Hopkins

For and on behalf of Baker Tilly Channel Islands Limited
Chartered Accountants
St Helier, Jersey

17 April 2013

CONSOLIDATED INCOME STATEMENT

	Note	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Revenue	8	60 212	50 524
Cost of sales	9	(51 177)	(43 725)
GROSS PROFIT		9 035	6 799
Administrative expenses	9	(3 059)	(2 855)
Selling and distribution expenses	9, 2.1 (f)	(3 473)	(2 884)
Net other operating expenses	9, 2.1 (f)	(494)	(89)
PROFIT FROM OPERATIONS		2 009	971
Net finance costs	10	(771)	(428)
Effect of foreign currency translation		(53)	(288)
PROFIT BEFORE TAXATION		1 185	831
Income tax expenses	13	(333)	(431)
PROFIT FOR THE YEAR		852	400
Attributable to:			
Owners of the Parent		852	410
Non–controlling interests		–	(10)
Earnings per share:			
Basic		2,09	1,00
Diluted		2,09	1,00

The notes on pages 52 – 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
PROFIT FOR THE YEAR	852	400
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation to the presentation currency	(885)	(28)
Income from changes in tax rates	83	206
OTHER COMPREHENSIVE INCOME, NET OF TAX	(802)	178
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	50	578
Attributable to:		
Owners of the Parent	50	588
Non–controlling interests	–	(10)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
GROSS PROFIT			
Non–current assets			
Property, plant and equipment	14	18 447	17 173
Intangible assets	15	1 238	1 055
Available for sale investments		30	169
Deferred tax assets	16	46	50
		19 761	18 447
Current assets			
Inventories	17	3 415	4 634
Trade and other receivables	18	6 899	6 906
Current taxes	19	2 990	404
Other financial assets	20	196	177
Cash and cash equivalents	21	415	512
		13 915	12 633
TOTAL ASSETS		33 676	31 080
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	22	4 082	4 082
Other reserves	23	1 726	2 868
Retained earnings		13 496	12 367
		19 304	19 317
Non–controlling interests	24	–	–
Non–Current Liabilities			
Bank borrowings	25	4 903	3 844
Deferred tax liabilities	16	670	881
		5 573	4 725
Current liabilities			
Bank borrowings	25	4 056	3 514
Trade and other payables	26	4 512	3 165
Current income tax liabilities		110	108
Other taxes payable		121	251
		8 799	7 038
TOTAL EQUITY AND LIABILITIES		33 676	31 080

These financial statements were approved and authorised for issue by the Board of Directors on 16 April 2013 and were signed on its behalf by:

Tetyana Komarova
Chief Financial Officer
17 April 2013

The notes on pages 52 – 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Share capital £ '000	Share premium £ '000	Merger reserve £ '000	Revaluation reserve £ '000	Retained earnings £ '000	Translation reserve £ '000	Total £ '000	Non–controlling interests £ '000	Total Equity £ '000
As at 1 January 2011	4 082	4 555	(1 427)	4 366	12 817	(5 426)	18 967	20	18 987
Profit for the year	–	–	–	–	410	–	410	(10)	400
Other comprehensive income	–	–	–	–	–	–	–	–	
Income from changes of tax rates	–	–	–	206	–	–	206	–	206
Currency translation differences	–	–	–	–	–	(28)	(28)	–	(28)
Total comprehensive income	–	–	–	206	410	(28)	588	(10)	578
Transactions with owners									
Dividends paid (Note 28)	–	–	–	–	(204)	–	(204)	–	(204)
Total transactions with owners	–	–	–	–	(204)	–	(204)	–	(204)
Depreciation on revaluation of property, plant and equipment	–	–	–	(302)	(302)	–	–	–	–
Reduction of revaluation reserve	–	–	–	(136)	102	–	(34)	–	(34)
Exclusion from Group (Note 2.1 (c))	–	–	1 060	–	(1 060)	–	–	(10)	(10)
As at 31 December 2011	4 082	4 555	(367)	4 134	12 367	(5 454)	19 317	–	19 317
Profit for the year	–	–	–	–	852	–	852	–	852
Other comprehensive income									
Income from changes of tax rates	–	–	–	83	–	–	83	–	83
Currency translation differences	–	–	–	–	–	(885)	(885)	–	(885)
Total comprehensive income	–	–	–	83	852	(885)	(885)	–	(885)
Transactions with owners									
Dividends paid (Note 28)	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	–	–	–	–	–	–	–
Depreciation on revaluation of property, plant and equipment	–	–	–	(283)	283	–	–	–	–
Reduction of revaluation reserve	–	–	–	(57)	(6)	–	(63)	–	(63)
As at 31 December 2012	4 082	4 555	(367)	3 877	13 496	(6 339)	(6 339)	–	(6 339)

The notes on pages 52 – 109 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Cash flows from operating activities			
Profit before taxation for the year		1 185	831
Adjustments for:			
Exchange difference		53	(288)
Depreciation and amortisation	11	1 164	890
(Profit)/loss on disposal of non–current assets	9	25	(214)
Impairment of trade receivables	9	120	51
Impairment of inventories	9	76	94
Impairment of available for sale investments	9	36	–
Income from disposal of subsidiaries		–	(18)
Interest income	10	(11)	(19)
Interest expense	10	782	447
Decrease / (increase) in inventories		908	(677)
Increase in trade and other receivables		(2 874)	(2 789)
Increase in trade and other payables		942	1 842
Cash generated from operations		2 406	150
Interest received		11	19
Income tax paid		(519)	(511)
Net cash generated by / (used in) operating activities		1 898	(342)
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(3 321)	(3 792)
Proceeds from sale of property, plant and equipment		50	422
Purchase / sale of investments		–	113
Repayments of loans issued		(27)	(222)
Net cash used in investing activities		(3 298)	(3 479)
Cash flows from financing activities			
Dividends paid	28	–	(204)
Interest paid	10	(782)	(447)
(Decrease) / increase in short term borrowing		(118)	561
Increase in long term borrowing		2 282	3 707
Net cash generated by financing activities		1 282	3 617
Net decrease in cash and cash equivalents		(118)	(204)
Effect of exchange rate changes on cash and cash equivalents		21	40
Cash and cash equivalents at the beginning of the year		512	676
Cash and cash equivalents at the end of the year	21	415	512

Nicolaes Berchem
The Shepherds on the Edge of the Forest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP AND PRINCIPAL ACTIVITIES

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 2012 was 1,640 (2011: 1,751).

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, intangible asset (Customer list) that have been measured at fair value. The consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated. The consolidated financial statements have been prepared on a going concern basis.

(a) Statement of compliance

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

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) Consolidation principles

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2012.

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. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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.

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.

Group's company	Country of incorporation	Effective ownership ratio* As at 31 December 2012	2011	Principal activities	Consolidation method
Molochnik LLC*	Ukraine	100%	100%	Production	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%	Production	Acquisition
Letichivsky Maslozavod Private Enterprise SC*	Ukraine	100%	100%	Production	Acquisition
Zhiviy Kvas LLC**	Ukraine	100%	100%	Production	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC*	Ukraine	100%	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
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%	100%	Sales&Distribution	Acquisition
Lider–Product LLC***	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct–Donetsk Private Enterprise SC***	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct–Mikolaiv Private Enterprise SC***	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%	100%	Sales&Distribution	Acquisition
Premierproduct–Harkiv Private Enterprise SC***	Ukraine	–	100%	Sales&Distribution	Acquisition
Premierproduct–Centr Private Enterprise SC***	Ukraine	–	100%	Sales&Distribution	Acquisition

Group's company	Country of incorporation	Effective ownership ratio* As at 31 December 2012	2011	Principal activities	Consolidation method
Alternatyvni investytsiyi UCVF	Ukraine	100%	–	Assets management	Acquisition
Ukrproduct Group CJSC	Ukraine	100%	100%	Holder of some assets and operating companies	Merger
LinkStar Limited	Cyprus	100%	100%	Holder of some assets and operating companies	Merger
Solaero Global Alternative Fund Limited	Cyprus	100%	–	Holder of some assets and operating companies	Merger
Dairy Trading Corporation Limited	BVI	100%	100%	Export operations	Merger
Reliable Logistics Services ltd	BVI	100%	–	Holder of distribution network	Merger
St. Invest Holding LTD	BVI	100%	100%	Listed on LSE	Acquisition
Ukrproduct Group LTD	Jersey				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 St. Invest Holding LTD, the Group's specialised distribution companies.

(c) Reorganisation

A reorganisation of the Group's legal structure took place in 2012 and resulted in withdrawal of two companies for the purpose of improving the administration and report–ing processes.

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The consideration transferred for the acquisition of a subsidiary is the fair values 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 expenses as incurred.

(e) Non–controlling interests

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

(f) Reclassification of comparative information

Reclassification of inventories impairment costs

Impairment of inventories connected with selling process was reclassified to Selling and distribution expenses from Other operating expenses. New classification improves management of selling process. Change of the account–ing estimate is applied retrospectively. The effect resulted in a reclassification of amounts of GBP 76,000 in 2012 and GBP 94,000 in 2011.

(g) Segment reporting

Operating segements 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 identi–fied 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 transac–tions

(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 transac–tions.

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 has been 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 curren–cies are recognized 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».

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);
- All resulting exchange differences are rec–ognised 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 2012	Average exchange rate for 2012	31 December 2011	Average exchange rate for 2011
UAH/GBP	12,90	12,66	12,32	12,77
UAH/USD	7,99	7,99	7,99	7,97
UAH/EUR	10,54	10,27	10,30	11,07

- 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 at 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 realiz–able value. Cost is determined using the weighted aver–age method. Net realizable 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 labor, other direct costs and related production overheads (based on normal op–erating 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 realizable 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, ob–solete 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 Consoli–dated Income Statement within Cost of sales.

2.2.4. Property, plant and equip–ment

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

The cost of an item of property, plant and equipment is recognized 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 entity expects to use 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 re–liable 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 equip–ment are subsequently carried at fair value at the date of revaluation, less any subsequent accumulated depreci–ation 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 recognizes 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 modernization.

(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 recognized 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 if the impairment loss for an asset (or a cash generating unit) was not recognized in previous years. The reversal of the impairment loss is immediately recognized 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 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. The useful live of property, plant and equipment is as follows:

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 and constructions	10 – 50 years
Plant and machinery	2 – 20 years
Equipment	2 – 20 years
Motor vehicles	5 – 12 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 recognized at historical cost less accumulated amortization and accumulated impairment losses, except for the customer list which is initially carried at fair value and subsequently ammortised.

The Group recognizes 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 derecognized 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) Amortization and useful life

Costs of computer software licenses are amortized over their estimated useful lives using the straight–line method (7 years). The amortization expense is included within Administrative expenses in the Consolidated Income Statement.

Trademarks have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight–line method to allocate the cost of trademarks over their estimated useful lives (20 years). The amortization expense is included within Selling and Distribution expenses in the Consolidated Income Statement.

Amortization is calculated using the straight–line method to allocate the cost of the customer list over its estimated useful life (20 years). The amortization 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 values 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 expenses as incurred.

The consideration transferred for the acquisition of a subsidiary is the fair values 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 expenses 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 acquire.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire 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 amortized 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 recognized.

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 amortized 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.

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

(iii) Available–for–sale financial assets

The non–derivative financial assets not included in the above categories are classified as available–for–sale and comprise the Group's investments in entities not qualifying as subsidiaries as well as investment certificates and are carried at cost.

(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 recognized on the settlement date with the change in value between the commitment date and settlement date not recognized for assets carried at cost or amortized cost; recognized in the income statement for trading investments; and recognized 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 use.

If a discounted cash flow model is applied, the determination of future cash flows is based on optimal management estimations and 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 amortized cost less impairment losses. Amortized cost is calculat–ed using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized 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 reorganization and where observable data indicate 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 derecognized 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 ac–quired. The Group has not classified any of its liabilities at fair value through profit and loss.

Financial liabilities held at amortized cost include the following items:

- Trade payables and other short–term monetary liabilities, which are recognised at amortized cost;
- Bank borrowings, overdrafts, promissory notes and bonds issued by the Group are initially car–ried at fair value, being the 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 recognized at fair value, adjusted in case of borrowings for directly attributable transaction expenses.

(b) Subsequent measurement

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

Borrowings, liabilities initially recognized at fair value less transaction costs, are subsequently measured at amortized cost; any difference between amount of re–ceived resources and sum of repayment is represented as interest cost 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 or 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 contribu–tions from members of the enterprise), provided that the amount of income can be reasonably estimated. Reve–nue 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 expected to be received nominal amount of cash. When the arrange–ment effectively constitutes a financing transaction, the fair value of the consideration is determined by discount–ing all future receipts using an imputed rate of interest. Revenue (proceeds) from sale of products (goods, works and services) is not corrected by an amount of related doubtful and uncollectible receivables. The amount of such debt is recognized as expenses of the Group.

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and dis–counts 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 recognized 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 manage–ment 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 associ–ated with the transaction will flow to the Group;
- 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 recognized when all the following conditions are satisfied:

- the amount of revenue can be reliably measured;
- inflow of economic benefits related to the trans–action is possible;
- reliable measurement of stage of transaction completeness at the balance sheet is possible;
- there is a possibility for reliable measuring of cost, applied for transaction carrying out and cost, which are required for its completing.

2.2.11. Expenses recognition

Expenses are recognized by the Group when the follow–ing conditions are met: the amount of expenses can be reliably measured, it is probable that future economic benefits, relating to asset decrease or liability increase.

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

If an asset provides economic benefits receiving 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 periods, which they accordingly relate to, during which the receipt of economic benefits receiv–ing 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» of 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 as a separate line item «Financial income/(expenses), net».

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 his 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 Income Statement for the year comprises current tax and changes in deferred tax.

Current tax is the amount of income tax payable (recov–erable) 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 tax–ation 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 re–spect 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 report–ing 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 realization or settlement of the carrying value of its assets or liabilities.

A deferred tax asset is recognized only to the extent to which there is a substantial probability that future taxable profit, which may be reduced by the amount of deduct–ible 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 enact–ed, or declared (and practically adopted) at that date.

Deferred income taxes are recognized 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 realize 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, mea–sured 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 29.

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 costs of preparing the prospec–tus, 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 own–ership. Leases other than finance leases are classified as operating leases.

(a) Group as a lessee

Operating lease expenses are recognized as expenses of the period to which they relate, on a straight–line basis over the lease period.

(b) Group as a lessor

Operating lease income is recognized in «Revenue» as income of 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 fees to employees, financial assets, assets held for trading, the Group conducts the following procedures ensuring accounting for these assets at the 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 impair–ment 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 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 recognized 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 re–sulting from past events are not recognized in the finan–cial 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 recognize 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 recognized in the Consoli–dated 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 parties has a possibility to control or considerably influence the opera–tional 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 signifi–cantly influenced by the Group, but are neither sub–sidiaries, 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–ex–ecutive director and close relatives of these individu–als);

e) companies, large blocks of shares with voting rights of which are owned directly or indirectly by any per–son described in paragraphs (c) or (d), or a person in–fluenced 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. Dividends

Equity dividends are recognised in the Consolidated financial statements when they become legally payable. In the case of 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 amortized 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 amendments to IFRS effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;
- IFRS 1 First–Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First–Time AdoptersIFRS 7 Financial Instruments: Disclosures (Amendments);
- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements.

The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

4.2. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group's intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available–for–sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re–wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of «currently has a legally enforceable right to set–off». The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first–time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first–time adopters relief from retrospective measurement of government loans with a below–market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set–off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC–12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC–13 Jointly–controlled Entities – Non–monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will not impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013, and is to be applied retrospectively for joint arrangements held at the date of initial application.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

4.3. Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First–time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re–apply IFRS 1. If IFRS 1 is not re–applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

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 Financial 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 2013 incorporates 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
- investments in unquoted equity securities in Ukraine
- loans issued
- cash and cash equivalents
- bank overdrafts
- promissory notes
- trade and other payables

The principal financial instruments are as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Financial assets		
Loans and receivables:		
– trade and other receivables (excluding non–financial assets)	6 031	5 487
– cash and cash equivalents	415	512
– loans issued	196	177
Available for sale investments		
– unquoted investments	30	169
	6 672	6 345
Financial liabilities		
Held at amortised cost:		
– long–term loans	4 903	3 844
– bank loans	3 748	3 261
– overdrafts	308	253
– trade and other payables (excluding non–financial liabilities)	4 007	2 374
	12 966	9 732

(b) General objectives, policies and processes

The Group's overall risk management programme recog–nises 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 Financial Officer (CFO) under policies approved by the Board of Directors. The Group CFO identifies and evaluates financial risks in close co–oper–ation with the Group's operating units. The management board provides broad guidance and operating principles for overall risk management, as well as written poli–cies 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 the Group CFO and 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 man–agement 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. Fur–ther 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 the customers in Ukraine. The Group manages its credit risk through the Group's risk assessment poli–cy 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 review 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 relation–ship 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 suc–cessfully, 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 estab–lished 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 recover–ability 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 collat–eral 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 represen–tative of the commercial credit control department to the customer premises– 2 weeks thereafter;
- filing a claim to the commercial court for repay–ment 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 insti–tutions. 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	Rating	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
JSC UkrSibbank	B+	202	72
UBS AG	A2	78	21
JSC OTP Bank	B2	61	161
PJSC Raiffeisen Bank Aval	Caa1	29	146
PJSC Credit Europe Bank	Ba3	10	–
Other		12	93
		392	493

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 concen–trated.

The Group is also exposed to a credit risk with regard to loans issued to third parties, related parties and employ–ees. 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 carry–ing value of financial assets is unsecured, is as shown below:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
	Carryng Value	Maximum exposire (unsecured)
Trade receivables	5 431	5 393
Loans issued	196	151
Cash at bank and short term deposits	392	392
	6 019	5 936

(d) Liquidity risk

Liquidity risk is a function of the possible difficulty to be encountered in raising funds to meet financial obliga–tions. 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 CFO 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 busi–ness, the Group relies on a combination of the available overdraft facilities and cash balances to fund the on–go–ing 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 spend–ing, 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, 20, 21, 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 instru–ments. 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 percenatge points (being the maximum reasonably possible expectation of changes in interest rates) would cause a change in interest expense by GBP 226,742 (2011: GBP 258,452).

(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. 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 30.

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 285,892 (2011: GBP 191,000).

(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 of its 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 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 342,300 in 2013. At the end of 2012, 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 utlisation and efficiency of its production process, reducing any impact of change 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 perform, 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. Excessive leverage – defined by the Group as D/E ratio in excess of 0.6 – could be justified only under exceptional circumstances and requires the full Board's consent.

The D/E ratios at 31 December 2012 and at 31 December 2011 were as follows:

Bank	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Total debt	8 959	7 358
Less: Cash and cash equivalents	415	512
Net debt	8 544	6 846
Total equity	19 304	19 317
D/E ratio	44,3%	35,4%

7. SEGMENT INFORMATION

At 31 December 2012, the Group was organised interna–tionally 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 Non–branded product category besides its major part (the skimmed milk powder) also includes the skimmed milk and other skimmed milk products due to their increased sales volumes. The category Beverages was separated after acquisition of «Zhyvyi Kvass» LCC and the trade mark «Arseniivskyi» in 2011. Earlier sales of kvass were reflected in «Distribution services» article of revenue.

The segment results for the year ended 31 December 2012 are as follows:

	Branded products £ '000	Beverages £ '000	Non–branded products £ '000	Distribution services £ '000	Un–allocated £ '000	Total £ '000
Sales	35 601	2 395	8 853	13 363	–	60 212
Gross profit	7 582	1 244	(249)	478	–	9 035
Administrative expenses	(1 906)	(168)	(297)	(272)	(416)	(3 059)
Selling and distribution expenses	(2 688)	(545)	(59)	(193)	12	(3 473)
Other operating expenses	(195)	(6)	–	–	(293)	(494)
Profit from operations	2 793	505	(605)	13	(697)	2 009
Finance expenses, net	–	–	–	–	(771)	(771)
Loss from exchange differences	–	–	–	–	(53)	(53)
Profit before taxation	2 793	505	(605)	13	(1 521)	(1 185)
Taxation	–	–	–	–	(333)	(333)
Profit for the year	2 793	505	(605)	13	(1 854)	852
Segment assets	14 856	2 747	4 726	272	–	22 601
Unallocated corporate assets	–	–	–	–	11 029	11 029
Unallocated deferred tax	–	–	–	–	46	46
Consolidated total assets	14 856	2 747	4 726	272	11 075	33 676
Segment liabilities	3 544	–	16	–	–	3 560
Unallocated corporate liabilities	–	–	–	–	10 142	10 142
Unallocated deferred tax	–	–	–	–	670	670
Consolidated total liabilities	3 544	–	16	–	10 812	14 372
Other segment information:						
Depreciation and amortisation	678	97	288	16	85	1 164
Capital expenditure	1 130	–	2 131	–	60	3 321

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

Revenues from inter–segment transactions are equal to zero.

The Group has increased its export activity through selling additional products. These products are purchased from third parties and are reflected in the «Distribution services» line. In 2012 the additional revenue and gross profit from this activity made up GBP 11.142 mln and GBP 43,356 respectively without additional working capital from the Group. The working capital as at 31 December, 2012 on these export transactions stood at minus GBP 978,898.

The segment results for the year ended 31 December 2011 are as follows:

	Branded products £ '000	Beverages £ '000	Non–branded products £ '000	Distribution services £ '000	Un–allocated £ '000	Total £ '000
Sales	34 694	–	7 471	8 359	–	50 524
Gross profit	6 287	–	(457)	969	–	6 799
Administrative expenses	(1 825)	–	(286	(265)	(479)	(2 855)
Selling and distribution expenses	(2 472)	–	(77)	(296)	(39)	(2 884)
Other operating expenses	–	–	–	–	(89)	(89)
Profit from operations	1 990	–	(820)	408	(607)	971
Finance expenses, net	–	–	–	–	(428)	(428)
Income from exchange differences	–	–	–	–	(288)	288
Profit before taxation	1 992	–	(821	408	(748)	831
Taxation	–	–	–	–	(431)	(431)
Profit for the year	1 992	–	(821)	408	(1 179)	400
Segment assets	17 748	–	2 384	3 445	–	23 577
Unallocated corporate assets	–	–	–	–	7 475	7 475
Unallocated deferred tax	–	–	–	–	227	227
Consolidated total assets	17 748	–	2 384	3 445	7 702	31 279
Segment liabilities	1 885	–	–	646	–	2 531
Unallocated corporate liabilities	–	–	–	–	8 550	8 550
Unallocated deferred tax	–	–	–	–	881	881
Consolidated total liabilities	1 885	–	–	646	9 431	11 962
Other segment information:						
Depreciation and amortisation	620	–	159	46	65	890
Capital expenditure	1 068	–	2 523	78	93	3 762

Secondary reporting format – geographical segments:

Sales by country (consignees)	year ended 31 December 2012 £ '000
Ukraine	41 902
Great Britain	9 775
Netherlands	1 948
Germany	1 641
Russia	787
Singapore	843
Azerbaijan	644
Romania	595
Moldova	332
Estonia	318
Denmark	260
Other countries	1 167
Total	60 212

Sales by country (consignees)	year ended 31 December 2011 £ '000
Ukraine	42 302
Netherlands	1 900
Russia	1 659
Estonia	992
Azerbaijan	752
Greece	514
Georgia	490
Germany	400
Singapore	342
Moldova	292
Kazakhstan	263
Other countries	618
Total	50 524

The majority of the Group's assets and liabilities are in Ukraine. Sales to Great Britain represent resale of third parties prod–ucts. Sales to the other 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 2012 and 31 December 2011, sales revenue was presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
General revenue	61 421	51 461
Branded (including bonuses)	36 689	35 632
Beverages (including bonuses)	2 490	–
Non–branded products	8 854	7 471
Distribution services (including bonuses)	13 388	8 358
Charge of bonuses	(1 209)	(937)
Total revenue (excluding bonuses)	60 212	50 524

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 2012 and 31 December 2011, items of expenses were presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Cost of sales	(51 177)	(43 725)
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(46 960)	(40 205)
Wages and salaries, social security costs (Note 12)	(3 222)	(2 812)
Depreciation (Note 11)	(995)	(708)
Administrative exp	(3 059)	(2 855)
Including:		
Wages and salaries, social security costs (Note 12)	(1 660)	(1 547)
Lease and current repair and mainenance	(294)	(222)
PR, nominated broker, secretary, legal services etc.	(200)	(251)
Bank service	(139)	(129)
Security	(162)	(166)
Taxes and compulsory payments	(63)	(57)
Communication	(101)	(123)
IT materials, household expenses, reading materials	(117)	(76)
Audit fees	(68)	(62)
Amortization and depreciation (Note 11)	(71)	(69)
Other	(184)	(153)
Selling and distribution	(3 473)	(2 884)
Including:		
Wages and salaries, social security costs (Note 12)	(1 537)	(1 470)
Delivery costs	(789)	(569)
Lease and current repair and mainenance	(246)	(368)
Promotion	(460)	(141)
Impairment of inventories	(76)	(94)
Veterinary certificates, medical examination, permits	(64)	(84)
Amortization and depreciation (Note 11)	(77)	(54)
Royalty	(79)	–
Other	(145)	(104)
Other operating exp	(494)	(89)
Including:		
Result from sale or disposal of non–current assets	(25)	286
Impairment of trade receivables	(120)	(51)
Impairment of assets (as a result of revaluation)	–	(42)
Impairment of available for sale investments	(36)	–
Amortization and depreciation (Note 11	(21)	(59)
Wages and salaries, social security costs (Note 12)	(15)	(20)
Other	(277)	(203)

10. NET FINANCE COST

For the years ended 31 December 2012 and 31 December 2011, financial income/(expenses) were presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Finance income		
Interest income on bank deposit	11	19
Total interest income	11	19
Finance expense		
Interest expense on bank loans	(782)	(447)
Total finance expense	(782)	(447)
Net finance expense recognised in income statement	(771)	(428)

11. AMORTIZATION AND DEPRECIATION

For the years ended 31 December 2012 and 31 December 2011, amortization and depreciation were presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Cost of sales	(995)	(708)
Administrative expenses	(71)	(69)
Selling and distribution expenses	(77)	(54)
Other operating expenses	(21)	(59)
Total amortization and depreciation	(1 164)	(890)

12. EMPLOYEE BENEFIT EXPENSES

For the years ended 31 December 2012 and 31 December 2011, employee benefit expenses were presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Wages and salaries (including key management personnel)	(4 791)	(4 378)
Social security costs	(1 643)	(1 471)
	(6 434)	(5 849)
Average number of employees	1 640	1 751

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Wages and salaries of operating personnel	(3 222)	(2 812)
Wages and salaries of administrative personnel	(1 660)	(1 547)
Wages and salaries of distribution personnel	(1 537)	(1 470)
Wages and salaries of personnel related to other operating expenses	(15)	(20)
	(6 434)	(5 849)

Wages and salaries of key management personnel:

For the year ended 31 December 2012, remuneration of the Group's key management personnel amounted to GBP 249,000 (2011: GBP 252,000).

Key management personnel received only short term benefits during the years ended 31 December 2012 and 31 December 2011.

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 2012 and 31 December 2011, employee benefit expenses were presented as follows:

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Current tax charge – Ukraine	403	551
Current tax charge – non–Ukraine	21	10
Deferred tax relating to the origination and reversal of temporary differences	(91)	(130)
Total income tax expenses	333	431

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 21% (2011: 23%).

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

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Profit before tax:		
Ukraine	2 158	1 048
Cyprus	106	97
Other (BVI, Jersey, loss before tax in Ukraine)	(1 079)	(314)
Profit before tax, total	1 185	831
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (2012: 21%, 2011: 23%)	453	241
Cyprus (10%)	11	10
BVI, Jersey (0%)	–	–
	464	251
Tax calculated at domestic tax rates applicable to net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	(141)	180
Cyprus	10	–
BVI, Jersey	–	–
	(131)	180
Tax charge		
Ukraine	312	421
Cyprus	21	10
BVI, Jersey	–	–
	333	431
The weighted average applicable tax rate		
Ukraine	21%	23%
Cyprus	10%	10%
BVI, Jersey	Nil	Nil
	39%	30%

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 charge 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 2012, 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 manufactuing 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 Molochnyk» («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:

- Includes the manufacturing capacities of LLC Zhyvyi Kvass and;
- The trademark «Arseniyivski».

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 and budgeted values for 2013 and consider product prices and cost indexes trends over 2014–2019 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 20%.

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 2010–2012.

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 appears 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 2012 and 31 December 2011, 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 2011	612	8 324	6 386	3 888	1 311	20 521
Additions	3 762	–	–	–	61	3 823
Acquisition of subsidiary	2	288	2 088	11	29	2 418
Transfers to/from AUC	(512)	401	63	45	3	–
Exclusion from Group	(45)	(2)	(2)	–	(2)	(51)
Disposals	(383)	(121)	(17)	(59)	32	(548)
Exchange differences on translation to the presenta–tion currency	104	1	(19)	(35)	(37)	14
At 31 December 2011	3 540	8 891	8 499	3 850	1 397	26 177
Accumulated depreciation						
At 1 January 2011	29	2 676	3 006	2 127	420	8 258
Depreciation charge	–	273	248	148	154	823
Acquisition of subsidiary	–	11	65	5	8	89
Disposals	–	(17)	(102)	(37)	(30)	(186)
Exchange differences on translation to the presenta–tion currency	–	5	12	–	3	20
At 31 December 2011	29	2 948	3 229	2 243	555	9 004
Cost or valuation						
At 1 January 2012	3 540	8 891	8 499	3 850	1 397	26 177
Additions	1 124	–	1 880	96	303	3 403
Transfers to/from AUC	(3 531)	1 323	2 586	10	(388)	–
Disposals	(78)	–	(17)	(177)	(28)	(300)
Exchange differences on translation to the presenta–tion currency	(115)	(382)	(348)	(108)	(57)	(1 010)
At 31 December 2012	940	9 832	12 600	3 671	1 227	28 270
Accumulated depreciation						
At 1 January 2012	29	2 948	3 229	2 243	555	9 004
Depreciation charge	–	321	455	140	166	1 082
Disposals	–	–	(15)	(63)	(23)	(101)
Exchange differences on translation to the presenta–tion currency	–	(56)	(41)	(44)	(21)	(162)
At 31 December 2012	29	3 213	3 628	2 276	677	9 823
Net book amount at 31 December 2012	911	6 619	8 972	1 395	550	18 447
Net book amount at 31 December 2011	3 511	5 943	5 270	1 607	842	17 173
Net book amount at 31 December 2010	583	5 648	3 380	1 761	891	12 263

Fixed assets with a net book value of GBP 13,386,555 at 31 December 2012 (2011: GBP 9,598,486) were pledged as collateral for loans. As at December 31, 2012 the Group has no contractual commitments on purchase of property, plant and equipment.

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 2011	40	468	752	104	1 364
Additions	8	–	–	–	8
Acquisition of subsidiary	–	–	–	157	157
Disposals	(12)	–	(61)	–	(73)
Exchange differences on translation to the presentation currency	–	1	1	–	2
At 31 December 2011	36	469	692	261	1 458
Accumulated amortisation					
At 1 January 2011	27	140	197	–	364
Amortisation charge for the year	6	23	38	–	67
Disposals	(9)	–	(19)	–	(28)
Exchange differences on translation to the presentation currency	–	–	–	–	–
At 31 December 2011	24	163	216	–	403
Cost or valuation					
At 1 January 2012	36	469	692	261	1 458
Additions	2	289	–	–	291
Transfer	–	153	–	(153)	–
Disposals	(5)	–	–	–	(5)
Exchange differences on translation to the presentation currency	(1)	(28)	–	(4)	(33)
At 31 December 2012	32	883	692	104	1 711
Accumulated amortisation					
At 1 January 2012	24	163	216	–	403
Amortisation charge for the year	6	41	35	–	82
Disposals	(3)	–	–	–	(3)
Exchange differences on translation to the presentation currency	(1)	(8)	–	–	(9)
At 31 December 2012	26	196	251	–	473
Net book amount at 31 December 2012	6	687	441	104	1 238
Net book amount at 31 December 2011	12	306	476	261	1 055
Net book amount at 31 December 2010	13	328	555	104	1 000

Goodwill from the acquisition of LLC «Zhyvyi Kvass» in 2011 was reclassified to the category «Trade marks» in 2012 as it is directly related to trademark «Arseniivsky.

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

- Computer software 3–7 years;
- Trademarks 15–20 years;
- Customer list 15 years.

Acquired intangible assets and Goodwill.

The intangible asset «Customer list» represents the captive individual suppliers of raw milk in the vicinity of Letichivsky Maslozavod OJSC and Zhmerinsky Maslo–syrzavod LLC. In Ukraine, where about 80% of the entire milk comes from the 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 (intangi–ble assets). As at December 31, 2011 a revaluation of the assets has been conducted and the loss on revaluation of GBP 41,600 has been recognised in the consolidated financial statements. The result of the impairment test, what was held in 2012, was that the carrying value of the intangible asset as at December 31, 2012 is considered appropriate.

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 2012, was that no impairment needs to be rec–ognised and the carrying value of the acquired goodwill is considered appropriate.

After having analyzed all key factors the Group`s Man–agement decided that as of December 31, 2012 the Goodwill of Letichiv Dairy Plant did not lose any of its value. The directors believe this asset has unlimited use–ful life duration and has been tested as part of Group`s single cash generating unit. See Note 14.

The Group`s production plans are based on the estab–lished practice of production and distribution of dairy products in the raw material zone of Letichiv Dairy Plant and it foresees the use of this asset for an unlimited period of time.

Maintenance of Goodwill does not require considerable costs and the Group does not plan such inputs in the future.

Taking into consideration all the factors mentioned above, the Group`s Management does not see any reasons for Goodwill impairment as of December 31, 2012 and con–siders that the amount of GBP 0.1 million is its fair value.

16. DEFERRED TAX ASSETS AND LIABILITIES

For the year ended 31 December 2012, deferred tax assets and liabilities were presented as follows:

	As at 31 December 2012 £ '000		As at 31 December 2011 £ '000	
Deferred tax asset at the beginning of the year	(50)	–	(248)	–
Deferred tax liability at the beginning of the year	–	881	–	1 434
Deferred tax asset recognised in income statement during the year	2	–	190	–
Deferred tax liability recognised in income statement during the year	–	(20)	–	(196)
Reduction in deferred tax due to decrease in property, plant and equip–ment revaluation reserve because of amortisation	–	(73)	–	(124)
Effect from tax rate change (2010: 25%, 2011: 23%, 2012: 21%)	–	(83)	–	(206)
Exclusion from Group	–	–	–	(2)
Exchange differences on translation to the presentation currency	2	(35)	8	(25)
Deferred tax asset at the end of the year	(46)	–	(50)	–
Deferred tax liability at the end of the year	–	670	–	881

17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Raw materials	817	909
Work in progress	367	662
Finished goods	1 660	2 338
Other inventories	571	725
	3 415	4 634

18. TRADE AND OTHER RECEIVABLES

As at the reporting dates receivables were presented as follows:

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Trade receivables	5 431	5 239
Other receivables	1 129	901
Prepayments	339	766
	6 899	6 906

The Group's management believes that the carrying value for trade and other receivables is a reasonable approx–imation 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 2011 and 31 December 2012 is presented as follows:

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
In less then 1 year	6 899	6 906
	6 899	6 906

As at 31 December 2012, there were no trade and other receivables past due not impaired (2011: Nil).

19. CURRENT TAXES

As at the reporting dates receivables were presented as follows:

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
VAT receivable	2 833	388
Other prepaid taxes	157	16
	2 990	404

20. OTHER FINANCIAL ASSETS

As at the reporting dates receivables were presented as follows:

Loans and receivables	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Loans issued to related parties	45	2
Loans issued to third parties	124	129
Loans issued to employees	27	46
	196	177

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

21. CASH AND CASH EQUIVALENTS (EXCLUDING BANK OVERDRAFTS)

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

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Cash – in UAH	23	19
Bank – in UAH	303	315
Cash – in other currencies	–	–
Bank – in other currencies	89	178
	415	512

As at 31 December 2012 bank deposits were presented as follows:

Bank	Currency of deposit	Interest rate	Deposit opening date	Deposit termination date	As at 31 December 2011 £ '000
OTP Bank	UAH	6,5%	13.01.2012	no termination date	–
OTP Bank	EUR	1,5%	13.01.2012	no termination date	–
					–

22. SHARE CAPITAl

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

	Authorised			
	As at 31 December 2012 Number '000	As at 31 December 2012 £ '000	As at 31 December 2011 Number '000	As at 31 December 2011 £ '000
Ordinary shares of 10p each	60 000	6 000	60 000	6 000

	Issued and fully paid at beginning and end of the year			
	As at 31 December 2012 Number '000	As at 31 December 2012 £ '000	As at 31 December 2011 Number '000	As at 31 December 2011 £ '000
Ordinary shares of 10p each				
At beginning of the year	40 818	4 082	40 818	4 082
Own shares acquired	–	–	–	–
At end of the year (excluding shares held as treasury shares)	40 818	4 082	40 818	4 082

	Held as treasury shares			
	As at 31 December 2012 Number '000	As at 31 December 2012 £ '000	As at 31 December 2011 Number '000	As at 31 December 2011 £ '000
Ordinary shares of 10p each				
At beginning of the year	2 000	200	2 000	200
Own shares acquired	–	–	–	–
At end of the year	2 000	200	2 000	200

As at 31 December 2012 the Company held a total of 2 000 250 Ordinary Shares as treasury shares and the total number of Ordinary Shares in issue (excluding shares held as treasury shares) was 40 817 599.1.

23. OTHER RESERVES

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

	Share premium	Merger reserve	Translation reserve	Revaluation reserve	Total other reserves
	£ '000	£ '000	£ '000	£ '000	£ '000
At 1 January 2011	4 555	(1 427)	(5 426)	4 366	2 068
Own shares acquisition	–	–	–	(302)	(302)
Gain on revaluation of fixed assets	–	–	–	206	206
Depreciation on revaluation of property, plant and equipment	–	–	–	(136)	(136)
Exclusion from Group	–	1 060	–	–	1 060
Exchange differences on translation to the presentation currency	–	–	(28)	(28)	(28)
At 31 December 2011	4 555	(367)	(5 454)	4 134	2 868
Depreciation on revaluation of property, plant and equipment	–	–	–	(283)	(283)
Impact of the change in tax rate	–	–	–	83	83
Reduction of revaluation reserve	–	–	–	(57)	(57)
Exchange differences on translation to the presentation currency	–	–	(885)	–	(885)
At 31 December 2012	4 555	(367)	(6 339)	3 877	1 726

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 undis–tributable.
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. NON-CONTROLLING INTERESTS

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
At 1 January	–	20
Net profit for the period	–	10
Decrease of Non–controlling interests	–	(30)
At 31 December	–	–

25. BANK LOANS AND OVERDRAFTS

As at 31, December 2012, the Group had received EUR 7.0 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 productiv–ity of the Starokonstantinovskiy Molochniy Zavod SC plant.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit £ '000	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
EBRD	EUR	Loan	31.03.2011	10.09.2018	≈ 8,5%	8 986	5 720	3 844
OTP Bank	UAH, USD	Credit line	30.05.2011	26.06.2014	23,6%	101	2 931	3 148
OTP Bank	UAH	Loan	14.10.2011	01.10.2012	18,5%	7	–	7
Bank Forum PJSC	UAH	Credit line	20.10.2011	19.10.2012	21,8%	388	–	106
UkrSibbank PJSC	UAH	Overdraft	28.04.2011	31.05.2013	20%	388	308	253
Credit Europe Bank	UAH	Credit line	08.08.2012	07.08.2015	current market rate	1 551	–	–
							8 959	7 358

The average interest rate as at 31 December 2012 was 12.9% (2011: 16.5%).

Maturity of financial liabilities

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
On demand	308	253
In less than 1 year*	3 748	3 261
In more than 1 year*	4 903	3 844
	8 959	7 358

*extendable according to 3–year agreement with bank.

Interest rate profile of financial liabilities

	Floating rate £ '000	Fixed rate £ '000	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
On demand	308	–	308	253
Expiry within 1 year	817	2 931	3 748	3 261
Expiry in more then 1 years	4 903	–	4 903	3 844
	6 028	2 931	8 959	7 358

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

	Floating rate liabilities £ '000	Fixed rate liabilities £ '000	Total as at 31 December 2012 £ '000	Total as at 31 December 2011 £ '000
UAH	308	2 931	3 239	3 514
EUR	5 720	–	5 720	3 844
	6 028	2 931	8 959	7 358

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

	Book value as at 31 December 2012 £ '000	Fair value as at 31 December 2012 £ '000	Book value as at 31 December 2011 £ '000	Fair value as at 31 December 2011 £ '000
Bank loans	8 651	8 651	7 105	7 105
Bank overdrafts	308	308	253	253
	8 959	8 959	7 358	7 358

26. TRADE AND OTHER PAYABLES

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Trade payables	3 603	2 235
Other payables	344	328
Prepayments received	25	170
Accruals	288	282
Provisions	252	150
	4 512	3 165

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

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

For the year ended 31 December 2012, provisions were presented as follows:

	As at 31 December 2012 £ '000		As at 31 December 2011 £ '000	
Impaired trade and other receivables at the beginning of the year	40	–	–	–
Holiday allowance at the beginning of the year	–	110	–	1
Accrual	110	372	42	330
Use of allowances	(4)	(351)	(3)	(225)
Effect of translation to presentation currency	(20)	(5)	1	(4)
Impaired trade and other receivables at the end of the year	126	–	40	–
Holiday allowance at the end of the year	–	126	–	110

27. EARNINGS PER SHARE

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

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Net profit attributable to ordinary shareholders	852	410
Weighted number of ordinary shares in issue	40 817 599	40 817 599
Basic earnings per share, pence	2,09	1,00
Diluted average number of shares	40 817 599	40 817 599
Diluted earnings per share, pence	2,09	1,00

28. DIVIDENDS

Due to the business circumstances dictating the prudence and cash conservation, the Board has decided not to pay a final dividend in respect of the year ended 31 December 2012.

	year ended 31 December 2012 £ '000	year ended 31 December 2011 £ '000
Final dividend for 2011 were not paid (2010 – 0.50 pence) per ordinary share proposed and paid during the year relating to the previous year's results	–	204
	–	204

29. SHARE-BASED PAYMENTS

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

	2012 Weighted average exercise price		2012 Weighted average exercise price	
	£	Number	£	Number
Outstanding at beginning of the year	0, 128	130 290	0, 128	130 290
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	–	–	–	–
Outstanding at the end of the year	0, 128	130 290	0, 128	130 290
Exercisable at the end of the year	0, 128	130 290	0, 128	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.

Taking into account the fair value estimate of options granted at the grant date, no remuneration charge was recognised in statement of comprehensive income in 2012.

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%

30. CURRENCY ANALYSIS

Currency analysis for the year ended 31 December 2012 is set out below:

	UAH	USD	RUR	GPB	EUR	Total
Assets						
Trade and other receivables	5 788	1 077	–	25	9	6 899
Current taxes	2 990	–	–	–	–	2 990
Other financial assets	151	45	–	–	–	196
Cash and cash equivalents	326	84	–	5	–	415
Total assets	9 255	1 206	–	30	9	10 500
Liabilities						
Bank borrowings	3 239	–	–	–	5 720	8 959
Trade and other payable	4 192	147	–	–	173	4 512
Current income tax liabilities	110	–	–	–	–	110
Other taxes payable	121	–	–	–	–	121
Total Liabilities	7 662	147	–	–	5 893	13 702

Currency analysis for the year ended 31 December 2012 is set out below:

	UAH	USD	RUR	GPB	EUR	Total
Assets						
Trade and other receivables	5 726	1 154	–	–	26	6 906
Current taxes	404	–	–	–	–	404
Other financial assets	177	–	–	–	–	177
Cash and cash equivalents	447	60	–	5	–	512
Total assets	6 754	1 214	–	5	26	7 999
Liabilities						
Bank borrowings	3 514	–	–	–	3 844	7 358
Trade and other payable	2 999	164	–	–	2	3 165
Current income tax liabilities	108	–	–	–	–	108
Other taxes payable	251	–	–	–	–	251
Total Liabilities	6 872	164	–	–	3 846	13 702

10% strengthening of Hryvnia rate against the following currencies as at 31 December 2012 and 2011, 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 2012 £ '000	Effect on income before tax in 2011 £ '000
USD	10%	106	105
EUR	10%	(588)	(382)
RUR	10%	–	–
USD	–10%	(106)	(105)
EUR	–10%	588	382
RUR	–10%	–	–

31. 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 op–erational 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 December 2012 £ '000	year ended 31 December 2011 £ '000
Sales	289	326
Other operational incomes	–	1 719
Purchases	84	(1 381)

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

	As at 31 December 2012 £ '000	As at 31 December 2011 £ '000
Receivables and prepay–ments	86	48
Loans issued	45	2
Trade and other payables	(173)	(424)

In 2012, the Group's commercial relationships with the related parties comprised sales, purchases, provision, repayment of loans. 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.

32. COMMITMENTS AND CON-TINGENCIES

(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 ex–posed to the risk in case if any unfavorable 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 disagree–ments 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 2012 and 2011 the Group had no liabilities for supplementary pensions, health care, insurance benefits or retirement indemnities to its current or former employees.

The amount of uncancellable lease commitments is insignificant.

As of December 31, 2012 the Group does not possess any finance lease and hire purchase commitments, capital commitments and guarantees.

33. SUBSEQUENT EVENTS

There were no essential subsequent events that should be disclosed in these consolidated financial statements according to the standards or prevailing practice.

Corporate advisers

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26 New Street

St Helier

Jersey JE2 3RA

Registered number 88352 in Jersey

Financial Calendar

Date	Event
31 December 2012	Financial year end
17 April 2013	Announcement of full year 2012 results
26 June 2013	Annual General Meeting

Analysis of shareholding at 31 December 2012

Size of shareholdings	Number of holders	% of total	Total holdings, shares	% of total
Up to 5,000 shares	40	39,22	75,128	0.18
5,001 to 50,000 shares	30	29,4	555,843	1.30
50,001 to 200,000 shares	13	12,75	1,642,367	3.84
Over 200,000 shares	19	18,63	40,544,511	94.69
Total	102	100,00%	42,817,849	100.00

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 31 December 2012, 67.52% of the common shares of the Group.

Share price (pence) year to 31 December 2012

At end of year: 10.0 p	Lowest: 9.5 p	Highest: 19.0 p

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 de–tails, 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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Table of Figures

p/n	Name	Source
3	Johannes Vermeer – The Milkmaid – 1657–1658 – Rijksmuseum, Amsterdam	http://en.wikipedia.org
7	Constant Troyon – Herdsman – 1860 – Budapest Museum of Fine Arts	http://www.wikipaintings.org
11	Floris van Dijck – Still life with cheese – 1615 – Rijksmuseum, Amsterdam	http://en.wikipedia.org
15	Adriaen van de Velde – Cows on a Meadow – 1658 – Staatliche Museen, Berlin	http://commons.wikimedia.org
19	Clara Peeters – Still Life With Cheeses, Almonds and Pretzels – c. 1615 – The Hague – The Royal Picture Gallery Mauritshuis	http://commons.wikimedia.org
25	Nicolaes Berchem – Mountain Landscape with Shepherds and Flock – 1673 – The Royal Collection, England	http://en.gallerix.ru
29	Jacob van Strij – Dutch Landscape with Cattle and Farm	http://www.wikipaintings.org
33	Nicolas Gillis – Still Life With Cheese, Sausage, Fish and Bread – Madrid, Prado	http://www.liveinternet.ru
37	Adriaen van de Velde – The Hut – 1671 – Rijksmuseum Amsterdam, Amsterdam	http://commons.wikimedia.org
41	Floris van Dyck – Still Life with Fruit, Nuts and Cheese – 1613 – Frans Hals Museum	http://commons.wikimedia.org
51	Nicolaes Berchem – The Shepherds on the Edge of the Forest – Private Collection	http://gallerix.ru