

Industrial Milk Company S.A. and its subsidiaries

**Consolidated Financial Statements
For the year ended 31 December 2016**

and

Report of the the réviseur d'entreprises agréé

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Management statement

This statement is provided to confirm that, to the best of our knowledge, the consolidated financial statements for the year ended 31 December 2016, and the comparable information, have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union and give a true, fair and clear view of Group's assets, financial standing and net results, and that the directors' report on the operations truly reflects the development, achievements and position of the Group, including a description of the key risk factors and threats.

On behalf of the Management:

Chief Executive Officer ALEX LISSITSA signed

Chief Financial Officer DMYTRO MARTYNIUK signed

Consolidated management report

1. Business and General Conditions
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1 .Business and General Conditions

Macro-economic development

- **World economy**

For the IMC, global business conditions in agriculture in 2016 were marked by a record world production of main crops for the last five consecutive years (wheat, corn and soybean).

In 2016 the favorable weather conditions contributed to the growth of production in the main agricultural regions of the world.

Increased production of wheat and corn have been partially compensated by consumption growth, but finally global ending stocks of the above mentioned crops increased by 4-5% which resulted in some decrease of prices for these crops by 3-8%.

For soybean, the upward price trend in March-June 2016 (+30%) based on market expectation of larger consumption and smaller stocks was later compensated by the forecasted record crop and stocks increase, but finally average soybean prices in 2016 were 5-7% higher than in 2015.

According to the United States Department of Agriculture (USDA report, April 2017) the following results are forecast for IMC's main crops in 2016/17 MY:

Wheat

Global wheat production in 2016/17 MY - 751.4 mln MT, +2% vs. 2015/16 MY

Global wheat consumption in 2016/17 MY - 740.8 mln MT, +4% vs. 2015/16 MY

Global wheat ending stocks in 2016/17 MY - 252.3 mln MT, +4% vs. 2015/16

Corn

Global corn production in 2016/17 MY - 1 053.8 mln MT, + 9% vs. 2015/16 MY

Global corn consumption in 2016/17 MY - 1042.6 mln MT, + 8.5% vs. 2015/16 MY

Global corn ending stocks in 2016/17 MY - 223 mln MT, +5% vs. 2015/16 MY

Soybean

Global soybean production in 2016/17 MY – 346 mln MT (+10.5% vs. 2015/16)

Global soybean crushing in 2016/17 MY - 292 (+6% vs. 2015/16)

Global soybean ending stocks in 2016/17 MY – 87.4 (+13.3% vs. 2015/16)

- **Ukrainian economy**

According to the State Statistic Service of Ukraine there were some positive movements in macroeconomic indexes in 2016:

- the GDP grew by 2.3% (vs. decline of 9.9% in 2015 and decline of 6.6% in 2014);
- Inflation in 2016 amounted to 12.4% (vs. 43.3% in 2015 and 24.9% in 2014).
- The national currency (hryvnia) devaluated by 11.7% in 2016 (vs. 34% in 2015).

2016 year was also favorable for crop farming in Ukraine. According to the estimates of the State Statistics Service of Ukraine the harvest of grain and leguminous in 2016 totaled 66.1 million tonnes (+10% vs. 2015), the harvest of sunflower – 13.6 mln. tonnes (+22% vs. 2015).

Since 01.01.2016 some changes in tax legislation have taken place in Ukraine. The VAT preferences have been partially preserved for farmers in 2016, allowing retaining a portion of VAT amounts as follows:

- For crop farming operations - 85% of VAT amount is to be paid to the State budget, 15% of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities;
- For live-stock breeding operations - 20% of VAT amount is to be paid to the State budget, 80 % of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities;
- For other agricultural activities - 50% of VAT amount is to be paid to the State budget, 50 % of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities.

Development of Industrial Milk Company S.A. and its Subsidiaries (the hereinafter «the Group» or «IMC»)

- **Business overview**

Today IMC is the vertically integrated and high-technology group of companies operating in Sumy, Poltava and Chernihiv region (northern and central Ukraine) in three segments: crop farming, dairy farming, elevators and warehouses.

Crop farming

The land bank of the company consists of five clusters within which the fields are situated close to each other. This allows increasing extensively the operational efficiency, and decreasing the expenditure through optimizing of human and technical resources involvement, as well as promoting of effective operational management.

IMC applies modern manufacturing and management practice in agriculture, and constantly invests in acquisition of new farming machinery and equipment of the leading world brands.

On the fields of IMC the system of different depth soil cultivation is applied: deep ripping, ploughing, disking, and cultivation. Rotation of these cultivation methods allows creating the optimal conditions for growing and development of agricultural crops.

The IMC technology for crop farming anticipates using of seeds, fertilizers, and crop-protecting products only from the best national and foreign manufacturers.

The elements of precision farming are tested and introduced, such as: systems for GPS-monitoring of the machinery, auto-piloting, satellite monitoring, variable norms for seeding, and differentiated fertilization.

Dairy farming

Dairy farming supplies high quality milk for customers-processing enterprises and ensures working places in the regions.

The major portion of milk which IMC produces is rated as a milk of Extra category and the rest – as category I. IMC is one of the few industrialized milk producers which has an Operational permit for Baby Food Products, allowing it to sell milk to baby-food processing plants. This is another evidence of the high quality of the produced milk by the Company.

Elevators and warehouses

IMC owns and operates storage facilities with significant storage capacity situated in close proximity to its operations in each of its clusters.

The Company utilizes only its own storage facilities. The existing storage capacities satisfy 100% of the Company's storage needs with sufficient capacity to meet its projected increased production in the short-term.

The existing storage capacities enable IMC to sell its produce throughout the marketing season, to reduce negative impact of crop pressure on prices at harvest time and at the same time to mitigate risks related to physical security of stocks.

The Company also leases excess storage capacity to the third parties.

• **Corporate structure**

The parent company of the Group of companies "IMC" is Industrial Milk Company S.A. It is a limited company registered in accordance with the legislation of Luxembourg.

Unigrain Holding Limited is a direct subsidiary company of Industrial Milk Company S.A. and the parent company of Burat-Agro LLC, Burat LLC, Chernihiv Industrial Milk Company LLC, PJSC Mlibor. In addition, PJSC PKZ belongs directly to Burat LLC and the subsidiary company Zemelniy Kadastroviy Centr Plus belongs directly to Chernihiv Industrial Milk Company LLC.

In 2011 Industrial Milk Company S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited) the silo PJSC Vryvske HPP and the following agrarian companies:

- PAE Slavutich
- PE Progress 2010
- PAE Promin
- AF Kalynivska-2005, Ltd
- AF Zhovtneva, Ltd
- AF Shid-2005, Ltd
- AIE Vryvske, Ltd
- Pisky, Ltd
- SE Vryy-Agro

On November 30, 2011 to decrease expenses and to improve management quality the agrarian companies PAE Slavutich and PE Progress 2010 were joined to Chernihiv Industrial Milk Company LLC, and PAE Promin was joined to Burat-Agro LLC.

On August 30, 2011 owing to increase of volumes of export sales of the Group the direct subsidiary company Unigrain Holding Limited established Aristo Eurotrading Ltd (BVI).

During the 12-month period ended 31 December 2012 Industrial Milk Company S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited and Burat-Agro LLC belongs directly to Unigrain Holding Limited) the following agrarian companies:

- Ukragrosouz KSM, Ltd
- PAC Slobozhanschina Agro
- Bluerice Limited. The following companies became the part of the Group, as their owner is Bluerice Limited: Agroprogress Holding Ltd, Agroprogress PE, Bobrovitsky Hlebzavod Ltd, Plemzavod Noviy Trostyanets Ltd, PJSC "Bobrovitske HPP", Losinovka-Agro Ltd, Parafiyivka-Progress Ltd, Nosovsky Saharny Zavod Ltd.

In November 2013 owing to increase of volumes of export sales of the Group IMC established Negoce Agricole S.A. (Luxembourg).

In December 2013 Industrial Milk Company S.A. purchased (indirectly, through its subsidiary companies Unigrain Holding Limited and PAC Slobozhanschina Agro) the agrarian company AgroKIM Ltd.

- **Group strategy**

In 2016 IMC operated in accordance with its updated strategy for 2016-2020 years published on 15 February 2016:

- The Company maintains the land bank expansion strategy for 2016-2020. According to this strategy the Company intends to increase land bank from 136.6 ths ha in 2016 year to 206.6 ths ha in 2020. The plans of the Company include growth of land bank to 156.6 ths ha in 2017 and 176.6 ths ha in 2019.
- The Company has sufficient grain storage capacities in line with the above mentioned land bank expansion strategy till 2020. The Company doesn't plan to increase grain storage capacities, but plans to reconstruct/modernize some of the Company's silos with the aim to improve their efficiency and replacement of existing flat storage capacities with modern storage bins. Following the strategy on modernization of grain storages, in October 2016 IMC put into operation two new grain storage silos at its grain elevator in Sumy cluster (PJSC "Vyryvske HPP"). The total capacity of two new storage silos is 15 thousand tonnes. Modern silos of Italian production (FRAME) equipped with Canadian conveyors (HSI), from a world renowned manufacturer AG GROWTH INTERNATIONAL, were built for 3 months. New silos were installed to replace the old flat grain storages located on the territory of the grain elevator in Sumy cluster as well as other old flat grain storages located within Sumy cluster of IMC.
- Simultaneously the Company intends to keep focus on growing of limited number of highly profitable export-oriented crops which are optimal for effective crop rotation and suitable for land and climate specifics (corn, wheat, soybean and sunflower). The Company plans to maintain corn as the main crop with the share in crop mix about 50%

- **The internal control system**

IMC's control system relies on daily resource planning analyses which are detailed by cost centre and cost article, department, thus providing all the necessary information for controlling inventories and products.

IMC established internal controlling instruments to secure proper accounting in compliance with legal requirements.

IMC's accounting procedures are governed by standardized guidelines and rules as well as a clearly defined course of action in different situation. Therefore, standard account parameters and booking directions for various production operations were established. Another control tool is the clear allocation of functions regarding various accounting processes. For Group consolidation and accounting purposes all bookkeeping data of the consolidated companies may be accessed automatically.

The internal control system of IMC is based on the accounting database thus integrating all controlling processes. Accounting processes are carried out on a high-level basis and are monitored and adjusted by specialists.

IMC's accounting-related risk management system is set up in a way that the risk of misrepresentation could mainly ensue from new business processes or amendments to legal provisions. Risks are contained by transferring decisions on accounting-relevant data resulting from new business processes to the management level. Ongoing continuation training regarding the applicable accounting provisions from time to time is provided to the management.

• **Personnel**

Trained and motivated employees are the most precious success resource for an enterprise dedicated to agricultural production. Motivation and professionalism are prerequisites for excellent results. IMC can always rely on its qualified and motivated staff. Future-oriented technologies, trained personnel and continuation training of the company's employees are vital to secure quality and low cost of agricultural products.

As IMC is a vocational training provider, the company is able to train its qualified skilled workers and executives mainly from its own staff. Specialized training programs are aimed at the improvement of employees' professional skills. Open communication channels on all levels, short decision-making processes are values applied and lived.

For the year ended 31 December

	2016	2015	Change in %
Total number of employees	2 730	2 789	-2%
operating personnel	2 094	2 152	-2%
administrative personnel	606	607	0%
sales personnel	24	24	0%
non-operating personnel	6	6	0%
Wages and salaries and related charges per employee (USD, for 12 months ended 31 December)	3 804	3 156	21%

In 2016 IMC implemented crucial policies that are extremely important for staff to understand that they work in the company with respect for employees & human rights. People are employed based on the principle of equal opportunity, without distinction to race, color, gender, sexual orientation, religion, descent or origin.

IMC standards related to employees' & human rights are included in the next Policies:

- Non-discrimination and equal opportunities in employment Policy
- Non-discrimination on grounds of sexual orientation and gender identity Policy
- Policy of collective bargaining
- Policy on freedom for workers to form or join trade unions
- Policy of nursing and expectant mothers
- Policy on working hours and overtime
- Employment of young person under the age of 18 Policy

IMC inform employees about the existence of such procedures and stimulate the proper use of these procedures. All policies are provided for the employees and guests of IMC regional companies.

IMC is focused on driving the Company forward so we provide our staff with training and learning possibilities for them to possess skills and knowledge necessary to achieve strategic goals. In 2016 more than 300 employees of production department were trained by best Ukrainian and American specialists in agribusiness. But IMC cares not only about professional knowledge and skills that is why we implemented program for development leadership and people management skills for 70 linear managers.

- **Health, Safety and Environment (HSE) management system**

Based on the experience of the world's leading companies, in 2016 IMC has started formation of the Health, Safety and Environment (HSE) management system. HSE department was formed at IMC's headquarter, designed to assist top-management of IMC in development and implementation of the company's strategy in these areas. On June 10, 2016 IMC approved a 5-year strategy of the company on Occupational Health and Safety and Environmental Protection in 2016-2020, which determines the priority directions of development of the company in this area.

IMC is committed to involving all employees in the management for issues of Environment, Health & Safety and Social Aspects at IMC and its subsidiaries.

IMC is constantly renewing its machinery and investing in technology, which has significant positive effect both on environmental and OH&S issues.

Employees are receiving personal protective equipment and personal protective clothes for working with chemicals.

IMC is continuously improving the management system in the field of environmental and occupational health & safety, and is implementing new approaches based on the best local and international practices.

IMC's enterprises annually implement a set of measures, where, along with traditional safety briefing instructions and control measures, the following are applied:

- Improvement of labor conditions;
- Identification and elimination of industrial hazards;
- Health and safety management systems improvement;
- Health and safety trainings in partnership with the leading training institutions;
- Provision of modern and high quality personal and mass protective equipment;
- Raising employee awareness and safe work methods promotion;
- Improvement of health care services for the employees;
- Work with contractor organizations.

On July 7, 2016 the Policy & Principles on Health, Safety and Environment of the IMC's enterprises have been adopted.

All IMC's enterprises have the Emergency Preparedness and Response plans (EPRP) for localization and liquidation of emergencies and accidents. The availability of such plans is obligatory in Ukraine and is regulated by legal requirements & local legislation. At the corporate level, the procedure of rapid incident notification from IMC enterprises to the Company Headquarters was implemented in May, 2016 in order to improve emergency response capacity and assure timely decision-making.

Our employees are trained in the actions of the emergencies and accidents. Regular studies are conducted on IMC's enterprises, including those involving external training centers and organizations.

At the corporate level, the procedure of root causes identification was implemented in July, 2016 in order to improve the response to HSE management system, internal investigation and assure timely development of effective corrective and preventive measures.

All investments and initiatives in social projects including personalized support and projects of local infrastructure maintenance and development (roads, water supply, public lighting, schools, kindergartens, FAPs and medical points etc.) that IMC conducts within the villages it operates are conducted on the principles of «IMC. Aid to People» program. The Program includes obligatory social consultations and PR efforts for all significant investments. Local communities are involved in projects prioritization, budgeting and planning of necessary actions.

The investments and initiatives for such projects in 2016 have reached 4 620 616 UAH.

2. Operational and Financial Results

The following table sets forth the Company's results of operations in 2016 and 2015 derived from the Consolidated Financial Statements:

	Notes	For the year ended		Change in %
		31 December 2016	31 December 2015	
CONTINUING OPERATIONS				
Revenue	7	124 744	140 388	-11%
Gain from changes in fair value of biological assets and agricultural produce, net	8	66 187	38 732	71%
Cost of sales	9	(130 004)	(104 775)	24%
GROSS PROFIT		60 927	74 345	-18%
Administrative expenses	10	(6 343)	(4 813)	32%
Selling and distribution expenses	11	(6 521)	(8 470)	-23%
Other operating income	12	2 943	8 735	-66%
Other operating expenses	13	(3 252)	(8 915)	-64%
Write-offs of property, plant and equipment		(1 764)	(1 109)	59%
Impairment of property, plant and equipment, net		-	(1 216)	-100%
OPERATING PROFIT		45 990	58 557	-21%
Financial expenses, net	16	(12 294)	(14 982)	-18%
Effect of additional return		(3 715)	(3 141)	18%
Foreign currency exchange (loss)/gain, net	17	(8 492)	(29 965)	-72%
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		21 489	10 469	105%
Income tax expenses	18	349	23	1419%
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		21 838	10 492	108%
Non-recurring items:				
Financial expenses, net		12 294	14 982	
Effect of additional return on interest rate		3 715	3 141	
Foreign currency exchange (loss)/gain, net		8 492	29 965	
Income tax expenses		(349)	(23)	
Depreciation and amortization		11 248	5 640	
Write-offs of property, plant and equipment		1 764	1 109	
Normalised EBITDA		59 002	65 306	-10%
Depreciation and amortization		(11 248)	(5 640)	
Normalised EBIT		47 754	59 666	-20%
Financial expenses, net		(12 294)	(14 983)	
Income tax expenses		349	23	
Normalised Net profit		35 809	44 706	-20%

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 6

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
Consolidated Financial Statements



Revenue

The Company's revenue from sales of finished products decreased by 11% in 2016 in comparison with previous year.

The following table sets forth the Company's sales revenue by products indicated:

(in thousand USD)

	For the year ended		Change in %
	31 December 2016	31 December 2015	
Corn	75 991	94 125	-19%
Sunflower	24 647	24 453	1%
Wheat	9 885	8 845	12%
Soy beans	6 615	5 889	12%
Milk	3 024	3 747	-19%
Cattle	1 747	1 032	69%
Potatoes	1 219	1 228	-1%
Other	998	550	82%
	124 126	139 869	-11%

The most significant portion of the Company's revenue comes from selling corn, which represented 61% and 67% of total revenue of 2016 and 2015, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

(in thousand USD)

	For the year ended	
	31 December 2016	31 December 2015
Corn		
Sales of produced corn (<i>in tonnes</i>)	502 605	608 620
Realization price (U.S. \$ per ton)	151	155
Revenue from produced corn (<i>U.S. \$ in thousands</i>)	75 991	94 125
Wheat		
Sales of produced wheat (<i>in tonnes</i>)	68 929	56 524
Realization price (U.S. \$ per ton)	143	156
Revenue from produced wheat (<i>U.S. \$ in thousands</i>)	9 885	8 845
Soy beans		
Sales of produced soy beans (<i>in tonnes</i>)	16 996	16 069
Realization price (U.S. \$ per ton)	389	367
Revenue from produced soy beans (<i>U.S. \$ in thousands</i>)	6 615	5 889
Sunflower		
Sales of produced sunflower (<i>in tonnes</i>)	75 114	67 009
Realization price (U.S. \$ per ton)	328	365
Revenue from produced sunflower (<i>U.S. \$ in thousands</i>)	24 647	24 453
Potatoes		
Sales of produced potatoes (<i>in tonnes</i>)	16 285	13 725
Realization price (U.S. \$ per ton)	75	89
Revenue from produced potatoes (<i>U.S. \$ in thousands</i>)	1 219	1 228
Other (produced only)		
Total sales volume (<i>in tonnes</i>)	11 212	1 386
Total revenues (<i>U.S. \$ in thousands</i>)	998	550
Total sales volume (<i>in tonnes</i>)	691 141	763 333
Total revenue from sale of crops (<i>U.S. \$ in thousands</i>)	119 355	135 090

Revenue relating to sales of corn decreased by 19% to USD 76,0 million in 2016 from USD 94,1 million in 2015, due to an decrease in sales volume (tons) in 2016.

Revenue relating to sales of wheat increased by 12% to USD 9,9 million in 2016 from USD 8,8 million in 2015, due to an increase in sales volume (tons) in 2016.

Revenue relating to sales of soy beans increased by 12% to USD 6,6 million in 2016 from USD 5,9 million in 2015, due to an increase in sales volume (tons) and price in 2016.

Revenue relating to sales of cattle increased by 69% to USD 1,7 million in 2016 from USD 1,0 million in 2015, due to an increase in sales volume (tons) in 2016.

Revenue relating to sales of milk decreased by 19% to USD 3,0 million in 2016 from USD 3,7 million in 2015, due to an decrease in sales volume (tons) as a result of increase in cattle sales in 2016.

Cost of sales

The Company's cost of sales increased by 24% to USD 130,0 million in 2016 from USD 104,8 million in 2015. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

(in thousand USD)

	For the year ended		Change in %
	31 December 2016	31 December 2015	
Raw materials	(81 581)	(82 979)	-2%
Rent	(13 852)	(10 008)	38%
Depreciation and amortization	(9 489)	(4 754)	100%
Fuel and energy supply	(8 931)	(8 877)	1%
Change in inventories and work-in-progress	(7 191)	12 484	-158%
Wages and salaries of operating personnel and related charges	(6 057)	(5 579)	9%
Third parties' services	(1 457)	(4 193)	-65%
Taxes and other statutory charges	(845)	(515)	64%
Repairs and maintenance	(553)	(332)	67%
Other expenses	(48)	(22)	114%
	(130 004)	(104 775)	24%

Rent increased by 38% to USD 13,9 million for the 12-month period ended 31 December 2016 from USD 10,0 million for the 12-month period ended 31 December 2015. This increase was due to changes in Ukrainian legislation in 2016.

Depreciation and amortization increased by 100% to USD 9,5 million for the 12-month period ended 31 December 2016 from USD 4,8 million for the 12-month period ended 31 December 2015. This increase was due to revaluation of property, plant and equipment as at 31 December 2015.

Change in inventories and work-in-progress increased by 158% for the 12-month period ended 31 December 2016 due to large volume of stock as at the beginning of the year 2016.

Third parties' services decreased by 67% to USD 1,4 million for the 12-month period ended 31 December 2016 from USD 4,2 million for the 12-month period ended 31 December 2015. This decrease was due to execution of the part of services by the Group but not the third parties (for example – harvesting services, transport services).

Taxes and other statutory charges increased by 64% to USD 0,8 million for the 12-month period ended 31 December 2016 from USD 0,5 million for the 12-month period ended 31 December 2015. This increase was due to changes in Ukrainian legislation in 2016.

Gross profit

The Company's gross profit decreased to USD 60,9 million for the 12-month period ended 31 December 2016 from USD 74,3 million for the 12-month period ended 31 December 2015, an 18% year-on-year decrease. In relative terms, the total cost of sales went up 24% year-on-year.

Administrative expenses

Administrative expenses increased year-on-year to USD 6,3 million for the 12-month period ended 31 December 2016 from USD 4,8 million for the 12-month period ended 31 December 2015, reflecting an increase in wages and salaries of administrative personnel and related charges to USD 4,0 million from USD 3,0 million.

Selling and distribution expenses

Selling and distribution expenses decreased year-on-year to USD 6,5 million for the 12-month period ended 31 December 2016 from USD 8,5 million for the 12-month period ended 31 December 2015, reflecting an decrease in the volume of realization in 2016.

Other operating income

The Company's other operating income decreased by 66% to USD 2,9 million for the 12-month period ended 31 December 2016 from USD 8,7 million for the 12-month period ended 31 December 2015 due to decrease in income from subsidized VAT.

Other operating expenses

Other operating expenses decreased by 64% to USD 3,3 million for the 12-month period ended 31 December 2016 from USD 8,9 million for the 12-month period ended 31 December 2015 reflecting an decrease in losses from VAT on export operations.

Financial expenses, net

The Company's financial expenses, net decreased by 18% to USD 12,3 million for the 12-month period ended 31 December 2016 from USD 15,0 million for the 12-month period ended 31 December 2015. This decrease was related to the repayment of loans and borrowings in 2016.

Foreign currency exchange loss, net

Foreign currency exchange loss, net decreased to USD 8,5 million for the 12-month period ended 31 December 2016 from USD 30,0 million for the 12-month period ended 31 December 2015. This decrease reflected the less devaluation of UAH in 2016 in comparison with 2015 – 11,7% and 34,3% correspondingly. Reporting currency of Ukrainian companies is UAH and according to IFRS requirements loans and borrowings denominated in USD have to be revaluated as of the date of each reporting period using the closing rate. On the back of the UAH devaluation in 2016 and 2015 as a result of such revaluation of USD loans and borrowings Ukrainian companies have non-cash foreign currency exchange loss in their financial statements. Further the financial statements of the above-mentioned Ukrainian companies are to be consolidated to the Consolidated financial statements of the Group resulting in non-cash foreign currency exchange loss in the Consolidated financial statements of the Group. The nature of this non-cash foreign currency exchange loss is formal (accounting) taking into account that the Group has export revenue denominated in USD which is used on service of loans and borrowings.

Cash flows

The following table sets out a summary of the Company's cash flows for the periods indicated:

(in thousand USD)

	For the year ended	
	31 December 2016	31 December 2015
Net cash flows from operating activities	29 287	34 410
Net cash flows from investing activities	(5 000)	(2 966)
Net cash flows from financing activities	(21 779)	(23 404)
Net increase in cash and cash equivalents	2 508	8 040

Net cash flow from operating activities

The Company's net cash inflow from operating activities decreased to USD 29,3 million for the 12-month period ended 31 December 2016 from USD 34,4 million for the 12-month period ended 31 December 2015. The decrease in 2016 was primarily attributable to changes in current biological assets.

Net cash flow from investing activities

The Company's net cash outflow from investing activities increased to USD 5,0 million for the 12-month period ended 31 December 2016 compared to net cash outflow of USD 3,0 million for the 12-month period ended 31 December 2015. The increase in 2016 was attributable to purchase of property, plant and equipment.

Net cash flow from financing activities

Net cash outflow from financing activities decreased to USD 21,8 million for the 12-month period ended 31 December 2016 from USD 23,4 million for the 12-month period ended 31 December 2015. The decrease in 2016 was primarily due to repayment of long-term and short-term borrowings according to the repayment schedules.

3. Risk Report

Risks relating to the Group's business and Industry are as follows:

- Failure to generate or raise sufficient capital may restrict the Group's development strategy

To decrease an influence of this risk the Group works on several sources of financing: bank crediting, bonds issue, financing by international financial organizations.

- The Group's financial results are sensitive to fluctuations in market prices of its products

To decrease an influence of this risk the Group on permanent basis researches the international and Ukrainian agricultural markets, monitoring price fluctuations and factors affecting these fluctuations (stocks, production, consumption, export, import, forecasts). Based on an analysis of the above-mentioned information the management of the Group makes decisions regarding crop rotation structure and production plans.

- Poor and unexpected weather conditions may disrupt the Group's production of crops

To decrease an influence of this risk the Group is using the following practices:

- On the fields of IMC the system of different depth soil cultivation is applied: deep ripping, ploughing, disking, and cultivation. Rotation of these cultivation methods allows creating the optimal conditions for growing and development of agricultural crops;
- Cultivation of relatively small share (10%) of winter crops in the general crop rotation structure enables to decrease the risk of disruption of a general production of crops during unfavorable winter conditions;

- The Group's operating costs could increase

The risk of Group's operating costs increase is basically connected to a possible price growth for fuel, seeds, fertilizers and crop protection materials.

To reduce the above mentioned risks the Group:

- has implemented the fuel consumption and machinery usage controlling systems using GPS-trackers;
- follows the land bank development strategy based on principle of fields' close proximity to each other that allows to reduce fuel consumption;

- is focused on limited number of crops (not more than 4) that allows to use and purchase seeds, fertilizers and crop protection materials more efficiently;
- has built long-term and mutually benefit relationships with suppliers of seeds, fertilizers and crop protection materials.

- The Group's credit risk could increase

Counterparties involved in transactions with IMC may fail to make scheduled payments, resulting in financial losses to IMC.

To decrease an influence of this risk the Group has implemented credit policy and monitoring practices. Police and operating guidelines include limits in respect of counterparties to ensure that there is no significant concentration of credit risk. Credit risks are managed by legal activities which include security paragraphs into agreements with customers. Also the financial department of the Group constantly carries out monitoring over payment terms deadlines according to goods selling contracts.

- Risk of liquidity

It exists the risk of inability to meet financial obligations of the Group in due time.

To minimize such risk IMC maintains efficient budgeting and cash management processes to ensure that adequate funds are available to meet business requirements. IMC adopts a flexible CAPEX program enabling capital projects to be deferred if necessary.

4. Selected Financial Data

(in thousand USD)

	For the year ended 31 December	2016	2015
I.	Revenue	124 744	140 388
II.	Operating profit/(loss)	45 990	58 557
III.	Profit/(loss) before income tax	21 489	12 233
IV.	Net profit/(loss)	21 838	12 256
V.	Net cash flow from operating activity	29 287	34 410
VI.	Net cash flow from investing activity	(5 000)	(2 966)
VII.	Net cash flow from financing activity	(21 779)	(23 404)
VIII.	Total net cash flow	2 508	8 040
IX.	Total assets	158 945	174 627
X.	Share capital	56	56
XI.	Total equity	65 057	45 199
XII.	Non-current liabilities	57 683	59 327
XIII.	Current liabilities	36 205	70 101
XIV.	Weighted average number of shares	31 300 000	31 300 000
XV.	Profit/(loss) per ordinary share (in USD)	0,70	0,39
XVI.	Book value per share (in USD)	2,10	1,46

signed

Alex Lissitsa
 Chief Executive Officer

signed

Dmytro Martyniuk
 Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A.

Société anonyme

Registered office: 26-28 Rue Edward Steichen
 L-2540 Luxembourg, Grand Duchy of Luxembourg
 R.C.S Luxembourg: B 157843
 (the Company)

Corporate governance statement

Corporate governance

Corporate governance within the Company is based on the Luxembourg law and the listing requirements of the Warsaw Stock exchange where the trading in the Company shares takes place. The Company follows New Code of Best Practices for WSE Listed Companies that entered into force on 1 January 2016 (the “2016 WSE Code”, as amended on 13 October 2015).

The Company's corporate governance rules are based on the Company's articles of Association (the “Articles”), and the corporate governance charter (the “Corporate Governance Charter”), and the Company's internal regulations.

Board of Directors

According to the Articles of Association (“STATUTS COORDONNES”), the Company shall be managed by the Board of Directors composed of at least five members, their number being determined by the general meeting of shareholders. Directors need not be shareholders of the Company. The Board of Directors is composed of executive and non-executive directors. At least two directors shall be independent non-executive directors.

The directors shall be elected by the general meeting of shareholders for a period not exceeding six (6) years and until their successors are elected, provided, however, that any director may be removed at any time by a resolution taken by the general meeting of shareholders. The directors shall be eligible for reappointment.

In the event of vacancy in the office of a director because of death, resignation or otherwise, the remaining directors elected by the general meeting of shareholders may elect a director to fill such vacancy until the next general meeting of shareholders.

Directors:

Name	Date of appointment	End of mandate
1. Mr. Alex Lissitsa, executive director, CEO	29 March 2012	2022
2. Mr. Dmytro Martyniuk, executive director, CFO	09 March 2011	2022
3. Mr. Oleksandr Petrov, executive director, Chairman	09 March 2011	2022
4. Mr. Alfons Balman, non-executive director	10 September 2013	2019
5. Mr. Kamil Jan Gaworecki, non-executive director	01 June 2016	2019

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association (hereafter referred Articles of Association and Luxembourg Companies Law 1915. The Articles of Association may be amended from time to time by a general meeting of the shareholders under the quorum and majority requirement provided for by the law of 10 August 1915 on commercial companies in Luxembourg, as amended.

The present Board is composed of two independent directors and three directors who either are employed by Subsidiaries of the Company or hold over 5% of votes in the Company.

Independency is assessed taking into consideration the criteria stated in Annex II of the European Commission Recommendation of 15 February 2005.

Powers of Directors

The board is responsible for managing the business affairs of the Company within the clauses of the Article of Association. The directors may only act at duly convened meetings of the board of Directors or by written consent in accordance with article 10 of Articles of Association.

The Board of Directors is vested with the broadest powers to act on behalf of the Company and to perform or authorize all acts of administrative or disposal nature, necessary or useful for accomplishing the Company's object. All powers not expressly reserved by the Law to the sole shareholder or, as the case may be, to the general meeting of shareholders, fall within the competence of the Board of Directors.

Meetings of the Board of Directors

The Board of Directors meets upon notice given by the Chairman. A meeting of the Board of Directors must be convened if any two directors so require. The Chairman presides at all meetings of the Board of Directors. In Chairman's absence the Board of Directors may appoint another director as chairman pro tempore by vote of the majority present or represented at such meeting. Except in cases of urgency or with the prior consent of all those entitled to attend, there should be given written notice at least twenty-four hours before the meeting of the Board of Directors. Any such notice shall specify the place, the date, time and agenda of the meeting. The notice may be waived by unanimous written consent by all the directors at the meeting or otherwise. No separate notice is required for meetings held at times and places specified in a time schedule previously adopted by resolution of the Board of Directors.

Every board meeting shall be held in Luxembourg or at such other place indicated in the notice.

Decisions will be taken by a majority of the votes of the directors present or represented at the relevant meeting. Each director has one vote. In case of a tied vote, the Chairman has a casting vote.

One or more directors may participate in a meeting by means of a conference call, by videoconference or by any similar means of communication enabling several persons participating therein to simultaneously communicate with each other. Such methods of participation are to be considered equivalent to a physical presence at the meeting.

A written decision passed by circular means and transmitted by cable, facsimile or any other similar means of communication, signed by all the directors, is proper and valid as though it had been adopted at a meeting of the Board of Directors which was duly convened and held. Such a decision can be documented in a single document or in several separate documents having the same content and each of them signed by one or several directors. Except as far as a written decision passed by circular means is concerned, the minutes of the meeting of the Board of Directors shall be signed by the Chairman of the relevant meeting or any two directors or as resolved at the relevant board meeting or a subsequent board meeting. Any proxies will remain attached thereto.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing an independent administrator (the "Administrator") to maintain the accounting records of the Company independent of IMC S. A. The Administrator has a duty of care to maintain proper books and records and prepare for review and approval by the Board the financial statements intended to give a true and fair view. The Board has appointed Totalserve Management (Luxembourg) S.a.r.l. as Administrator.

Committees

Audit Committee

The Audit committee has been established by the Board to assist the Board of directors with independent verifying and safeguard of the integrity of the company's financial reporting; and oversee the independence of the external auditors

The Committee has responsibility for the following:

- (a) Monitoring the establishment of an appropriate internal control framework;
- (b) Monitoring corporate risk assessment and compliance with internal controls;
- (c) Overseeing business continuity planning and risk mitigation arrangements;
- (d) Reviewing reports on any material defalcations, frauds and thefts from the Group;
- (e) Monitoring compliance with relevant legislative and regulatory requirements (including continuous disclosure obligations) and declarations by the Secretary in relation to those requirements;

- (f) Reviewing the nomination, performance and independence of the external auditors;
- (g) Liaising with the external auditors and ensuring that the annual audit is conducted in an effective manner that is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- (h) Reviewing management processes supporting external reporting;
- (i) Reviewing financial statements and other financial information distributed externally; and
- (j) Reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management

The Committee has an advisory role, consistent with its purpose of assisting the Board in relation to the matters with which it is charged with responsibility, and does not have any power to commit the Board to any recommendation or decision made by it except for matters relating to the appointment, oversight, remuneration and replacement of the external auditors.

The Committee has unrestricted access to management and the external auditors as it may consider appropriate for the proper performance of its function.

The Board of Directors shall appoint the chairman and members of the Audit Committee from among the non-executive directors and external members which must be independent. The Audit Committee will comprise a minimum of two members. In any case the chairman of the Audit Committee must be appointed from among non-executive directors.

As of 31 December 2016 Audit committee consisted of two members, Alfons Balmann (chairman), a non-executive director and Kamil Jan Gaworecki (member), non-executive director. In the year 2016 the work of the audit committee was confined to reviewing the consolidated audit report and appointment of external auditor. In addition Audit Committee had held two meetings as it determined in Corporate governance chart.

Remuneration Committee

The role of the Committee is to advise on remuneration and issues relevant to remuneration policies and practices for senior management.

The Responsibility of the Remuneration Committee includes issues regarding salaries, bonus programs and other employments terms of the CEO and senior management in conjunction with the Board.

Notably, the Remuneration Committee is responsible for:

- submitting proposals to the Board regarding the remuneration of directors and managers, ensuring that these proposals are in accordance with the remuneration policy adopted by the Company;
- discussing with the chief executive officer the performance of executive management and of the individual executives at least once a year based on evaluation criteria clearly defined. The chief executive officer should not be present at the discussion of his own evaluation;
- ensuring that the remuneration of non-executive directors is proportional to their responsibilities and the time devoted to their functions.

The Board of Directors shall appoint the chairman and members of the Remuneration Committee from among the non-executive directors and external members which must be independent. The Remuneration Committee will comprise a minimum of two members. In any case the chairman of the Remuneration Committee must be appointed from among non-executive directors.

As of 31 December 2016 the Company hadn't adopted a remuneration policy. Principles of remuneration of the Board members shall be determined by the General Meeting of Shareholders and Board of Directors shall determine the remuneration of the Executives. Remuneration of the Board is related to the Company's financial results.

Internal control and risk management

The company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of financial records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements. In accordance with Luxembourg legal and regulatory requirements, that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposals of the company's assets that could have a material effect on the financial statements.

External audit

In accordance with the Luxembourg law on commercial companies, an external auditor appointed by the annual general meeting of shareholders certifies the Company's annual and consolidated accounts.

The external audit functions being carried by H.R.T. Revision S.A.

Takeover bids Law statement

- The structure of the capital of the Company is represented in Note 30. The company is a publicly listed company whose shares are owned primarily by institutional investors and Agrovalley Limited whose beneficial owner is Mr. Olexandr Petrov, chairman of the board of directors. As of 31 December 2013, Agrovalley Limited held 21 490 899 shares in the Company, what is equal to 68,66%;
- The Company has no securities which are not admitted to trading on a regulated market;
- The Company has no restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to article 46 of Directive 2001/34/EC;
- The details of those shareholders with an interest of 5% or more in the issued share capital of the Company, as notified to the Company, are set out in Note 30. The Company has no other significant direct or/and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings);
- The Company has no holders of any securities with special control rights. Transfer of shares is governing by the Articles of Association of the Company;
- The Company has no adopted system of control of any employee share scheme where the control rights are not exercised directly by the employees;
- The Company has no adopted restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities;
- All of the issued and outstanding shares in the Company have equal voting rights and there are no special control rights attaching to the shares;
- The Company didn't receive the information about existence of any agreements between shareholders that may result any restrictions within the meaning of Directive 2004/19/EC;
- The Company has no any agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the Company;
- The Company grants non-availability of any agreements between the company and its board members or/and employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Insider Dealing

The Company follows Luxembourg Stock Exchange, Warsaw Stock Exchange and insider trading policy rules in regards to the disclosure of insider dealing, which require all Board Members to notify the Company with regards to all transaction in the shares in the Company. Following the rules of the notification, the Company notifies both stock exchanges via appropriate regulatory filings.

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

To the Shareholders
Industrial Milk Company S.A.
26-28, rue Edward Steichen
L-2540 Luxembourg
RCS : B 157,843

REPORT OF THE REVISEUR D'ENTREPRISES AGRÉÉ

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Industrial Milk Company S.A., which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

HRT REVISION S.A.

R.C.S. Luxembourg B 51238 ■ TVA LU 21946378 ■ 163, Rue du Kiem L-8030 Strassen

T. : (+352) 45 80 78 - 1 ■ F. : (+352) 45 80 78 - 21 ■ contact@pkf-hrt.lu ■ www.hrt.lu

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Industrial Milk Company S.A. as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

We draw attention to notes 6 and 31 to the consolidated financial statements which describe the correction of the prior accounting treatment of long term obligations associated with the IFC loan. Our opinion is not qualified in respect of this matter.

We draw attention to note 4 "operating environment" to the consolidated financial statements, which describes the current situation in Ukraine. The impact of the political and economic crisis in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of Industrial Milk Company S.A. Our opinion is not qualified in respect of this matter.

Other information

The Board of directors is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of réviseur d'entreprises agréé thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Other matter

As part of our audit of the 2016 consolidated financial statements, we also audited the adjustments described in note 6 to the consolidated financial statements that were applied to amend the 2014 and 2015 consolidated financial statements. In our opinion, such adjustments are appropriate and have been correctly applied. We were not engaged to audit, review, or apply any procedures to the 2014 and 2015 consolidated financial statements other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2014 and 2015 consolidated financial statements taken as a whole.

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

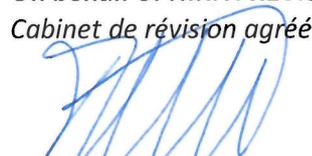
Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

On behalf of H.R.T. REVISION S.A.

Cabinet de révision agréé



Jean-Philippe Barret

Réviseur d'entreprises agréé

Strassen, 25 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015 Restated*
CONTINUING OPERATIONS			
Revenue	7	124 744	140 388
Gain from changes in fair value of biological assets and agricultural produce, net	8	66 187	38 732
Cost of sales	9	(130 004)	(104 775)
GROSS PROFIT		60 927	74 345
Administrative expenses	10	(6 343)	(4 813)
Selling and distribution expenses	11	(6 521)	(8 470)
Other operating income	12	2 943	8 735
Other operating expenses	13	(3 252)	(8 915)
Write-offs of property, plant and equipment		(1 764)	(1 109)
Impairment of property, plant and equipment, net		-	(1 216)
OPERATING PROFIT		45 990	58 557
Financial expenses, net	16	(12 294)	(14 982)
Effect of additional return		(3 715)	(3 141)
Foreign currency exchange (loss)/gain, net	17	(8 492)	(29 965)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		21 489	10 469
Income tax expenses	18	349	23
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		21 838	10 492
Net profit/(loss) for the period attributable to:			
Owners of the parent company		21 894	11 293
Non-controlling interests		(56)	(801)
Weighted average number of shares		31 300 000	31 300 000
Basic profit per ordinary share (in USD)		0,70	0,34
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that may be reclassified to profit or loss			
Effect of foreign currency translation		(11 932)	(21 708)
Items that will no be reclassified to profit or loss			
Revaluation of property, plant and equipment		-	42 794
Deferred tax charged directly to revaluation of property, plant and equipment		-	(2 404)
Deferred tax charged directly to revaluation reserve		241	26
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME		(11 691)	18 708
TOTAL COMPREHENSIVE INCOME		10 147	29 199
Comprehensive income/(loss) attributable to:			
Owners of the parent company		10 133	30 011
Non-controlling interests		14	(812)

* Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made, refer to Note 6

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(in thousand USD, unless otherwise stated)

	Note	31 December 2016	31 December 2015	31 December 2014
			Restated*	Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	19	64 650	80 083	60 597
Intangible assets	20	4 061	5 750	11 501
Non-current biological assets	21	1 432	4 471	7 234
Deferred tax assets	22	-	14	13
Other non-current assets	23	1 817	434	1 644
Total non-current assets		71 960	90 752	80 989
Current assets				
Inventories	24	55 110	60 307	82 959
Current biological assets	25	18 202	8 823	9 931
Trade accounts receivable, net	26	276	966	1 196
Prepayments and other current assets, net	27	9 208	7 088	5 668
Prepayments for income tax		9	18	49
Cash and cash equivalents	29	4 180	6 673	3 004
Total current assets		86 985	83 875	102 807
TOTAL ASSETS		158 945	174 627	183 796
LIABILITIES AND EQUITY				
Equity attributable to the owners of parent company				
Share capital	30	56	56	56
Share premium		24 387	24 387	24 387
Revaluation reserve		43 217	49 972	10 021
Retained earnings		126 825	97 935	86 177
Effect of foreign currency translation		(128 876)	(116 874)	(95 177)
Total equity attributable to the owners of parent company		65 609	55 476	25 464
Non-controlling interests		(552)	(566)	246
Total equity		65 057	54 910	25 710
Non-current liabilities				
Long-term loans and borrowings	32	55 185	46 060	70 239
Deferred tax liabilities	22	2 498	3 556	1 886
Total non-current liabilities		57 683	49 616	72 125
Current liabilities				
Current portion of long-term borrowings	32	9 846	31 493	20 502
Short-term loans and borrowings	33	18 547	26 776	39 155
Trade accounts payable	34	2 104	3 274	13 560
Other current liabilities and accrued expenses	35	5 708	8 558	12 744
Total current liabilities		36 205	70 101	85 961
Total liabilities		93 888	119 717	158 086
TOTAL LIABILITIES AND EQUITY		158 945	174 627	183 796

* Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made, refer to Note 6

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES
Consolidated Financial Statements



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(in thousand USD, unless otherwise stated)

	Share capital	Share premium	Revaluation reserve	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interests	Total equity
31 December 2014 (restated*)	56	24 387	10 021	86 177	(95 177)	25 464	246	25 710
Profit (loss) for the period	-	-	-	11 293	-	11 293	(801)	10 492
Revaluation of property, plant and equipment	-	-	42 794	-	-	42 794	-	42 794
Deferred tax charged directly to revaluation of property, plant and equipment	-	-	(2 404)	-	-	(2 404)	-	(2 404)
Amortization of revaluation reserve	-	-	(465)	465	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	26	-	-	26	-	26
Other comprehensive loss	-	-	-	-	(21 697)	(21 697)	(11)	(21 708)
Total comprehensive profit/(loss) (restated*)	-	-	39 951	11 758	(21 697)	30 012	(812)	29 200
31 December 2015 (restated*)	56	24 387	49 972	97 935	(116 874)	55 476	(566)	54 910
31 December 2015 (restated*)	56	24 387	49 972	97 935	(116 874)	55 476	(566)	54 910
Profit (loss) for the period	-	-	-	21 894	-	21 894	(56)	21 838
Amortization of revaluation reserve	-	-	(6 996)	6 996	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	241	-	-	241	-	241
Other comprehensive loss	-	-	-	-	(12 002)	(12 002)	70	(11 932)
Total comprehensive profit/(loss)	-	-	(6 755)	28 890	(12 002)	10 133	14	10 147
31 December 2016	56	24 387	43 217	126 825	(128 876)	65 609	(552)	65 057

* Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made, refer to Note 6

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
			Restated*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before tax from continuing operations		21 489	12 233
Adjusted to reconcile profit before tax with net cash used in operating activities:			
Gain from changes in fair value of biological assets and agricultural produce, net	8	(66 187)	(38 732)
Disposal of revaluation of biological assets and agricultural produce in the cost of sales, net	9	49 514	37 719
Depreciation and amortization	14	11 248	5 640
Interest expenses and other financial expenses	16	16 345	16 655
Foreign currency exchange loss/(gain), net		8 464	31 038
Write-offs of property, plant and equipment		1 764	1 109
Income from write-offs of accounts payable	12	(938)	(346)
Gain on recovery of assets previously written off	12	(885)	-
Loss on disposal of property, plant and equipment	13	519	85
Lost crops	13	389	464
Shortages and losses due to impairment of inventories	13	350	368
Interest income	16	(336)	(296)
Income from the exchange of property certificates	12	(320)	-
Write-offs of VAT	13	144	8
Accruals for unused vacations		141	150
Accruals for audit services		106	50
Allowance for doubtful accounts receivable	13	63	279
Gain on disposal of inventories	12	(28)	(16)
Loss from VAT on export operations	13	-	6 058
Impairment of property, plant and equipment		-	1 216
Cash flows from operating activities before changes in working capital		41 842	73 682
Changes in trade accounts receivable		712	(561)
Changes in prepayments and other current assets		(2 950)	(9 312)
Changes in inventories		10 624	(7 373)
Changes in current biological assets		(4 270)	(1 004)
Changes in trade accounts payable		(790)	(5 853)
Changes in other current liabilities and accrued expenses		134	195
Cash flows from operations		45 302	49 774
Interest paid		(15 825)	(15 327)
Income tax paid		(190)	(37)
Net cash flows from operating activities		29 287	34 410

* Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made, refer to Note 6

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2016

(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
			Restated*
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(5 235)	(2 926)
Purchase of non-current biological assets		(38)	(30)
Purchase of intangible assets		(155)	(96)
Proceeds from disposal of property, plant and equipment		428	86
Net cash flows from investing activities		(5 000)	(2 966)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term and short-term borrowings		61 375	15 398
Repayment of long-term and short-term borrowings		(83 154)	(38 802)
Net cash flows from financing activities		(21 779)	(23 404)
NET CASH FLOWS			
		2 508	8 040
Cash and cash equivalents as at the beginning of the period	29	6 673	3 004
Effect of translation into presentation currency		(5 001)	(4 371)
Cash and cash equivalents as at the end of the period	29	4 180	6 673

* Certain amounts shown here do not correspond to the 2015 consolidated financial statements and reflect adjustments made, refer to Note 6

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

1. Description of formation and business.

Industrial Milk Company S.A. (the “Parent company”) is a limited liability company registered under the laws of Luxembourg on 28 December 2010 for an unlimited period of time. Industrial Milk Company S.A. was formed to serve as the ultimate holding company of Unigrain Holding Limited and its subsidiaries. The registered address of Industrial Milk Company S.A. is L-2540, 26-28 rue Edward Steichen, Luxembourg, Grand Duchy Luxembourg, its register number within the Registre de Commerce et des Sociétés du Luxembourg is RCS Lu B157843.

IMC S.A. and its subsidiaries (the “Group” or the “IMC”) is an integrated agricultural company in Ukraine. The main areas of the Group’s activities are:

- cultivation of grain and oilseeds crops, potato production;
- dairy farming;
- storage and processing of grain and oilseeds crops.

The Group is among Ukraine’s top-10 industrial milk producers. The grain and oilseeds crops produced by the Group are sold in both the Ukrainian and export markets.

Until December 2010 there was no the holding company of the Group.

In June 2009 in the course of the corporate reorganization Unigrain Holding Limited was established as a sub-holding company of the Group. Through the series of transactions Unigrain Holding Limited became the immediate parent of Burat-Agro, Ltd., Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, PJSC Poltava Kombikormoviy Zavod and Zemelniy Kadaastroviy Centr SA.

In December 2010 Industrial Milk Company S.A. was registered as a holding company of the Group through the ownership of 100% of the voting shares in the company Unigrain Holding Limited.

In June 2011 Unigrain Holding Limited acquired 100% of the voting shares in the company PAE Promin, PE Progress 2010, PAE Slavutich. In November 2011 companies PAE Slavutich and PE Progress 2010 were merged to Chernihiv Industrial Milk Company, Ltd and the company PAE Promin was merged to Burat-Agro, Ltd.

In August 2011 trading company Aristo Eurotrading was formed.

In December 2011 Unigrain Holding Limited acquired 100% of the voting shares in the company AF Kalynivska 2005, Ltd, AF Zhovtneva, Ltd, AF Shid-2005, Ltd, APP Vyrnske, Ltd, Pisky, Ltd., SE “Viry-Agro” and 80,61% of the voting shares in the company PJSC “Viryvske HPP”.

In March 2012 Unigrain Holding Limited acquired 100% of the voting shares in the company Ukragrosouz KSM, Ltd.

In June 2012 Unigrain Holding Limited acquired 100% of the voting shares in the company PAC Slobozhanschina Agro.

In November 2012 the Group was restructured and 6 companies were joined to PAC Slobozhanschina Agro: AF Kalynivska-2005 Ltd, AF Zhovtneva Ltd, AF Shid-2005 Ltd, AIE Vyrnske Ltd, Pisky Ltd, SE Viry-Agro.

In December 2012 Unigrain Holding Limited acquired 100% of the voting shares in the company Bluerice Limited. The following companies became the part of the Group, as their owner is Bluerice Limited: Agroprogress Holding Ltd, Agroprogress PE, Bobrovitsky Hlebzavod Ltd, Plemzavod Noviy Trostyanets Ltd, PJSC “Bobrovitske HPP”, Losinovka-Agro Ltd, Parafiyivka-Progress Ltd, Nosovsky Saharny Zavod Ltd.

In November 2013 trading company Negoce Agricole S.A. was formed.

In December 2013 Losinovka-Agro Ltd was joined to Agroprogress PE.

During the year 2013 the Group acquired the voting shares in the company AgroKIM Ltd and on 30 December 2013 the acquisition was completed and 100% of the voting shares were owned by the Group.

In April 2014 Parafiyivka-Progress Ltd was joined to AgroKIM Ltd.

In May 2015 Plemzavod Noviy Trostyanets Ltd was joined to AgroKIM Ltd (noted * in the column Cumulative ownership ratio, % as at 31 December 2015).

In May 2016 Ukragrosouz KSM Ltd was joined to Burat-Agro Ltd (noted * in the column Cumulative ownership ratio, % as at 31 December 2016).

In October 2016 Zemelniy Kadaastroviy Centr PE and Agroprogress Holding Ltd left the Group. Bluerice Limited left the Group in December 2016 (noted ** in the column Cumulative ownership ratio, % as at 31 December 2016).

All companies comprising the Group were under the control of the same beneficial owner Mr. Petrov A.L. as at all the reporting dates and have effectively operated as an operating group under common management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

The principal activities of the companies comprising the Group are as follows:

Operating entity	Principal activity	Country of registration	Year established/ acquired	Cumulative ownership ratio, %	
				31 December 2016	31 December 2015
Industrial Milk Company S.A.	Holding company	Luxembourg	28.12.2010	100	100
Burat-Agro Ltd.	Agricultural and farming production	Ukraine	31.12.2007	100	100
Burat Ltd.	Grain elevator	Ukraine	31.12.2007	100	100
Chernihiv Industrial Milk Company Ltd.	Agricultural and farming production	Ukraine	31.12.2007	100	100
PJSC Poltava Kombilormoviy Zavod	Granting of PPE into finance lease	Ukraine	31.12.2007	87,56	87,56
PJSC Mlibor	Grain elevator	Ukraine	31.05.2008	72,85	72,85
Unigrain Holding Limited	Subholding company	Cyprus	02.06.2009	100	100
Zemelniy Kadastroviy Centr PE	Preparation of technical documentation concerning land issues	Ukraine	23.11.2010	**	100
Aristo Eurotrading Limited	Trading company	British Virgin Islands	30.08.2011	100	100
PJSC "Viryvske HPP"	Grain elevator	Ukraine	28.12.2011	80,61	80,61
Ukragrosouz KSM Ltd	Agricultural production	Ukraine	29.03.2012	*	100
PAC Slobozhanschina Agro	Agricultural production	Ukraine	26.06.2012	100	100
Bluerice Limited	Subholding company	Cyprus	28.12.2012	**	100
Agroprogress Holding Ltd	Subholding company	Ukraine	28.12.2012	**	100
Agroprogress PE	Agricultural and farming production	Ukraine	28.12.2012	100	100
Bobrovitsky Hlebzavod Ltd	Bakery production	Ukraine	28.12.2012	100	100
Plemzavod Noviy Trostyanets Ltd	Agricultural and farming production	Ukraine	28.12.2012	-	*
PJSC "Bobrovitske HPP"	Grain elevator	Ukraine	28.12.2012	92,83	92,83
Nosovsky Saharny Zavod Ltd	Storage facilities	Ukraine	28.12.2012	100	100
Negoce Agricole S.a r.l.	Trading company	Luxembourg	19.11.2013	100	100
AgroKIM Ltd.	Agricultural and farming production, grain elevator	Ukraine	30.12.2013	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Today IMC is the vertically integrated and high-technology group of companies operating in Sumy, Poltava and Chernihiv region (northern and central Ukraine).

The Group controls 140,4 thousand ha (136,6 thousand ha under processing of high quality arable land). As at 31 December 2016 the Group operates in three segments: crop farming, dairy farming, elevators and warehouses.

The financial year of the Group begins on 01 January of each year and terminates on 31 December of each year.

The Group's consolidated financial statements are public and available at:
<http://imcagro.com.ua/ru/dlya-investorov/financial-reports>

2. Basis of preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union. These consolidated financial statements are based on principal accounting policies and critical accounting estimates and judgments that are set out below. These accounting policies and assumptions have been applied consistently to all periods presented in these consolidated financial statements.

Companies comprising the Group which are incorporated in Ukraine maintain their accounting records in accordance with Ukrainian regulations. Ukrainian statutory accounting principles and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Ukrainian statutory accounting records for the entities of the Group domiciled in Ukraine, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the disposal of assets and the settlement of liabilities in the normal course of business. The recoverability of Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. Management believes that Group has reliable access to sources of financing capable to support appropriate operating activity of Group entities. These consolidated financial statements do not include any adjustments should the Group be unable to continue as going concern.

Basis of measurement

The consolidated financial statements are prepared under historical cost basis except for the revalued amounts of property, plant and equipment, biological assets and agricultural produce.

The Group's management has decided to present and measure these consolidated financial statements in United States Dollars ("USD") for the purposes of convenience of users of these financial statements.

Use of estimates

The preparation of these consolidated financial statements involves the use of reasonable accounting estimates and requires the Management to make judgments in applying the Group's accounting policies. These estimates and assumptions are based on Management's best knowledge of current events, historical experience and other factors that are believed to be reasonable. Note 4 contains areas, related to a high degree of importance or complexity in decision-making, or areas where assumptions and estimates are important for amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). For the companies of the Group operating in Ukraine the Ukrainian Hryvna ("UAH") is the functional currency. For the companies operating in Cyprus and Luxembourg the functional currency is Euro ("EUR").

These consolidated financial statements are presented in the thousand of United States Dollars ("USD"), unless otherwise indicated.

Foreign currency transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All exchange differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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

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

Currency	31 December 2016	Average for the year ended 31 December 2016	31 December 2015	Average for the year ended 31 December 2015	31 December 2014
UAH/ USD	27,190858	25,54577	24,000667	21,80798	15,768556

Translation into presentation currency

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the official rate at the date of the balance sheet;
- income and expenses are translated at average exchange rate for the period, unless fluctuations in exchange rates during that period are significant, in which case income and expenses are translated at the rate on the dates of the transactions;
- all the equity and provision items are translated at the rate on the dates of the transactions;
- all resulting exchange differences are recognized as a separate component of other comprehensive income;
- in the consolidated statement of cash flows cash balances at the beginning and end of each presented period are translated at rates prevailing at corresponding dates. All cash flows are translated at average exchange rates for the periods presented. Exchange differences arising from the translation are presented as the effect of translation into presentation currency.

Principles of consolidation

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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial statements of Parent company and its subsidiaries, which are used while preparing the consolidated financial statements, should be prepared as at the same date on the basis of consistent application of accounting policy for all companies of the Group.

3. Summary of significant accounting policies

Property, plant and equipment

Property, plant and equipment are stated at their revalued amounts that are the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

If there is no data about the market value of property, plant and equipment due to the nature of highly specialized machinery and equipment, such objects are evaluated according to acquisition expenses under present-day conditions, adjusted by an ageing percentage.

Property, plant and equipment of acquired subsidiaries are initially recognised at their fair value which is based on valuations performed by independent professionally appraisers.

Valuations are performed frequently enough to ensure that the fair value of a remeasured asset does not differ materially from its carrying amount as at reporting date.

Increases in the carrying amount arising on revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity under the line Revaluation reserve. Decreases in the carrying amount as a result of a revaluation are in profit or loss. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Decrease related to previous increase of the same asset is recognized against other reserves directly in equity.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings as the asset is used by an entity (in the amount that is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost) and when the asset is derecognized (in the full amount).

Subsequent major costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that these replacements will materially extend the life of property, plant and equipment or result in future economic benefits. The carrying amount of the replaced part is derecognized. All other day-to-day repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment or their essential component are written-off in a case of their disposal or if future economic benefits from use or disposal of such asset are not expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the other incomes (expenses) in the statement of comprehensive income when the asset is derecognized.

Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management. Depreciation of an asset ceases when the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

Depreciation on assets is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings	15-55 years
- Machinery	5-30 years
- Motor vehicles	5-20 years
- Other assets	5-20 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Land is not depreciated.

Construction in progress comprises costs directly related to the construction of property, plant and equipment, as well as the relevant variable and fixed overhead costs related to the construction. These assets are depreciated from the moment when they are ready for operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income in other income (expenses) when the asset is derecognized.

The Group determines whether the useful life of an intangible asset is finite or indefinite.

Useful life of intangible assets is indefinite if the Group suggests that the period during which it is expected that the object of intangible assets will generate net cash inflows to the organization has no foreseeable limit. Intangible assets with indefinite useful lives are not amortized, but reviewed for impairment.

Amortisation of intangible assets is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The following estimated useful lives, which are re-assessed annually, have been determined for classes of finite-lived intangible assets:

- Land lease rights 5-15 years
- Computer software 5 years

Impairment of property, plant and equipment and intangible assets

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of a cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use. Value in use is the net present value of expected future cash flows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Biological assets

The biological assets are classified as non-current and current depending on the expected pattern of consumption of the economic benefits embodied in the biological assets.

The following categories of biological assets are distinguished by the Group:

- Non-current biological assets of plant-breeding at fair value;
- Non-current biological assets of cattle-breeding at fair value;
- Current biological assets of plant-breeding measured at fair value;
- Current biological assets of cattle-breeding measured at fair value.

The Group assesses a biological asset at initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs, except for the cases where the fair value cannot be determined with reasonable assurance.

Gains or losses from movements in the fair value of biological assets less estimated selling and distribution expenses of the Group are recorded in the period they incurred in the statement of comprehensive income as Gain (loss) from changes in fair value of biological assets and agricultural produce, net.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Group capitalizes expenses between the reporting dates into the cost of biological assets.

- Biological assets of plant-breeding

The capitalized expenses include all the direct costs and overhead costs related to the farming division. Such costs may include the following costs: raw materials (seeds, mineral fertilizers, fuel and other materials), wages and salaries expenses of production personnel and related charges, amortization and depreciation, land lease expenses and other taxes, third parties' services and other expenses related to the cultivation and harvesting of biological assets of plant-breeding.

- Biological assets of animal-breeding

The capitalized expenses include all the direct costs and overhead costs related to the livestock breeding. The types of costs that are capitalized in the current biological assets of animal breeding are the following: fodder, means of protection of animals and artificial insemination, fuel and other materials, wages and salaries expenses of production personnel and related charges, amortization and depreciation, third parties' services and other expenses related to the current biological assets of animal breeding.

All expenses related to the non-current biological assets of cattle breeding are included into the cost of milk. Respectively the note 21 of non-current biological assets does not include any capitalized costs.

The expenses on works connected with preparation of the lands for future harvest are included into the Inventories as work-in-progress. After works on seeding on these lands the cost of field preparation is reclassified to biological assets held at fair value.

Agricultural produce

The Group classifies the harvested product of the biological assets as agricultural produce. Agricultural produce is measured at its fair value less costs to sell at the point of harvest. The difference between the cost and fair value less costs to sell at the point of harvest of harvested agricultural produce is recognized in the statement of comprehensive income as Gain (loss) from changes in fair value of biological assets and agricultural produce, net.

After the initial recognising as at the date of harvesting agricultural produce is treated as inventories. Agricultural produce measurement as at the date of harvest becomes inventories' cost to account.

Inventories

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

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

The cost of agriculture produce is its fair value less costs to sell at the point of harvesting.

The cost of work in progress and finished goods includes costs of direct materials and labor and other direct productions costs and related production overheads (based on normal operating capacity). Costs are capitalized in work in progress for preparing and treating land prior to seeding in the next period. Work in progress is transferred to biological assets once the land is seeded.

The cost of inventories is assigned by using FIFO method.

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

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realizable value has declined, and makes an allowance for such inventories. If such situation occurred, the sum remissive the cost of inventories should be reflected as a part of other expenses in statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Financial assets

The Group's financial assets include cash and cash equivalents, trade and other accounts receivable, other receivables.

Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every balance sheet date. Financial assets are classified in the following category at the time of initial recognition based on the purpose for which the financial assets were acquired:

- “Loans and receivables” that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes landings given that appeared owing to issuance of facilities to debtor. Receivables include trade and other accounts receivables.

Financial assets are recognized initially at fair value plus directly attributable transaction costs.

The category of financial assets “Loans and receivables” is subsequently measured as follows:

- Receivables are measured at amortized cost using the effective interest method, less allowance for impairment.
- Borrowings issued are measured at amortized cost less impairment losses.

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.

Financial assets of the Group are assessed for indications of impairment at each reporting date. A financial asset is deemed to be impaired if there is objective evidence indicating that a loss event has occurred after initial recognition of the financial asset, and that the loss event has a negative effect on the estimated future cash flows of the financial asset that can be reliably estimated.

For “Loans and receivables” the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. For trade and other receivables the carrying amount is reduced through the use of an allowance account and for borrowings the carrying amount is reduced directly by the impairment loss. If there is objective evidence that the Group is not able to collect all amounts due to the original terms of the receivables, the allowance for impairment is established. When a receivable is determined to be uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Forming of the allowance account is recognized in statement of comprehensive income as other operating expenses.

Prepayments and other non-financial assets

Prepayments are reflected at nominal value less VAT and accumulated impairment losses, other non-financial assets are reflected at nominal value less accumulated impairment losses.

Prepayments are classified as non-current assets when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised as a part of other expenses in statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash in bank and cash in hand, call deposits, other short-term highly liquid investments with original maturities of three months or less.

Financial liabilities

The Group's financial liabilities include trade and other payables, loans and borrowings, share purchase warrant.

Financial liabilities are recognized initially at fair value minus directly attributable transaction costs.

The Group classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method except for share purchase warrant which is subsequently measured at fair value through profit or loss.

Any difference between amount of received resources and sum to repayment is recorded as interest expenses in statement of comprehensive income at effective interest rate method during the period, when borrowings were received.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

- **Group as a lessee**
Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are classified as finance leases. Assets held under finance lease are included in property, plant and equipment since the commencement of lease at the lower of the fair value of leased property and present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of comprehensive income.
Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.
Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.
- **Group as a lessor**
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the statement of comprehensive income in the period in which they are earned. Costs, including depreciation, incurred in earning the lease income are recognized as an expense.

Government grants

The Ukrainian legislation provides various tax benefits and grants for companies engaged in agriculture. Such benefits and grants are approved by the Supreme Council of Ukraine, the Ministry of Agrarian Policy, Ministry of Finance and local authorities.

- **Government grants related to plant-breeding**
Amount of such benefit is determined based on the number of hectares planted for the future harvest, taking into account the crop expected to be bred. The Group of companies recognizes this type of benefits upon the receipt of funds as other operating income in the statement of comprehensive income.
- **Government grants related to cattle-breeding**
Agricultural producers of poultry and livestock are eligible for government grants, depending on quantity of meat in live weight delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.
Agricultural producers of poultry and livestock are also eligible for government grants for each animal unit of poultry and livestock, including slaughter for own needs or transfer to slaughter. The Group recognizes these grants upon the receipt of funds due to the uncertainty in amounts and timeframes of receipt.
- **Government grants related to VAT**
According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive benefits regarding VAT payment on agricultural operations. Correspondingly above, VAT amounts payable are not transferred into the budget by the entities, but credited to the entity's separate special account to support the agriculture; the amount of tax credit is used as a reduction in tax liabilities of the next period. As a result of these operations tax amounts are recognized in the statements of comprehensive income as other operating income.
Management of the Group is confident that confirmed by tax declaration as at the end of the month VAT payable should be recognized as other operating income in current month although it will be credited to the entity's separate special account next month.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Taxation

- Income tax

Income tax expense represents the amount of the tax currently payable and deferred tax.

Income tax expenses are recorded as expenses or income in the statement of comprehensive income, except when they relate to items directly attributable to other comprehensive income (in which case the amount of tax is taken to other comprehensive income), or when they arise at initial recognition of company acquisition.

- i. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

- ii. Deferred income tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

- Single tax 4th group (previously Fixed agricultural tax)

According to effective legislation, the Ukrainian consolidated companies of the Group involved in production, processing and sale of agricultural products may opt for paying fixed agricultural tax (FAT) in lieu of income tax, land tax and some other local taxes if the revenues from sale of their own agricultural products constitute not less than 75% of their total (gross) revenues. The FAT is assessed at 0,81% on the deemed value of the land plots owned or leased by the entity. As at 31 December 2016, 5 of the companies comprising the Group were elected to pay FAT (2015: 6).

- Value added tax (VAT)

VAT output equals to 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 a reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

Revenue, expenses and assets are recognized less VAT amount, except cases, when VAT arising on purchases of assets or services, is not recoverable by tax authority; in this case VAT is recognized as part of purchase costs or part of item of expenses respectively. Net amount of VAT, recoverable by tax authority or paid, is included into accounts receivable and payable, reflected in consolidated statement of financial position.

- Other taxes payable

Other taxes payable comprise liabilities for taxes other than above, accrued in accordance with legislation enacted or substantively enacted by the end of the reporting period.

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Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. The Group discloses information about contingent liabilities in the Notes to financial statements if any, except for the cases where fulfillment of contingent liabilities is unlikely; because of the remoteness of the event (possible repayment period is more than 12 months).

The Group constantly analyzes contingent liabilities to determine the possibility of their repayment. If the repayment of a liability, which was previously characterized as contingent, becomes probable, the Group records the provision for the period in which repayment of the obligation has become probable.

Contingent assets are not recognized in the financial statements, but disclosed in the Notes where there is a reasonable possibility of future economic benefits.

Share capital

Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction. Any excess of the fair value of consideration received over the par value of shares issued is presented in financial statements as Share premium.

Dividends

Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Earnings per share

Earnings per share are determined by dividing the net profit or loss attributable to the owners of parent company by the weighted average number of shares outstanding during the reporting period.

Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group.

Revenue is measured at fair value of consideration amount received or receivable for the sale of goods and services in the ordinary course of the Group's business activities. Revenue is recorded excluding taxes and duties on sales, discounts and returns.

- Sales of goods
Revenue from sales of goods is recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The Group uses standardised INCOTERMS which define the point of risks and reward transfers.
- Rendering of services
Revenue from rendering services is recognized on the basis of the stage of work completion under each contract. When financial result can be measured reliably, revenue is recognized only to the extent of the amount of incurred charges, which can be recovered.

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Income from the exchange of property certificates

When the items of property, plant and equipment are acquired in exchange for non-cash asset (property certificate), the initial value of such assets is estimated at fair value. The difference between the price paid for property certificates and the fair value of received items of property, plant and equipment is recognized as income in the period of the exchange operation.

Borrowing costs

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Investment income resulting from temporary investment of received borrowing costs, until their expensing for the purchase of capital construction objects, shall be deducted from the cost of raising borrowing costs that may be capitalized.

All other borrowing costs are expensed in the period they occur.

4. Critical accounting estimates and judgments

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, liabilities and the disclosure of contingent assets and 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.

Used estimates and assumptions are reviewed by the Management of the Group on a continuous basis, by reference to past experiences, current trends and all available information that is relevant at the time of preparation of financial statements. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

In the process of applying the Group's accounting policies, Management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts reflected in the consolidated financial statements.

Fair value of property, plant and equipment

The Group engages an independent appraiser to determine the fair value of property, plant and equipment on a regular basis.

The assessment is conducted in accordance with International Valuation Standards for property. The assessment procedure is carried out for all groups of property, plant and equipment. The fair value of items of property, plant and equipment is estimated on the basis of comparative and cost plus approaches.

The comparative approach is based on an analysis of sales prices and offers of similar items of property, plant and equipment, taking into account the appropriate adjustments for differences between the objects of comparison and assessment item. Based on the application of this approach, the fair value of property, plant and equipment is determined on the basis of their market value.

The cost approach involves the definition of present value of costs of reconstruction or replacement of the assessment item with their further adjustment by the depreciation (impairment) amount. Based on the application of this approach, the fair value of certain items of property, plant and equipment is determined in the amount of the replacement of these items. The cost plus method is adjusted by the income method data, which is based on the discounted cash flow model. This model is most sensitive to the discount rate, as well as to the expected cash flows and growth rates used for the extrapolation purposes. Judgments of the Group in determining the indices used in the appraisers' calculations may have a significant effect on the determination of fair value of property, plant and equipment, and hence on their carrying amount.

The fair value of property, plant and equipment of all the Group's companies has been measured as at 31 December 2015 by an independent appraiser LLC "Asset Expertise" (ODS Certificate No.439/15 as of 25 May 2015 issued by State Property Fund of Ukraine) (Note 19).

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Useful lives of property, plant and equipment

Items of property, plant and equipment owned by the Group are depreciated using the straight-line method over their useful lives, which are calculated in accordance with business plans and operating calculations of the Group's Management with respect to those assets.

The estimated useful life and residual value of non-current assets are influenced by the rate of exploitation of assets, servicing technologies, changes in legislation, unforeseen operational circumstances. The Group's management periodically reviews the applicable useful lives. This analysis is based on the current technical condition of assets and the expected period in which they will generate economic benefits to the Group.

Any of the above factors may affect the future rates of depreciation, as well as carrying and residual value of property, plant and equipment.

There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2016 and 2015.

Impairment of property, plant and equipment and intangible assets

The Group carries out revaluations on a regular basis and conducts a full valuation exercise if there is an indication of impairment. An impairment review is conducted at the balance sheet date. To test property, plant and equipment and intangible assets for impairment, the Group's business is treated as three cash generating units: farming division, livestock breeding and storage and processing. The recoverable amount of the cash-generating unit is determined on the basis of value in use. The amount of value in use for the cash-generating unit is determined on the basis of the most recent budget estimates prepared by management and application of the income approach of valuation.

As at 31 December 2015 according to the results of the valuation of property, plant and equipment the net impairment in the amount of USD 1 216 thousand was identified. As at 31 December 2016 impairment of property, plant and equipment and intangible assets was not identified (Note 19).

Fair value of acquisition of subsidiaries

The Group engages an independent appraiser to determine the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. Acquisitions often result in significant intangible benefits for the Group, some of which qualify for recognition as intangible assets. Significant judgment is required in the assessment and valuation of these intangible assets, often with reference to internal data and models.

The estimation of fair value of assets and liabilities is based upon quoted market prices and widely accepted valuation techniques, including discounted cash flows and market multiple analyses. Such estimates include assumptions about inputs to our discounted cash flow calculations, industry economic factors and business strategies.

Fair value of biological assets

Due to an absence of an active market for non-current biological assets for cattle-breeding and biological assets of plants-breeding in Ukraine, to determine the fair value of these biological assets, the Group used the discounted value of net cash flows expected from assets as at reporting date. Fair value is determined based on market prices and a current market-determined pre-tax rate as at the date of valuation.

The fair value of current biological assets of cattle-breeding is measured using market prices as at reporting date. The fair value is determined based on market prices of livestock of similar age, breed and genetic merit.

The income from recognition of biological assets at fair value for the year ended 31 December 2016 amounted to USD 7 317 thousand (USD 3 353 thousand for the year ended 31 December 2015) (Note 8).

Fair value of agricultural produce

The Group estimates the fair value of agricultural produce at the date of harvesting using the current quoted prices in an active market. Costs to sell at the point of harvest are estimated based on expected future selling costs that depend on conditions of sales agreements. The fair value less costs to sell becomes the carrying value of inventories at the date of harvesting.

The income from recognition of agricultural produce at fair value for the year ended 31 December 2016 amounted to USD 58 870 thousand (USD 35 379 thousand for the year ended 31 December 2015) (Note 8).

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Inventories

As at the reporting date the Group assesses the need to reduce the carrying amount of inventories to their net realizable value. The measurement of impairment is based on the analysis of market prices for similar inventories existing at the reporting date and published in official sources. Such assessments can have a significant impact on the carrying amount of inventories.

Besides, at each balance sheet date, the Group assesses inventories for surplus and obsolescence and determines the allowance for obsolete and slow moving inventories. Changes in assessment can influence the amount of required allowance for obsolete and slow moving inventories either positively or negatively.

At the reporting date the item Work-in-progress includes investments in the future harvest. The cost of these investments is based on expenses incurred during the current year. Investment valuation model includes a number of judgments of management about the benefits to be extracted from the utilization of such investments in the future. Management's estimates of the value of investments is based on the recommendations of scientific sources and agronomic calculations of the internal services of the Group.

For the year ended 31 December 2016 shortages and losses due to impairment of inventories amounted to USD 350 thousand (USD 368 thousand for the year ended 31 December 2015) (Note 13).

Fair value of financial instruments

The fair value of financial assets and liabilities is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. Management uses discounted cash flow analysis for various loans and receivables as well as debt instruments that are not traded in active markets. The effective interest rate is determined by reference to the interest rates of instruments available to the Group in active markets. In the absence of such instruments, the effective interest rate is determined by reference to the interest rates of active market instruments available adjusted for the Group's specific risk premium estimated by Management.

The fair value of share purchase warrant is determined using Black-Scholes model based on the following inputs (Note 31):

- Current stock price,
- Strike price as specified in the share purchase warrant,
- Risk-free interest rate and volatility based on the historical information.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

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

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

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

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Impairment of trade and other accounts receivable

Management evaluates the recoverability of trade and other accounts receivable by estimating the likelihood of its collection. These estimations are based on an analysis of individual accounts. The amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Management estimates the future cash flow by taking into consideration the following: analysis of trade and other accounts receivable in accordance with the contractual credit terms allowed to customers; the collection history of customers; the general economic conditions, the specifics of industry and the financial position of customers.

As at 31 December 2016 allowances for accounts receivable were recognized in the amount of USD 37 thousand (USD 72 thousand as at 31 December 2015) (Note 28).

Impairment of other financial and non-financial assets

Management assesses whether there are any indicators of possible impairment of other financial and non-financial assets at each reporting date. If any events or changes in circumstances indicate that the current value of the assets may not be recoverable or the assets, goods or services relating to a prepayment will not be received, the Group estimates the recoverable amount of assets. If there is objective evidence that the Group is not able to collect all amounts due to the original terms of the agreement, the corresponding amount of the asset is reduced directly by the impairment loss in the statement of comprehensive income. Subsequent and unforeseen changes in assumptions and estimates used in testing for impairment may lead to the result different from the one presented in the financial statements.

As at 31 December 2016 allowances for other financial and non-financial assets were recognized in the amount of USD 8 thousand (USD 57 thousand as at 31 December 2015) (Note 28).

Long-term VAT recoverable

The Group classifies the VAT recoverable balance as current or non-current based on expectations as to whether it will be realised within 12 months from the reporting date. In making this assessment, management considered past history of receiving VAT refunds from the State budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, Management based its estimates on detailed projections of expected excess of VAT output over VAT input in the normal course of the business.

Taxation

The Group mostly operates in the Ukrainian tax jurisdiction. The Company's management must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for direct and indirect taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

As a result of unstable economic situation in Ukraine, tax authorities in Ukraine pay more and more attention to the business cycles. In connection with it, tax laws in Ukraine are subject to frequent changes. Furthermore, there are cases of their inconsistent application, interpretation and execution. Non-compliance with laws and norms may lead to serious fines and penalties accruals.

Management at every reporting period reassessed the Group's uncertain tax positions. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting period.

The Group considers that it operates in compliance with tax laws of Ukraine, although, a lot of new laws about taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

In December 2010, the revised Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later.

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The Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future.

Adoption of the Tax Code changes taxation system in Ukraine entirely. Quantity of taxes decreases almost twofold. Gradual decrease of base rates for all fiscal charges is stipulated within several years. Additional rate for tax on income of physical persons is adopted. Regulations settling procedure of taxation covered by the Tax Code are cancelled. These changes substantially increase risks of incorrect interpretation of adopted Tax Code. As a result of future tax inspections additional liabilities may be revealed, which will not comply with tax statements of the Company. Such liabilities may comprise taxes themselves, and also fines and penalties, and their amounts may be material.

The Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future.

Starting from 1 September 2013, Ukrainian legislation implemented new transfer pricing rules. These rules introduce additional reporting and documentation requirements to transactions with related parties. In accordance with the new rules, the tax authorities obtain additional tools with the help of which they may claim that prices or profitability in transactions with related parties different from arm's length transactions. As the practice of implementation of the new transfer pricing rules has not yet developed and the wording of some clauses of the rules is unclear, the probability that the Group's transfer pricing positions may be challenged by the tax authorities cannot be reliably estimated as of the date of authorization of these consolidated financial statements for issue.

Management is confident that the Group complies with all transfer-pricing rules.

Legal proceedings

The Group's Management makes significant assumptions in estimation and reflection of the risk of exposure to contingent liabilities related to current legal proceedings and other unliquidated claims, as well as other contingent liabilities. Management's judgments are required in assessing the possibility of a secured claim against the Group or material obligations, as well as in determining probable amounts of final payment or obligations. Due to the uncertainties inherent in the evaluation process, actual expenses may differ from the initial calculations.

These preliminary estimates are subject to changes as new information becomes available from the Group's internal specialists, if any, or from third parties, such as lawyers. Revisions of such estimates may have a significant impact on future operating results.

Operating environment

In 2014, Ukraine was faced with political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Ukraine also suffered from separatist movements and the collapse of law enforcement in Lugansk and Donetsk regions.

The Ukrainian Hryvna devalued against major foreign currencies. The National Bank of Ukraine introduced a range of measures aimed at limiting the outflow of customer deposits from the banking system, improving the liquidity of banks, and supporting the exchange rate of the Ukrainian Hryvna.

Significant external financing is required to support economic stabilization and the political situation depends, to a large extent, upon success of the Ukrainian government's efforts; yet further economic and political developments are currently difficult to predict and an adverse effect on the Ukrainian economy may continue.

Management is monitoring the developments in the current environment and taking actions where appropriate.

The Group does not have assets in Crimea, Donetsk and Lugansk regions.

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New and amended standards and interpretations

Standards and Interpretations in issue but not effective

At the date of authorization of these consolidated financial statements the following Standards and Interpretations, as well as amendments to the Standards, were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Amendments to IFRSs – “Annual Improvements to IFRSs 2014 –2016 Cycle”	1 January 2017
IFRS 9 “Financial Instruments”	1 January 2018
IFRS 15 “Revenue from contracts with customers” including amendments to IFRS 15: Effective date of IFRS 15	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 16 “Leases”	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

The Board of Directors is currently analyzing the impact of the adoption of these financial reporting standards on the financial statements of the Group.

5. Discontinued operations

In 2016 Zemelnij Kadastroviy Centr PE, Agroprogress Holding Ltd and Bluerice Limited left the Group.

Bluerice Limited and Agroprogress Holding Ltd were subholding companies and didn’t exercise any activity. Bluerice Limited was transferred and Agroprogress Holding Ltd was sold. Zemelnij Kadastroviy Centr PE prepared some technic documentation for other companies of the Group. As each company began to prepare such documentation by itself, Zemelnij Kadastroviy Centr PE was sold.

The combined results of the discontinued operations included in the consolidated statement of comprehensive income and consolidated statement of financial position are set out below: USD 35 thousand of net losses; total liabilities exceeded total assets by USD 38 thousand.

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6. Correction of previous periods errors

During preparation of its consolidated financial statements for the year ended 31 December 2016, the Group has revealed an error in the accounting treatment of the share purchase warrant (Note 31).

Comparative data for the years ended 31 December 2015 and 2014 were recalculated in order to correct the error and to preserve comparability of information. The results are reflected retrospectively as a previous period restatement. The results of reconciliation of the respective disclosure data are presented as follows.

As at 31 December 2015 and for the year ended at that date:

Changes in lines of consolidated statement of financial position and related notes

	<u>Previously reported</u>	<u>Impact of changes</u>	<u>Restated</u>
Share purchase warrant	474	(474)	-
Long-term loans and borrowings	40 473	5 587	46 060
Total	40 947	5 113	46 060

Changes in lines of consolidated statement of comprehensive income and related notes

	<u>Previously reported</u>	<u>Impact of changes</u>	<u>Restated</u>
Gain on reversal of share purchase warrant	409	(409)	-
Effect of additional return	-	(3 141)	(3 141)
Total	409	(3 550)	(3 141)

As at 31 December 2014 and for the year ended at that date:

Changes in lines of consolidated statement of financial position and related notes

	<u>Previously reported</u>	<u>Impact of changes</u>	<u>Restated</u>
Share purchase warrant	883	(883)	-
Long-term loans and borrowings	67 792	2 446	70 238
Total	68 675	1 563	70 238

Changes in lines of consolidated statement of comprehensive income and related notes

	<u>Previously reported</u>	<u>Impact of changes</u>	<u>Restated</u>
Loss on initial recognition of share purchase warrant	(883)	883	-
Effect of additional return	-	(2 446)	(2 446)
Total	(883)	(1 563)	(2 446)

The impact on the Basic profit per ordinary share (in USD) was the following:

	<u>Previously reported</u>	<u>Impact of changes</u>	<u>Restated</u>
For the year ended 31 December 2015	0,45	(0,11)	0,34
For the year ended 31 December 2014	(1,51)	(0,05)	(1,56)

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7. Revenue

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue from sales of finished products	a	124 126	139 869
Revenue from services rendered	b	618	519
		124 744	140 388

a) Revenue from sales of finished products was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Corn	75 991	94 125
Sunflower	24 647	24 453
Wheat	9 885	8 845
Soy beans	6 615	5 889
Milk	3 024	3 747
Cattle	1 747	1 032
Potatoes	1 219	1 228
Other	998	550
	124 126	139 869

b) Revenue from services rendered was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Transport	167	102
Processing	151	71
Storage	114	68
Other	186	278
	618	519

8. Gain from changes in fair value of biological assets and agricultural produce, net

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Agricultural produce	25	58 869	35 379
Current biological assets	25	7 292	3 618
Non-current biological assets	21	26	(265)
		66 187	38 732

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9. Cost of sales

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Raw materials	a	(81 581)	(82 979)
Rent		(13 852)	(10 008)
Depreciation and amortization	14	(9 489)	(4 754)
Fuel and energy supply		(8 931)	(8 877)
Change in inventories and work-in-progress	b	(7 191)	12 484
Wages and salaries of operating personnel and related charges	15	(6 057)	(5 579)
Third parties' services		(1 457)	(4 193)
Taxes and other statutory charges		(845)	(515)
Repairs and maintenance		(553)	(332)
Other expenses		(48)	(22)
		(130 004)	(104 775)

a) Raw materials for the year ended 31 December 2016 includes disposal of the gain recorded on initial recognition of realized agriculture produce and biological assets (both of current and non-current) in the amount of th USD 49 514 (th USD 37 719 for the year ended 31 December 2015).

b) Change in inventories and work-in-progress comprises changes in work-in-progress, agricultural produce and current biological assets. Book values of agricultural produce and biological assets as at the end of the reporting periods comprise fair value component stemming from revaluation conducted for the purposes of initial recognition of agricultural produce and biological assets at fair value.

10. Administrative expenses

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and salaries of administrative personnel and related charges	15	(4 036)	(2 950)
Professional services		(761)	(464)
Third parties' services		(276)	(209)
Bank services		(244)	(325)
Transport expenses		(224)	(253)
Depreciation and amortisation	14	(209)	(112)
Repairs and maintenance		(140)	(113)
Other expenses		(453)	(387)
		(6 343)	(4 813)

a) Professional services include the following audit and related fees:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Audit fees	(240)	(197)
Audit related fees	-	(5)
	(240)	(202)

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11. Selling and distribution expenses

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Delivery costs		(5 826)	(7 852)
Depreciation	14	(296)	(92)
Wages and salaries of sales personnel and related charges	15	(173)	(184)
Other expenses		(226)	(342)
		(6 521)	(8 470)

12. Other operating income

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Income from write-offs of accounts payable	a	938	346
Gain on recovery of assets previously written off	b	885	514
Income from subsidized VAT	c	527	7 427
Income from the exchange of property certificates	d	320	96
Gain on disposal of inventories		28	16
Other income		245	336
		2 943	8 735

a) Income from write-offs of accounts payable represents the write-offs of bank loans of Ukrainian bank in the amount of USD 888 thousand.

b) Gain on recovery of assets previously written off is represented by amounts of inventory surplus identified during the stocktaking and recovery of amounts previously recognized as doubtful.

c) According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive preferences regarding VAT payment on agricultural operations.

Till 31 December 2015 VAT amounts were not paid to the budget, but recognized as net result of income or expenses in the other operating income.

Since 01 January 2016 changes in tax legislation have taken place. The VAT preferences have been partially preserved for farmers in 2016, allowing retaining a portion of VAT amounts as follows:

- For crop farming operations - 85% of VAT amount is to be paid to the State budget, 15% of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities;
- For live-stock breeding operations - 20% of VAT amount is to be paid to the State budget, 80 % of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities;
- For other agricultural activities - 50% of VAT amount is to be paid to the State budget, 50 % of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities.

d) Income from the exchange of property certificates represents the difference between the price paid for property certificates and the fair value of received items of property, plant and equipment and recognized as income in the period of the exchange operation.

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(in thousand USD, unless otherwise stated)

13. Other operating expenses

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Depreciation	14	(1 247)	(672)
Loss on disposal of property, plant and equipment		(519)	(85)
Lost crops		(389)	(464)
Shortages and losses due to impairment of inventories		(350)	(368)
Write-offs of VAT		(144)	(8)
Wages and salaries of non-operating personnel and related charges	15	(100)	(77)
Allowance for doubtful accounts receivable	28	(63)	(279)
Loss from VAT on export operations	a	-	(6 058)
Other expenses		(440)	(904)
		(3 252)	(8 915)

a) Loss from VAT on export operations for the six months ended 31 December 2015 amounting to USD 6 058 thousand related to the Ukrainian tax legislation. According to the Tax Code sales operations on export of certain agricultural crops are exempted from VAT. Consequently, the Group loses the right on VAT credit for expenses incurred for cultivation of these crops. Since 01 January 2016 restrictions have been called off and VAT on export operations is administrated on regular basis.

14. Depreciation and amortisation

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Depreciation			
Cost of sales	9	(8 110)	(2 957)
Other operating expenses	13	(1 247)	(672)
Selling and distribution expenses	11	(296)	(92)
Administrative expenses	10	(207)	(110)
Depreciation as a part of article "Lost crops"		(7)	(10)
		(9 867)	(3 841)
Amortisation			
Cost of sales	9	(1 379)	(1 797)
Administrative expenses	10	(2)	(2)
		(1 381)	(1 799)
		(11 248)	(5 640)

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(in thousand USD, unless otherwise stated)

15. Wages and salaries expenses

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and salaries		(8 673)	(7 084)
Related charges		(1 710)	(1 717)
		(10 383)	(8 801)
The average number of employees, persons		2 730	2 789
Remuneration of management		445	445

	Note	For the year ended 31 December 2016		For the year ended 31 December 2015	
		Wages and salaries and related charges, thousand USD	Average number of employees, persons	Wages and salaries and related charges, thousand USD	Average number of employees, persons
Operating personnel	9	(6 057)	2 094	(5 579)	2 152
Administrative personnel	10	(4 036)	606	(2 950)	607
Sales personnel	11	(173)	24	(184)	24
Non-operating personnel	13	(100)	6	(77)	6
As a part of article "Construction in progress"		(17)	-	(11)	-
		(10 383)	2 730	(8 801)	2 789

16. Financial expenses, net

	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income on bank deposits	336	296
Interest expenses on loans and borrowings	(11 752)	(13 716)
Bond interest expenses	(629)	(1 431)
Other expenses	(249)	(131)
	(12 294)	(14 982)

17. Foreign currency exchange (loss)/gain, net

During the year ended 31 December 2016 the Ukrainian Hryvnia depreciated against the USD by 11,7% compared with year ended 31 December 2015. As a result, during the year ended 31 December 2016 the Group recognised net foreign exchange loss in the amount of USD 8 492 thousand (USD 29 965 thousand for the year ended 31 December 2015) in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

18. Income tax expenses

The corporate income tax rate for Y2016 and Y2015 was: 18% in Ukraine, 12,5% in Cyprus, 21% in Luxemburg.

The components of income tax expenses were as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax	(79)	(53)
Deferred tax	428	76
Income tax benefit (expenses) reported in the statement of comprehensive income	349	23

Consolidated statement of other comprehensive income

Deferred tax related to item charged or credit directly to other comprehensive income during year:

Net gain on revaluation of property, plant and equipment	241	(2 378)
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Reconciliation between tax expenses and the accounting value multiplied by tax rate was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
01 January	(3 542)	(1 873)
Income tax benefit (expenses) for the period recognized in profit or loss	349	76
Income tax benefit (expenses) for the period recognized in other comprehensive income	241	(2 378)
Effect of foreign currency translation	454	633
31 December	(2 498)	(3 542)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

19. Property, plant and equipment

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
Initial cost						
31 December 2014	41 237	25 387	10 236	988	449	78 297
Additions	344	2 175	785	71	205	3 580
Disposals	(1 463)	(728)	(195)	(56)	-	(2 442)
Transfer	15	24	5	6	(50)	-
Revaluations	22 210	13 362	7 222	-	-	42 794
Reversal of impairment/(Impairment), net	(901)	(427)	112	-	-	(1 216)
Effect from translation into presentation currency	(13 980)	(8 844)	(3 565)	(371)	(156)	(26 916)
31 December 2015	47 462	30 949	14 600	638	448	94 097
31 December 2015	47 462	30 949	14 600	638	448	94 097
Additions	1 391	3 047	1 276	88	315	6 117
Disposals	(1 907)	(1 677)	(552)	(40)	-	(4 176)
Transfer	2	20	1	2	(25)	-
Effect from translation into presentation currency	(5 524)	(3 716)	(1 757)	(78)	(70)	(11 145)
31 December 2016	41 424	28 623	13 568	610	668	84 893
Accumulated depreciation						
31 December 2014	(6 208)	(7 617)	(3 041)	(834)	-	(17 700)
Depreciation for the period	(1 446)	(1 677)	(640)	(78)	-	(3 841)
Disposals	461	540	135	41	-	1 177
Effect from translation into presentation currency	2 223	2 716	1 089	322	-	6 350
31 December 2015	(4 970)	(6 038)	(2 457)	(549)	-	(14 014)
31 December 2015	(4 970)	(6 038)	(2 457)	(549)	-	(14 014)
Depreciation for the period	(1 919)	(5 332)	(2 531)	(85)	-	(9 867)
Disposals	457	763	232	34	-	1 486
Effect from translation into presentation currency	671	986	426	69	-	2 152
31 December 2016	(5 761)	(9 621)	(4 330)	(531)	-	(20 243)
Net book value						
31 December 2014	35 029	17 770	7 195	154	449	60 597
31 December 2015	42 492	24 911	12 143	89	448	80 083
31 December 2016	35 663	19 002	9 238	79	668	64 650

As at 31 December 2015 an independent valuation of the Group's land, buildings, Machinery and vehicles was performed in accordance with International Valuation Standards by an independent appraiser LLC "Asset Expertise" (ODS Certificate No.439/15 as of 25 May 2015 issued by State Property Fund of Ukraine).

Most buildings and constructions were valued using cost approach. Other items of PPE were valued using the market approach. Market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

Cost approach either determines the cost to construct the assets in their present state and considers their remaining useful life or identifies fair value as a depreciated replacement cost. Cost approach was used only in the cases where there was no possibility to use market approach.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The following factors were considered in determining the fair values of buildings under the depreciated replacement cost approach:

- the cost to construct the asset is based on the cost of the necessary materials and construction work as at the date of valuation;
- expected usage of the asset is assessed by reference to the asset's expected capacity or physical output;
- technical or commercial obsolescence arising from changes or improvements in production for the product or service output of the asset as well as physical deterioration.

The independent appraiser used following sources of information:

- producers' price indices according to the Ukrainian bureau of statistics (<http://www.ukrstat.gov.ua/>) and Eurostat (<http://ec.europa.eu/eurostat>) (for replacement costs of machinery);
- UPVS register, 1969 y., which is the most commonly used source of information of cost of construction for items which were constructed more than 20 years ago (for replacement costs of buildings and constructions);
- straight-line physical depreciation method was used;
- as preferable source of market price for vehicles was used catalog DonRest

As a result of unobservable market data use in model (for real estate was applied cost approach) results of PPE valuation are related to the third group of data hierarchy.

Impairment test based on cash generating units

As at 31 December 2015, impairment test was performed by an independent appraiser, since impairment test is an integral part of valuation of property, plant and equipment wherein used the depreciated replacement cost method.

For the purpose of impairment testing, the Group identified eleven cash-generating units (CGUs) related to crops growing, animals growing, storage and assets of entities of Bobrovitsky Hlebzavod Ltd and Nosovsky Saharny Zavod Ltd which for future redeveloping.

Impairment testing was performed based on value in-use calculation using the DCF method. Cash flow projection is based on the long-term budget approved by management of the Group.

Assumptions

The key assumptions used for impairment testing are: discount rates, selling prices, amounts of revenue, cost of production, expenses, production and sales volumes. Discount rates were estimated based on weighted average cost of capital and comprised – 26,6%.

Production volume was estimated based on current production level; potential increase in land, crop yields, number of cows or milk yields is not taken into account. Cost of production was estimated based on current actual cost of production inflated by expected level of inflation, taking into account higher inflation levels for costs directly or indirectly pegged to USD (such as gas). When determining selling prices the Group analyzed available forecasts for export and domestic markets, including forecasted supply and demand.

For each CGU, except CGU # 3 (Animals growing (Chernihiv) , #10, #11 (assets of Bobrovitsky Hlebzavod Ltd and Nosovsky Saharny Zavod Ltd for future redeveloping), the estimated fair value exceeded its carrying value as at 31 December 2015.

As at 31 December 2016 an impairment review was conducted by the management of the Group. Impairment test has been performed for the following Cash Generating Units: Crop farming, Dairy farming, Storage and processing. According to the results of the test impairment of PPE was not identified.

The recoverable amount was estimated based on the value in use model. The key assumptions used in the most recent value in use were as follows:

- The projections were based on most recent budget covering 7 year period.
- The projections are USD-denominated.
- The prices and expenses were adjusted for inflation on the basis of respective CPI in Ukrainian Hryvna terms and translated into USD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

If property, plant and equipment were measured at cost their book value would be the following:

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
As at 31 December 2014	11 149	15 074	6 120	265	449	33 057
As at 31 December 2015	6 858	10 759	4 236	59	448	22 360
As at 31 December 2016	6 921	10 315	4 891	58	668	22 853

Assets under construction

Included in property, plant and equipment at 31 December 2016 was an amount of USD 97 thousand (USD 165 thousand as at 31 December 2015) relating to expenditure for buildings in the course of construction.

Capitalized cost

There were no borrowing costs capitalized as a part of costs of property, plant and equipment during the year ended 31 December 2016 and 2015.

Capital commitments

As at 31 December 2016 The Group had a capital commitments in the amount of USD 2 976 thousand (USD 2 279 thousand as at 31 December 2015).

Pledged PPE

The amount of property, plant and equipment pledged to secure bank loans was as follows:

	As at 31 December 2016	As at 31 December 2015
Land and buildings	22 045	21 187
Machinery	6 819	10 758
Motor vehicles	2 957	4 427
Other	9	19
	31 830	36 391

PPE in finance lease

Leased assets, where the Group is a lessee under finance lease agreements, comprise the following items:

	As at 31 December 2016	As at 31 December 2015
Machinery	3 205	5 216
Motor vehicles	2 802	2 471
	6 007	7 687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

20. Intangible assets

	Computer software	Property certificates	Land lease rights	Total
Initial cost				
31 December 2014	27	435	16 352	16 814
Additions	1	60	-	61
Disposals	-	(249)	-	(249)
Effect from translation into presentation currency	(9)	(132)	(5 610)	(5 751)
31 December 2015	19	114	10 742	10 875
31 December 2015	19	114	10 742	10 875
Additions	1	336	-	337
Disposals	-	(35)	-	(35)
Effect from translation into presentation currency	(3)	(32)	(1 260)	(1 295)
31 December 2016	17	383	9 482	9 882
Accumulated amortisation				
31 December 2014	(17)	(1)	(5 295)	(5 313)
Amortisation for the period	(2)	-	(1 797)	(1 799)
Effect from translation into presentation currency	6	-	1 981	1 987
31 December 2015	(13)	(1)	(5 111)	(5 125)
31 December 2015	(13)	(1)	(5 111)	(5 125)
Amortisation for the period	(2)	-	(1 379)	(1 381)
Disposals	-	-	-	-
Effect from translation into presentation currency	2	-	683	685
31 December 2016	(13)	(1)	(5 807)	(5 821)
Net book value				
31 December 2014	10	434	11 057	11 501
31 December 2015	6	113	5 631	5 750
31 December 2016	4	382	3 675	4 061

Property certificates represent deeds supporting ownership right for property units of members of agricultural entity, which are intended for exchange by the Group companies on the property objects of this agricultural entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

21. Non-current biological assets

	<u>31 December 2016</u>	<u>31 December 2015</u>
Non-current biological assets - animal-breeding		
Cattle	1 407	4 426
Non-current biological assets - plant-breeding		
Perennial grasses	25	45
Total non-current biological assets	<u><u>1 432</u></u>	<u><u>4 471</u></u>

As at the reporting dates non-current biological assets of animal-breeding were presented as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Cattle		
Cattle, units	1 136	3 299
Live weight, kg	421 508	1 429 402
Book value	1 407	4 426

Following changes took place in the non-current biological assets of animal-breeding:

	<u>Cattle</u>
31 December 2014	<u>7 167</u>
Transfer (from (to) current biological assets)	(397)
Slaughter	(2)
Change in fair value	(265)
Effect from translation into presentation currency	(2 077)
31 December 2015	<u>4 426</u>
31 December 2015	<u>4 426</u>
Transfer (from (to) current biological assets)	(422)
Change in fair value	26
Effect from translation into presentation currency	(2 623)
31 December 2016	<u><u>1 407</u></u>

Due to the absence of an active market for cattle in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets. As a discount rate, the rate of 23,2% prevailing as at 31 December 2016 (30,4% as at 31 December 2015) was applied for cattle.

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As at the reporting dates non-current biological assets of plant-breeding were presented as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Perennial grasses		
Area, ha	332	864
Book value	25	45

Following changes took place in the non-current biological assets of plant-breeding:

	<u>Perennial grasses</u>
31 December 2014	67
Capitalized expenses	30
Harvesting failure	(13)
Effect from translation into presentation currency	(39)
31 December 2015	45
31 December 2015	45
Capitalized expenses	38
Harvesting failure	(34)
Effect from translation into presentation currency	(24)
31 December 2016	25

22. Deferred tax assets and liabilities

The major components of deferred tax assets and liabilities were as follows:

Deferred tax assets

	<u>Tax losses</u>	<u>Allowances for recognized tax assets</u>	<u>Provisions</u>	<u>Total</u>
31 December 2014	452	(452)	13	13
Considering profit (loss)	(327)	327	6	6
Effect from translation into presentation currency	(125)	125	(5)	(5)
31 December 2015	-	-	14	14
31 December 2015	-	-	14	14
Considering profit (loss)	-	-	(14)	(14)
31 December 2016	-	-	-	-

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Deferred tax liabilities

	Property, plant and equipment
31 December 2014	(1 886)
Considering loss	70
Considering equity	(2 378)
Effect of foreign currency translation	638
31 December 2015	(3 556)
31 December 2015	(3 556)
Considering loss	442
Considering equity	241
Effect of foreign currency translation	375
31 December 2016	(2 498)

23. Other non-current assets

	Note	<u>31 December 2016</u>	<u>31 December 2015</u>
Prepayments and other non-financial assets:			
Prepayments for property, plant and equipment		1 817	434

As at 31 December 2015 an amount of USD 1 774 thousand or 97% of the total amount of prepayments for property, plant and equipment is due from the 10 most significant counterparties (as at 31 December 2015 – USD 304 thousand or 92%).

24. Inventories

	Note	<u>31 December 2016</u>	<u>31 December 2015</u>
Agricultural produce	a	46 037	47 189
Work-in-progress	b	6 417	11 082
Agricultural materials		1 404	915
Fuel		636	423
Spare parts		268	332
Raw materials		142	102
Finished goods		17	38
Other inventories		189	226
		<u>55 110</u>	<u>60 307</u>

As at 31 December 2016 cost value of inventories amounting to USD 36 214 thousand (USD 48 312 thousand as at 31 December 2015).

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a) As at the reporting dates agricultural produce was presented as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Corn	42 763	44 791
Soya	1 473	343
Potato	802	713
Silage	537	814
Hay	60	119
Sunflower	27	28
Wheat	17	20
Other	358	361
	<u><u>46 037</u></u>	<u><u>47 189</u></u>

The fair value of agricultural produce was estimated based on market price as at date of harvest and is within level 1 of the fair value hierarchy.

b) Work-in-progress includes expenses on works connected with preparation of the lands for the future harvest obtained from the biological assets of plant growing.

As at the reporting dates loans and borrowings were secured by agricultural produce:

	<u>As at 31 December 2016</u>	<u>As at 31 December 2015</u>
Corn	14 138	30 749

25. Current biological assets

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current biological assets of animal-breeding		
Cattle	1 246	2 843
Pigs	-	-
Other	12	12
	<u>1 258</u>	<u>2 855</u>
Current biological assets of plant-breeding		
Corn	11 025	-
Wheat	5 901	5 951
Grasses	18	15
Other	-	2
Total current biological assets of plant-breeding	<u>16 944</u>	<u>5 968</u>
Total current biological assets	<u><u>18 202</u></u>	<u><u>8 823</u></u>

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As at the reporting dates current biological assets of animal-breeding were presented as follows:

	31 December 2016	31 December 2015
Cattle		
Cattle, units	1 074	2 493
Live weight, kg	336 208	706 808
Book value	1 246	2 843
Pigs		
Pigs, units	-	2
Live weight, kg	-	170
Book value	-	-
Other		
Number of animals, units	64	66
Live weight, kg	10 475	11 612
Book value	12	12
Total book value	1 258	2 855

Following changes took place in the current biological assets of animal-breeding:

	Cattle	Pigs	Other	Total
31 December 2014	4 856	2	26	4 884
Capitalized expenses	1 412	1	-	1 413
Transfer (from (to) non-current biological assets)	397	-	1	398
Sale	(3 039)	-	(9)	(3 048)
Slaughter	(129)	(2)	-	(131)
Change in fair value	1 312	-	4	1 316
Effect from translation into presentation currency	(1 966)	(1)	(10)	(1 977)
31 December 2015	2 843	-	12	2 855
31 December 2015	2 843	-	12	2 855
Capitalized expenses	997	-	-	997
Transfer (from (to) non-current biological assets)	422	-	-	422
Sale	(5 208)	-	(2)	(5 210)
Slaughter	(179)	-	-	(179)
Change in fair value	358	-	3	361
Effect from translation into presentation currency	2 013	-	(1)	2 012
31 December 2016	1 246	-	12	1 258

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As at the reporting dates current biological assets of plant-breeding were presented as follows:

	31 December 2016	31 December 2015
Corn		
Area, ha	11 119	-
Book value	11 025	-
Wheat		
Area, ha	13 731	15 436
Book value	5 901	5 951
Grasses		
Area, ha	414	988
Book value	18	15
Other		
Area, ha	-	17
Book value	-	2
Total book value	16 944	5 968

Following changes took place in the current biological assets of plant-breeding:

	Corn	Wheat	Grasses	Sunflower	Other	Total
31 December 2014	-	4 959	86	-	2	5 047
Capitalized expenses (harvesting 2015)	46 852	3 200	1 111	12 856	4 486	68 505
Revaluation at fair value at the date of harvest (harvesting 2015)	23 313	3 310	-	7 031	1 725	35 379
Harvesting (2015)	(70 139)	(8 593)	(1 167)	(19 872)	(6 206)	(105 977)
Harvest failure (harvesting 2015)	(26)	(3)	(15)	(15)	(2)	(61)
Capitalized expenses (harvesting 2016)	-	2 828	-	-	2	2 830
Change in fair value (harvesting 2016)	-	2 302	-	-	-	2 302
Effect from translation into presentation currency	-	(2 052)	-	-	(5)	(2 057)
31 December 2015	-	5 951	15	-	2	5 968
31 December 2015	-	5 951	15	-	2	5 968
Capitalized expenses (harvesting 2016)	39 917	4 289	416	11 737	4 653	61 012
Revaluation at fair value at the date of harvest (harvesting 2016)	37 410	3 784	-	13 137	4 538	58 869
Harvesting (harvesting 2016)	(71 307)	(10 222)	(448)	(24 522)	(9 191)	(115 690)
Harvest failure (harvesting 2016)	(17)	-	(23)	(23)	(1)	(64)
Capitalized expenses (harvesting 2017)	-	142	8	-	-	150
Change in fair value (harvesting 2016)	5 812	1 119	-	-	-	6 931
Effect from translation into presentation currency	(790)	838	50	(329)	(1)	(232)
31 December 2016	11 025	5 901	18	-	-	16 944

As at 31 December 2016 there were no pledged biological assets. As at 31 December 2015 loans and borrowings were secured by current biological assets of wheat amounting USD 1 557 thousand.

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Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy. There were no transfers between any levels during the year ended 31 December 2016.

Description	Fair value as at 31 December 2016	Valuation technique	Unobservable inputs	Range of unobservable inputs
Crops in fields - wheat	5 901	Cash flows	Crops yield - tonnes per hectare	5,7
			Crops price	136 per ton
Crops in fields - corn	11 025	Cash flows	Crops yield - tonnes per hectare	7,5
			Crops price	136 per ton
Cattle	2 653	Discounted cash flows	Milk yield - kg per cow	3860 -7930 per year
			Milk price	0,2 USD per liter
			Discount rate	23,20%

Changes in key assumptions used to estimate biological assets fair value would have the following effect on the fair value of biological assets:

	Increase/decrease in assumption, %	Effect on fair value of biological assets, USD thousand
Crops yield	10	2 076
	(10)	(2 076)
Crops price	10	2 076
	(10)	(2 076)
Milk yield	10	235
	(10)	(235)
Milk price	10	1 066
	(10)	(1 066)
Discount rate	1	(27)
	(1)	27

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26. Trade accounts receivable, net

	Note	31 December 2016	31 December 2015
Trade accounts receivable		313	1 038
Allowances for accounts receivable	28	(37)	(72)
		<u>276</u>	<u>966</u>

As at 31 December 2016 an amount of USD 236 thousand or 85% of the total amount of trade accounts receivable is due from the 10 most significant counterparties (as at 31 December 2015 – USD 727 thousand or 70%).

Distribution of trade accounts receivable on time frames is the following:

	Total	Neither past due nor impaired	Past due, not impaired		
			Within 90 days	From 90 to 360 days	More than 1 year
31 December 2016	276	211	38	11	16
31 December 2015	966	693	117	132	24

On the basis of analysis of payments for the current period Financial Directorate of the Group considers that there is no need to form provision for overdue, but not impaired trade accounts receivable.

27. Prepayments and other current assets, net

	Note	31 December 2016	31 December 2015
Prepayments and other non-financial assets:			
VAT for reimbursement		6 842	5 728
Advances to suppliers		1 797	883
Allowances for advances to suppliers	28	(2)	(7)
		<u>8 637</u>	<u>6 604</u>
Other financial assets:			
Non-bank accommodations interest free		233	243
Allowances for non-bank accommodations interest free	28	-	(34)
Other accounts receivable		344	291
Allowances for other accounts receivable	28	(6)	(16)
		<u>571</u>	<u>484</u>
		<u>9 208</u>	<u>7 088</u>

As at 31 December 2016 an amount of USD 1 517 thousand or 86% of the total amount of advances to suppliers is due from the 10 most significant counterparties (as at 31 December 2015 – USD 890 thousand or 80%).

As at 31 December 2016 an amount of USD 182 thousand or 78% of the total amount of non-bank accommodations interest free is due from the 10 most significant counterparties (as at 31 December 2015 – USD 201 thousand or 83%).

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28. Changes in allowances made

	Note	31 December 2016	31 December 2015
Allowances for trade accounts receivable	26	(37)	(72)
Allowances for advances to suppliers	27	(2)	(7)
Allowances for other accounts receivable	27	(6)	(16)
Allowances for non-bank accommodations interest free	27	-	(34)
		(45)	(129)

The movements of the allowances were as follows:

	Note	For the year ended 31 December 2016	For the year ended 31 December 2015
As at the beginning of the period		(129)	(90)
Accrual	13	(63)	(279)
Use of allowances		110	178
Return of allowances		25	24
Effect from translation into presentation currency		11	38
As at the end of the period		(46)	(129)

29. Cash and cash equivalents

	Currency	31 December 2016	31 December 2015
Cash in bank and hand	USD	2 940	2 457
Cash in bank and hand	UAH	1 185	4 178
Cash in bank and hand	EUR	54	30
Cash in bank and hand	PLN	1	8
		4 180	6 673

There were no restrictions on the use of cash and cash equivalents during the year ended 31 December 2016 and 2015.

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30. Equity

Share capital

Industrial Milk Company S.A. has one class of ordinary shares. The number of authorized, issued and fully paid shares as at 31 December 2016 is 31 300 000 (31 December 2015 – 31 300 000). All shares have equal voting rights. Par value of one share is USD 0,0018.

	31 December 2016		31 December 2015	
	%	Amount	%	Amount
AGROVALLEY LIMITED	68	38	68	38
NATIONALE-NEDERLANDEN Powszechne Towarzystwo Emerytalne S.A. (previously ING PTE)	5	3	5	3
Other shareholders (each one less than 5% of the share capital)	27	15	27	15
	100	56	100	56

A reconciliation of the number of shares outstanding at the beginning and at the end of the period:

	For the year ended 31 December 2016	For the year ended 31 December 2015
number of authorized, issued and fully paid shares		
As at the beginning of the period	31 300 000	31 300 000
Changes for the period	-	-
As at the end of the period	31 300 000	31 300 000

Share premium

In 2011 Industrial Milk Company S.A. completed initial public offering of own shares on Warsaw Stock Exchange. Issue of share capital of Industrial Milk Company S.A. brought to the increase of share capital equaling to th USD 10 and share premium in amount of th USD 24 387.

Revaluation reserve

The fair value of Group's property, plant and equipment has been measured as at 31 December 2015, 2010, 2009 by an independent appraiser. As at 31 December 2009 the related revaluation surplus of th USD 14 766 was initially recognized in equity, as at 31 December 2010 it was additionally recognized in the amount of th USD 4 326. As at 31 December 2015 the amount of th USD 40 390 was recognized as increase in revaluation reserve due to revaluation of PPE.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings as the asset is used by an entity (in the amount that is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost) and when the asset is derecognized (in the full amount).

Effect of foreign currency translation

Effect of foreign currency translation comprises all foreign exchange differences arising from the translation of the financial statements into presentation currency.

Dividend policy

The Group intends to pay annual dividends starting from FY 2016 results with a dividend payout ratio up to 10% of net profit provided that the Group succeeds to receive dividend payment waivers from its creditors.

Legal reserve

From the annual net profits of the parent company, 5% have to be allocated to the legal reserve. This allocation shall cease to be required as soon and as long as such surplus reserve amounts to 10% of the capital. This reserve may not be distributed to the shareholders.

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31. Share purchase warrant

According to the Warrant Agreement entered into between the Group and IFC, IFC has the right to purchase up to 3 098 700 shares of Industrial Milk Company S.A. (representing equivalent of 9,90% of issued share capital) for a total amount up to USD 20 000 thousand. The warrant was exercisable at any time up to 19 December 2018.

But according to the IFC Loan agreement if all of the warrants have not been exercised by 19 December 2018, and if only some of the warrants have been issued, the portion of the Additional return which shall be payable shall be calculated by multiplying USD 21 000 thousand by a fraction the numerator of which is equal to the number of warrant shares not subscribed for pursuant to IFC loan agreement during the exercise period and the denominator of which is equal to the total number of warrant shares. This obligation to pay the additional return is an unconditional and independent debt obligation according to the IFC loan agreement.

As at 30 June 2016 According to the Amendment to Loan agreement between Industrial Milk Company S.A. and International Financial Corporation the Additional Return should be paid by Industrial Milk Company S.A. to International Financial Corporation. Amount of Additional Return should be paid in a lump sum payment not later than 19 December 2018 in an amount USD 21 000 thousand or in two instalments as follows: USD 11 000 thousand on 19 December 2018 and USD 11 800 thousand on 19 December 2019». Industrial Milk Company S.A. assumes to pay Additional Return in a lump sum payment. The warrants were cancelled in December 2016.

In its previous treatment, the Group determined fair value of the share purchase warrant by applying Black-Scholes model to determine its value as an option to purchase shares, embedded in the loan with the non-resident bank IFC of USD 30 000 thousand (Note 32). The Group also treated this value separately from the host instrument, recognizing a separate loss in the amount of initial fair value of the option, and thereafter recognizing changes in that fair value at a fair value through profit and loss. At the same time, the Group considered the obligation to pay the additional return of USD 21 000 thousand, included in the Warrant Agreement, as a contingent liability since it expected the IFC to exercise its warrants to buy shares. This judgment represented an error. In its corrected treatment, the Group considers the additional return of USD 21 000 thousand as an obligation associated with the IFC loan. Accordingly, it has included it as an expected cash flow in calculation of the effective interest rate implicit in the loan, used in determining the amortized value of the loan instrument regarded as a whole. The effective interest rate thus determined is 17,46%.

32. Long-term loans and borrowings

	Currency	31 December 2016	31 December 2015
Secured			
Long-term bank loans	USD	61 958	68 818
Finance lease liabilities	UAH, USD	3 073	6 027
Bonds issued	UAH	-	2 708
Total long-term loans including current portion		65 031	77 553
Current portion of long-term bank loans	USD	(8 774)	(26 314)
Current portion of finance lease liabilities	UAH, USD	(1 072)	(2 471)
Current portion of bonds issued	UAH	-	(2 708)
Total current portion		(9 846)	(31 493)
Total long-term loans and borrowings		55 185	46 060

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Essential terms of credit contracts

Creditor	Year of maturity	Currency	Nominal interest rate	31 December 2016	
				Long-term liabilities	Including current portion
Ukrainian bank	2017	USD	10,00%	5	5
Non-resident bank	2018	USD	3M Libor+8,50%	20 000	8 000
Ukrainian bank	2018	USD	12,00%	502	319
Ukrainian bank	2018	USD	9,50%	333	300
Ukrainian bank	2019	USD	8,50%	123	50
Non-resident bank *	2020	USD	6M Libor+8,00%	39 301	-
Ukrainian bank	2021	USD	7,00%	1 694	100
				61 958	8 774

Creditor	Year of maturity	Currency	Nominal interest rate	31 December 2015	
				Long-term liabilities	Including current portion
Ukrainian bank	2016	USD	13,50%	13 000	13 000
Ukrainian bank	2016	USD	1Y Libor+10,00%	1 606	1 606
Ukrainian bank	2016	USD	1Y Libor+10,00%	715	715
Ukrainian bank	2016	USD	11,00%	65	65
Ukrainian bank	2016	USD	11,00%	4 500	4 500
Ukrainian bank	2017	USD	6M Libor+9,50%	9 000	4 000
Ukrainian bank	2017	USD	11,00%	1 795	1 196
Ukrainian bank	2017	USD	11,00%	450	300
Ukrainian bank	2018	USD	11,00%	1 215	600
Ukrainian bank	2018	USD	12,00%	885	332
Non-resident bank *	2020	USD	6M Libor+8,00%	35 587	-
				68 818	26 314
Bonds issued	2016	UAH	13,25%	2 708	2 708
				71 526	29 022

* Loan from non-resident bank consists of:

- Basic loan amount of USD 30 000 thousand with 6M Libor+8,00% interest rate;
- Additional return liabilities in the amount of USD 21 000 thousand payable as of 19 December 2018, interest free, discounted by 17,46%.

Long-term loans and bonds issued outstanding were repayable as follows:

	31 December 2016	31 December 2015
Within one year	8 774	29 022
In the second to fifth year inclusive	53 184	42 504
	61 958	71 526

The Group has committed to comply with loans covenants. As at 31 December 2016 the Group was in compliance with all loans covenants. As at 31 December 2015 a number of covenants were breached due to devaluation of the local currency, necessary waivers were received from banks.

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Finance lease liabilities were presented as follows:

	31 December 2016		31 December 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	1 399	1 072	2 979	2 471
In the second to fifth year inclusive	2 098	2 001	3 874	3 556
	3 497	3 073	6 853	6 027
Less future finance charges	(424)	-	(826)	-
Present value of minimum lease payments	3 073	3 072	6 027	6 027

33. Short-term loans and borrowings

	Currency	31 December 2016	31 December 2015
Secured			
Short-term bank loans	USD	13 582	21 416
Short-term bank loans	UAH	4 965	5 360
		18 547	26 776

Essential terms of credit contracts

Creditor	Currency	Nominal interest rate	31 December 2016
Ukrainian bank	USD	10,20%	10 000
Ukrainian bank	USD	10,00%	3 582
			13 582
Ukrainian bank	UAH	20,00%	4 965
			18 547

Creditor	Currency	Nominal interest rate	31 December 2015
Ukrainian bank	USD	13,00%	9 140
Ukrainian bank	USD	13,00%	8 983
Ukrainian bank	USD	9,70%	3 293
			21 416
Ukrainian bank	UAH	28,00%	5 360
			26 776

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34. Trade accounts payable

	<u>31 December 2016</u>	<u>31 December 2015</u>
Trade accounts payable	2 104	3 274

As at 31 December 2016 an amount of USD 718 thousand or 36% of the total amount of trade accounts payable is due from the 10 most significant counterparties (as at 31 December 2015 – USD 1 746 thousand or 53%).

The table below summarizes the maturity profile of Group's liabilities on contractual payments on trade accounts payable:

	<u>On demand</u>	<u>Within 30 days</u>	<u>From 30 to 90 days</u>	<u>From 90 to 180 days</u>	<u>From 180 to 360 days</u>	<u>From 1 to 5 years</u>	<u>Total</u>
31 December 2016	-	1 410	694	-	-	-	2 104
31 December 2015	102	2 483	380	309	-	-	3 274

35. Other current liabilities and accrued expenses

	<u>31 December 2016</u>	<u>31 December 2015</u>
Other liabilities:		
Advances from clients	1 616	6 524
	1 616	6 524
Other accounts payable:		
Accounts payable for non-current tangible assets	1 267	177
Accounts payable for the lease of land and property rights	929	581
Wages, salaries and related charges payable	616	435
Accruals for unused vacations	507	424
Interest payable on bank loans	366	170
Taxes payable	271	103
Accruals for audit services	100	45
Interest payable on bonds	-	33
Other accounts payable	36	66
	4 092	2 034
	5 708	8 558

As at 31 December 2016 an amount of USD 1 602 thousand or 98% of the total amount of advances from clients is due from the 10 most significant counterparties (as at 31 December 2015 – USD 6 517 thousand or 99%).

Distribution of other current liabilities and accrued expenses on time frames is the following:

	<u>On demand</u>	<u>Within 30 days</u>	<u>From 30 to 90 days</u>	<u>From 90 to 180 days</u>	<u>From 180 to 360 days</u>	<u>From 1 to 5 years</u>	<u>Total</u>
31 December 2016	507	4 299	205	232	465	-	5 708
31 December 2015	424	7 556	142	145	291	-	8 558

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36. Related party disclosures

According to existing criteria of determination of related parties, the related parties of the Group are divided into the following categories:

- a) Entities - related parties under common control with the Companies of the Group;
- b) Key management personnel.

The Group performs transactions with related parties in the ordinary course of business. During the reporting period the Group did not perform any related parties transactions.

Short-term remuneration of key management personnel was as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Wages and salaries	328	328
Related charges	117	117
	445	445
The average number of employees, persons	4	4

37. Information on segments

A business segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generates revenues other than risks and income of those components that are peculiar to other business segments.

For the purpose of Management the Group is divided into the following business segments on the basis of produced goods and rendered services, and consists of the following 3 operating segments:

- Farming division - a segment, which deals with cultivation and sale of such basic agricultural crops as corn and wheat;
- Livestock breeding - a segment which deals with breeding and sale of biological assets and agricultural products of live farming. Basic agricultural product of live farming for sale in this segment is milk;
- Storage and processing - a segment which deals with storage and processing of agricultural produce.

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Information on business segments for the year ended 31 December 2016 was the follow:

	Farming division	Livestock breeding	Storage and processing	Unallocated	Total
Revenue	214 180	4 771	7 117	-	226 068
Intra-group elimination	(94 825)	-	(6 499)	-	(101 324)
Revenue from external buyers	119 355	4 771	618	-	124 744
Gain from changes in fair value of biological assets and agricultural produce, net	65 800	387	-	-	66 187
Cost of sales	(123 653)	(5 746)	(605)	-	(130 004)
Gross income	61 502	(588)	13	-	60 927
Administrative expenses	-	-	-	(6 343)	(6 343)
Selling and distribution expenses	-	-	-	(6 521)	(6 521)
Other operating income	-	-	-	2 943	2 943
Other operating expenses	-	-	-	(3 252)	(3 252)
Write-offs of property, plant and equipment	-	-	-	(1 764)	(1 764)
Operating income of a segment	61 502	(588)	13	(14 937)	45 990
Financial expenses, net	-	-	-	(12 294)	(12 294)
Effect of additional return	-	-	-	(3 715)	(3 715)
Foreign currency exchange (loss)/gain, net	-	-	-	(8 492)	(8 492)
Profit before tax	61 502	(588)	13	(39 438)	21 489
Income tax expenses	-	-	-	349	349
Net profit	61 502	(588)	13	(39 089)	21 838
Other segment information:					
Depreciation and amortisation	9 178	187	1 883	-	11 248
Additions to non-current assets:					
Property, plant and equipment	5 073	15	1 029	-	6 117
Intangible assets	337	-	-	-	337

Revenues from the 10 most significant counterparties for the year ended 31 December 2016 were as follows:

	Business segment	% of revenue
Non-resident buyer	Farming division	17,8%
Non-resident buyer	Farming division	17,2%
Non-resident buyer	Farming division	12,6%
Non-resident buyer	Farming division	8,5%
Ukrainian buyer	Farming division	7,8%
Non-resident buyer	Farming division	6,2%
Ukrainian buyer	Farming division	5,3%
Non-resident buyer	Farming division	4,9%
Non-resident buyer	Farming division	4,9%
Non-resident buyer	Farming division	3,6%
		88,8%

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Information on business segments for the year ended 31 December 2015 was the follow:

	Farming division	Livestock breeding	Storage and processing	Unallocated	Total
Revenue	251 137	4 779	7 784	-	263 700
Intra-group elimination	(116 047)	-	(7 265)	-	(123 312)
Revenue from external buyers	135 090	4 779	519	-	140 388
Gain from changes in fair value of biological assets and agricultural produce, net	37 681	1 051	-	-	38 732
Cost of sales	(100 596)	(3 796)	(383)	-	(104 775)
Gross income	72 175	2 034	136	-	74 345
Administrative expenses	-	-	-	(4 813)	(4 813)
Selling and distribution expenses	-	-	-	(8 470)	(8 470)
Other operating income	-	-	-	8 735	8 735
Other operating expenses	-	-	-	(8 915)	(8 915)
Write-offs of property, plant and equipment	-	-	-	(1 109)	(1 109)
Impairment of property, plant and equipment, net	-	-	-	(1 216)	(1 216)
Operating income of a segment	72 175	2 034	136	(15 788)	58 557
Financial expenses, net	-	-	-	(14 983)	(14 983)
Effect of additional return	-	-	-	(3 141)	(3 141)
Foreign currency exchange (loss)/gain, net	-	-	-	(29 965)	(29 965)
Profit before tax	72 175	2 034	136	(63 877)	10 469
Income tax expenses	-	-	-	23	23
Net profit	72 175	2 034	136	(63 854)	10 492

Other segment information:

Depreciation and amortisation	4 587	135	918	-	5 640
Additions to non-current assets:					
Property, plant and equipment	3 021	-	609	-	3 630
Intangible assets	61	-	-	-	61

Revenues from the 10 most significant counterparties for the year ended 31 December 2015 were as follows:

	Business segment	% of revenue
Non-resident buyer	Farming division	18,6%
Non-resident buyer	Farming division	17,9%
Ukrainian buyer	Farming division	13,3%
Non-resident buyer	Farming division	9,5%
Non-resident buyer	Farming division	9,2%
Non-resident buyer	Farming division	8,2%
Non-resident buyer	Farming division	4,2%
Ukrainian buyer	Farming division	4,1%
Non-resident buyer	Farming division	2,5%
Non-resident buyer	Farming division	1,3%
		88,8%

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38. Lease of land

The Group leases land for agricultural purposes from private individuals. Lease payments are calculated on the basis of monetary valuation of the land considering the inflation factor. The average interest rate for lease of land of the Group is 5-9% and depends on validity of the contract.

Areas of operating leased land were as follows:

Location of land	31 December 2016	31 December 2015
	Hectare	Hectare
Poltava region		
Land under processing	30 079	30 079
Land for grazing, construction, other	2 009	2 009
Chernihiv region		
Land under processing	81 938	81 938
Land for grazing, construction, other	1 681	1 681
Sumy region		
Land under processing	24 584	24 584
Land for grazing, construction, other	113	113
	140 404	140 404

Future minimum lease payments for operating leases of land of agricultural designation considering existing at that date the inflation factor are as follows:

	31 December 2016	31 December 2015
Within one year	7 926	7 980
In the second to fifth year inclusive	29 762	28 732
Later than fifth year	25 942	24 899
	63 630	61 611

39. Lease of property, plant and equipment

The Group leases machinery from lease company. According to existing agreements the term of lease is 36 months, the interest rate is 1MLibor minus 0,15%.

Future minimum lease payments for operating leases of property, plant and equipment were as follows:

	31 December 2016	31 December 2015
Within one year	1 105	1 767
In the second to fifth year inclusive	210	1 137
Later than fifth year	-	-
	1 315	2 904

The lease payments for operating leases of property, plant and equipment for the agreements mentioned above in the amount of USD 2 499 thousand for the year ended 31 December 2016 were included to the item Rent of Cost of sales (USD 2 640 thousand for the year ended 31 December 2015).

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40. Financial instruments

Financial instruments as at 31 December 2016 and 2015 were represented by the following categories:

Financial instrument	Category	Measurement
Financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Share purchase warrant	Financial liabilities	Fair value through profit or loss
Liabilities on additional return payment	Financial liabilities	Amortized cost
Loans and borrowings	Financial liabilities	Amortized cost
Accounts payable	Financial liabilities	Amortized cost
Other financial liabilities	Financial liabilities	Amortized cost

The fair values of the Group's financial assets and financial liabilities listed hereinbefore reflect the amounts that would be received to sell the assets or paid to transfer the liabilities in an orderly transaction between market participants at the measurement date. The fair values are based on inputs other than quoted prices that are observable for the asset or liability. These inputs include foreign currency exchange rates and interest rates. The financial assets and financial liabilities are primarily valued using standard calculations / models that use as their basis readily observable market parameters. Industry standard data providers are the primary source for forward and spot rate information for both interest rates and currency rates, with resulting valuations periodically validated through third party or counterparty quotes.

The Group's non-derivative financial instruments included cash and cash equivalents, accounts receivable, other financial assets, accounts payable, other financial liabilities, loans and borrowings. At 31 December 2016 and 2015, the carrying value of these financial instruments, excluding long-term debt, approximates fair value because of the short-term maturities of these instruments. The major part of the long-term loans and borrowings has floating interest rates and other has fixed interest rates but they are corresponded to the market rate level, so the Management of the Group believes that book value of long-term loans and borrowings approximates their fair value.

41. Management of financial risks

One of the principal responsibilities of the Financial Department of the Group is to manage the financial risks arising from the Group's underlying operations. On an annual basis, the Financial Department approves a strategic plan that takes into account the opportunities and major risks of our business and mitigation factors to reduce these risks. The Financial Department also reviews risk management policies and procedures on an annual basis and sets upper limits on the transactional exposure to be managed and the time periods over which exposures may be managed. The objective of the policy is to reduce volatility in cash flow and earnings. Risks managed include:

Type of risk	Affected by	Risk management policies
Credit risk	Ability of counterparties to financial instrument to fulfill their contractual obligations	Credit approval and monitoring practices; counterparties policies
Liquidity risk	Balance of cash flow	Preparation of detailed forecasts of cash flow
Market risk	<ul style="list-style-type: none"> - Market prices on products sold, materials and services for production - Changes in interest rates - Fluctuation of foreign currency exchange rates 	<ul style="list-style-type: none"> - Foreign currency forward contracts; Long-term cooperation with reliable suppliers - Maintaining a combination of fixed and floating interest rates; USD and UAH interest rates - Foreign currency forward contracts; USD and UAH interest rates

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Depending on the type of risks faced by the Group, it is possible to use a single or several methods of minimizing or levelling their negative impact on Group.

The use of the following risk management methods is possible at the Group's companies:

- 1) risk pooling is a method aimed at reducing the risk by transferring accidental losses into the relatively small fixed expenses (this method is a basis for insurance);
- 2) limitation is a method involving the development of detailed strategic documentation, which sets the boundary level of risk in each area of the company's activities, as well as clear allocation of functions and responsibilities of personnel;
- 3) diversification is a method of risk control through the selection of assets, profit on which slightly correlates, if possible;
- 4) hedging is a balancing transaction, minimizing the negative impact of risk (e.g., selection of assets and liabilities by timing, by currency).

- Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. The risk is primarily related to the Group's accounts receivable, cash and cash equivalent.

Book value of financial assets reflects maximal extent that is subject to credit risk of the Group. Maximal level of credit risk is the following:

	31 December 2016	31 December 2015
Trade accounts receivable, net	276	966
Other financial assets:		
Non-bank accommodations interest free	233	209
Other accounts receivable, net	236	275
Cash and cash equivalents	4 180	6 673
	4 925	8 123

The Group manages credit risk through rigorous credit approval and monitoring practices. Financial and Economic Department has developed the credit policy. In accordance with it, all contractors are subjected to careful analysis on ability to pay before the Group offers its standard terms of payment and delivery. If the Group sells goods to a contractor it has never dealt before, transactions are performed on terms of prepayment. Deferred payment is offered only to contractors with work experience with the Group more than 1 year without delays in payment terms established in sale contracts.

Group's management believes that companies comprising the Group are free in their choice of the customers, have close contacts with the leading global and Ukrainian traders, and may switch without risk to other customer offering better conditions of collaboration.

The Financial Directorate of the Group constantly carries out monitoring over payment terms deadlines according to goods selling contracts. In case of delay in payment, the personnel of the commercial department deals up with the customer and the decision whether to apply penalties or slightly extend the terms (within 90 days) is taken.

The Group forms estimated provision for trade and other accounts receivable and investments. It corresponds with estimation of amount of already suffered credit losses. The main element of the provision is an element of certain loss, determined for assets considering already suffered but not fixed losses. Estimated amount of losses is determined on the basis of statistical data for previous periods for similar financial assets.

Distribution of trade accounts receivable as at 31 December 2016 on time-frames is the following:

	Total	Neither past due nor impaired	Past due, not impaired		
			Within 90 days	From 90 to 360 days	More than 1 year
31 December 2016	276	211	38	11	16
31 December 2015	966	693	117	132	24

On the basis of analysis of payments for the current period Financial Directorate of the Group considers that there is no need to form provision for overdue, but not impaired trade accounts receivable.

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- Liquidity risk

Risk of liquidity - is the risk of inability to meet financial obligations of the Group in due time.

The way the Group manages the liquidity lies in providing the Group with constant availability of liquid facilities, enough to meet the obligation in due time, avoiding unforeseen losses and not to expose the reputation of the Group to risk.

There is system of management accounting and budgeting, which allows to plan and control covering all the expenses from operating activity and related with its financial expenses by means of profit.

The table below summarizes the maturity profile of Group's financial liabilities based on contractual payments at 31 December 2016:

	On demand	Within 30 days	From 30 to 90 days	From 90 to 180 days	From 180 to 360 days	From 1 to 5 years	Total
Bank loans and interest payable on bank loans	-	669	5 821	20 053	6 674	63 782	96 999
Finance lease liabilities	-	46	88	11	927	2 001	3 073
Trade accounts payable	-	1 410	694	-	-	-	2 104
Other current liabilities and accrued expenses	507	4 299	205	232	465	-	5 708
	507	6 425	6 808	20 296	8 066	65 783	107 884

The table below summarizes the maturity profile of Group's financial liabilities based on contractual payments at 31 December 2015:

	On demand	Within 30 days	From 30 to 90 days	From 90 to 180 days	From 180 to 360 days	From 1 to 5 years	Total
Bank loans	-	2 204	13 806	36 650	8 223	51 193	112 076
Bonds issued	-	31	62	93	2 894	-	3 080
Finance lease liabilities	-	725	622	103	1 020	3 557	6 027
Trade accounts payable	102	2 483	380	309	-	-	3 274
Other current liabilities and accrued expenses	424	7 555	97	190	292	-	8 558
	1 000	12 998	14 967	37 345	12 429	54 750	133 015

- Market risk

Market risk arises from fluctuations in market factors, including exchange rates, interest rates and commodity prices. Movements in these factors may affect the Group's income and expenses, or the value of its financial instruments. The objective of the Group's management of market risk is to maintain this risk within acceptable parameters, whilst optimizing returns.

Market risk is comprised of:

- Commodity price risk
 - i) Risk of changes in market prices of products for sale

The Group Sales Department makes continuous monitoring of market prices of products sold in order to manage exposure to changes in market prices for the products. According to the results of this analysis and subsequent prediction of prices for products, management pricing policy depending on the dynamics of market prices is formed.

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ii) Risk of changes in prices of materials and services

The Group is exposed to changes in prices of materials and services that are used in the process of production. The Group manages these risks by working with reliable suppliers, business relationships with whom had developed over a long time, and the search for new, more affordable supply of resources.

- Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group's companies manage their foreign currency risk by comparing the volumes of export revenues by currencies and loan portfolio by currencies. The Group avoids borrowing and production sales for export in any currency except for USD. The comparison is carried out as a part of the annual planning and budgeting.

When the amounts of the expected export revenues is below the level of USD borrowing for the financial year, the decrease in foreign currency borrowings by repayment of such loans or conversion of foreign currency loans into national currency is performed.

Group avoided realization of risk transactions that are subject to foreign currency risk.

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2016:

	Note	UAH	USD	EUR	PLN	Total
Trade accounts receivable, net	26	276	-	-	-	276
Cash and cash equivalents	29	1 185	2 940	54	1	4 181
Loans and borrowings	32, 33	5 038	78 540	-	-	83 578
Other current liabilities and accrued expenses	35	3 692	2 017	-	-	5 708
		10 191	83 497	54	1	93 743

The Group's exposure to foreign currency risk, based on book value, as at 31 December 2016 was as follows:

	31 December 2016	Increase/decrease in USD exchange rate, %	Effect on profit before tax
Loans and borrowings	39 239	10	(3 924)
		(10)	3 924
Other current liabilities and accrued expenses	2 017	10	(202)
		(10)	202
General effect	-	10	(4 126)
		(10)	4 126

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The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2015:

	Note	UAH	USD	EUR	PLN	Total
Trade accounts receivable, net	26	668	298	-	-	966
Cash and cash equivalents	29	4 178	2 457	30	8	6 673
Loans and borrowings	32, 33	8 250	96 079	-	-	104 329
Other current liabilities and accrued expenses	35	8 388	170	-	-	8 558
		21 484	99 004	30	8	120 526

The Group's exposure to foreign currency risk, based on book value, as at 31 December 2015 was as follows:

	31 December 2015	Increase/decrease in USD exchange rate, %	Effect on profit before tax
Cash and cash equivalents	138	15 (10)	21 (14)
Loans and borrowings	60 491	15 (10)	(9 074) 6 049
Other current liabilities and accrued expenses	170	15 (10)	(25) 17
General effect	-	15 (10)	(9 078) 6 052

	31 December 2015	Increase/decrease in EUR exchange rate, %	Effect on profit before tax
Cash and cash equivalents	30	15 (10)	(4) 3
General effect	-	15 (10)	(4) 3

- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in interest rates influences the involved loans and borrowings and finance lease transactions. Management of the Group doesn't have formalized policy respecting proportion of interest risk's allocation between the loans with fixed interest rate and floating interest rate. However, when attracting new loans and borrowings, management solves the problem respecting which interest rate, fixed or floating, will be more profitable for the Group during the expected period till the maturity date, based on own professional judgments.

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The Group's interest-bearing financial instruments were formed as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Loans and borrowings		
Fixed rate instruments	21 950	51 394
Variable rate instruments	61 628	52 935
	<u>83 578</u>	<u>104 329</u>

The Group's exposure to interest rate risk, based on book value, as at 31 December 2015 was as follows:

	Note	31 December 2016	Increase/decrease in Libor rate, %	Effect on profit before tax
Loans and borrowings	32,33	61 628	1 (1)	(616) 616

Agro-industrial risks

Agro-industrial business is subject to risks of outbreaks of various diseases of cattle or crops. These diseases could result in losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any diseases and related losses.

42. Capital management

The Group's objectives in the process of capital management are maintaining the Group's ability to follow the going concern principle to provide benefits to interested parties, and also maintaining the optimal structure of involved and own funds.

The management of the Group regularly analyzes the structure of its capital. On basis of results of this analysis the Group takes measures, which are aimed at maintenance of total structure of the capital balance.

The main financial liabilities of the Group are loans and borrowings, trade and other accounts payable. The main aim of these financial instruments is to involve facilities for the Group's activity.

The Group's gearing ratio was as follows:

	Note	31 December 2016	31 December 2015
Long-term loans and borrowings	32	55 185	46 060
Current portion of long-term borrowings	32	9 846	31 493
Short-term loans and borrowings	33	18 547	26 776
Trade accounts payable	34	2 104	3 274
Other current liabilities and accrued expenses	35	5 708	8 558
Cash and cash equivalents	29	(4 180)	(6 673)
Net debt		<u>87 210</u>	<u>109 488</u>
Total equity		65 057	54 910
Total net debt and equity		<u>152 267</u>	<u>164 398</u>
Gearing ratio		<u>57%</u>	<u>63%</u>

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The capital structure of the Group is based on management's judgments of the appropriate balancing of all key elements of its financial strategy in order to meet its strategic and day-to-day needs. The Management of the Group considers the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group will take appropriate steps in order to maintain, or if necessary adjust, the capital structure.

43. Events after the balance sheet date

There were no material events after the end of the reporting date, which have a bearing on the understanding of the financial statements. Conducting its normal operating activity, the Group considers important to highlight the following:

Loans and borrowings and interests are repaid in the amount of USD 2 079 thousand.

Loans and borrowings are received in the amount of USD 581 thousand.