**IMC S.A. and its subsidiaries**

**Consolidated financial statements**
**For the year ended 31 December 2019**

**and**
**Report of the réviseur d'entreprises agréé**

## CONTENTS

**Statement of Management responsibilities for preparation and approval of Consolidated financial statements for the year ended 31 December 2019**

Management of the Group of companies "IMC" (the Group) is responsible for preparing the Consolidated financial statements which reflect in all material aspects the financial position of the Group as at 31 December 2019, as well as the results of its activities, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In preparing Consolidated financial statements the Group's Management is responsible for:

- selecting appropriate accounting policies and their consistent application;

- making reasonable measurement and calculation;

- following principles of IFRS as adopted by the European Union or disclosing all considerable deviations from IFRS in the notes to Consolidated financial statements;

- preparing Consolidated financial statements of the Group on the going concern basis, except for the cases when such assumption is not appropriate;

- accounting and disclosing in the Consolidated financial statements all the relations and transactions between related parties;

- accounting and disclosing in the Consolidated financial statements all subsequent events that would result in an adjustment or a disclosure;

- disclosing all claims related to previous or potential legal proceedings;

- disclosing in the Consolidated financial statements all the loans or guarantees to the Management.

The Group's Management is also responsible for:

- development, implementation and control over effective and reliable internal control system in the Group;

- keeping accounting records in compliance with the legislation and accounting standards of the respective country of the Group's registration;

- taking reasonable steps within its cognizance to safeguard the assets of the Group;

- detecting and preventing fraud and other irregularities.

These Consolidated financial statements as at 31 December 2019 prepared in compliance with IFRS as approved by the European Union are approved on behalf of the Group's Management on 30 April 2020.

On behalf of the Management:

| | | |
|---|---|---|
| Chief Executive Officer | ALEX LISSITSA | signed |
| Chief Financial Officer | DMYTRO MARTYNIUK | signed |

**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 2019, and the comparable information, have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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 |

## Single management report



### 1. Business and General Conditions

**Macro-economic development**

- **World economy**

**Wheat**

According to USDA report, March 2020, in 2019/20 total world wheat production and ending stocks reached its record level for last five consecutive years. In comparison with MY 2018/19 world wheat production grew by 4.5% and ending stocks increased by 3.0%. This had negative effect on prices which decreased by 5-7% during harvesting period vs. previous year (July 2019 vs. July 2018) and were approximately 10% lower at the end of the year (December 2019 vs. December 2018).

in ths tonnes

| Wheat | 2018/19 | 2019/20 | 2019/20 vs.2018/19 |
|---|---|---|---|
| World Production | 731 460 | 764 493 | 4,5% |
| World Consumption | 737 050 | 754 926 | 2,4% |
| World Ending Stocks | 278 097 | 287 138 | 3,0% |

**Corn**

According to USDA report, March 2020, in 2019/20 total world corn production decreased insignificantly (-1%) while ending stocks went down third year in a row and reduced vs. MY 2018/19 by 7.3%. Due to such trends average corn prices in 2019 marginally but upped (1-2%) compared to 2018.

in ths tonnes

| Corn | 2018/19 | 2019/20 | 2019/20 vs.2018/19 |
|---|---|---|---|
| World Production | 1 123 648 | 1 112 006 | -1,0% |
| World Consumption | 1 144 303 | 1 135 471 | -0,8% |
| World Ending Stocks | 320 940 | 297 341 | -7,3% |

**Soybean**

Forecast of record soybean crop in Brazil, trade tensions between the USA and China, and African swine fever in China had negative effect on soybean prices at the beginning of marketing year in September 2019 (prices decreased by 5-10% vs. September 2018.

But closer to the end of 2019 USDA's forecasts of some decline in world soybean production and ending stocks in MY 2019/20 supported soybean prices, which resulted in 5-7% soybean prices growth (December 2019 vs. September 2019.

in ths tonnes

| Soybean | 2018/19 | 2019/20 | 2019/20 vs.2018/19 |
|---|---|---|---|
| World Production | 358 646 | 341 763 | -4,7% |
| World Crush | 297 846 | 303 446 | 2,0% |
| World Ending Stocks | 110 813 | 102 439 | -7,6% |

- **Ukrainian economy**

According to State Statistics Service of Ukraine inflation slowed to 4.1% in 2019 compared to 9.8% in 2018 (13.7% in 2017, 12.4% in 2016, 43.3% in 2015 and 24.9% in 2014).

In 2019, the national currency (hryvnia) strengthened significantly against both the US dollar and the basket of currencies of its main trading partners. The revaluation of the hryvnia, with the exception of seasonal fluctuations and short post-crisis episodes of exchange rate correction in the past, is a new phenomenon for Ukraine.

In 2019, hryvnia strengthened by 16,9% as at the end of the year (vs. insignificant revaluation in 2018 by 1.4% and devaluation by 3.1% in 2017, 11.7% in 2016, 34.3% in 2015 and 49.3% in 2014), 5,3% of revaluation for the average rate 2019/2018 in comparison with 2,2% of devaluation for the average rate 2018/2017.

Based on Economic Activity Overview (2019) prepared by Ministry for Development of Economy, Trade and Agriculture of Ukraine economic activity in 2019 remained at a rather high level - the pace of GDP growth is estimated at 3.3%, which is almost the same as in 2018 (3.4%).

According to preliminary data, in 2019, the agricultural production index increased by 1.1%, which was supported by growth in crop production by 1.3% and in livestock production by 0.5%. In 2019 the record harvest of grain crops (over 75 million tonnes -maximum harvest for the years of Ukraine's independence) and sunflower (more than 15 million tonnes) was achieved. Livestock development formed by stable external and internal demand for poultry products and improvement epidemiological situation in pig production. Although, milk production continued to decline (observed since 2014) due to the high cost of keeping cows in households.

Ukraine was ranked as #1 sunflower producer, #4 corn producer, #7 wheat producer, #9 milk producer, #10 cheese producer in the world in 2019.

According to State Fiscal Service of Ukraine export of agricultural products from Ukraine in 2019 increased by 19% to 22.2 billion USD ($18.6 billion in 2018). Agricultural products export mix in 2019: 58% - crop production, 21% - plant oil, 15% - finished product, 6% - animal produce. Asia and European Union were main export destinations for Ukrainian agricultural products.

**Business owerview of IMC S.A. and its Subsidiaries (the hereinafter "the Group" or "IMC")**

- **Business model**

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.

- **Corporate structure**

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

Unigrain Holding Limited is a direct subsidiary company of IMC 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.

In 2011 IMC S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited) the silo PJSC Vyryvske 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 Vyrynske, Ltd
- Pisky, Ltd
- SE Vyry-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 IMC 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 IMC S.A. purchased (indirectly, through its subsidiary companies Unigrain Holding Limited and PAC Slobozhanschina Agro) the agrarian company AgroKIM Ltd.

During 2014-2016 Group's structure was optimized by mergering of some companies.

On 26 April 2017 IMC S.A. (formally Industrial Milk Company S.A., hereinafter the Company) informs that official name of the Company has been changed from Industrial Milk Company S.A. to IMC S.A.

In June 2019 trading company Aristo Eurotrading HK Limited was formed (through Unigrain Holding Limited).

- **Group strategy**

On 13 February 2018 the Board of Directors of IMC S.A. (hereinafter "the Company") published the updating of the Company's strategy for 2016 – 2020:

- Before the introduction of the agricultural land market in Ukraine, the Company does not plan to expand the land bank in large scale, as it was planned earlier in the strategy 2016-2020, published on 15 February 2016 (see current report 3/2016 as of 15 February 2016).
- Other strategic goals published on 15 February 2016 concerning storage capacities and crop mix are unchanged: 1) Storage capacity modernization; 2) Growing of limited number of highly profitable export-oriented crops (corn, sunflower, soybean, wheat). Corn is a key crop with the share in crop mix about 50%.
- Taking into account a strong focus on business efficiency, the Company has defined additional strategic goal till 2020 - achievement of a leading position among agricultural companies in Europe in introduction of innovations.
- Profit received in 2017-2020, the Company plans to invest mainly in projects on operational efficiency improvement, debt reduction and payment of dividends to its shareholders.

- **Likely future development**

Further likely development of the Group in 2020 is planned in accordance with the adopted strategy:

- preservation of the land bank of the Group by prolonging land lease agreements with landlords;
- corn remains a key crop - about 56% of the crop mix in 2020;
- further reduction of debt to a level of USD 35 million at the end of 2020 (USD 47 million at the end of 2019);
- storage capacity modernization and purchase of new machinery – CAPEX forecast of USD 5 million;
- distribution of profit for interim dividends in 2020 will be considered at a meeting of the Board of Directors in the second half of the year;
- strong focus on business efficiency - we expect that implementation of our Research & Development department results will increase production efficiency in 2020.

- **Risk management and internal control system, anti-corruption measures**

**Risk management at IMC**

Risk management is the process of reducing the possibility of adverse consequences either by reducing the likelihood of an event or its impact or taking advantage of the upside risk. The goal of the risk management at IMC is to provide a reasonable assurance that Group's business objectives will be achieved. This process encompasses such stages as risk identification, risk assessment, risk respond and risk mitigation, monitoring.

*Risk identification.* Managers of every department are responsible for tracking of potential risks concerning theirs functions. Risks must obviously be identified before they can be managed.

*Risk assessment.* List of risks should be prioritised according to the the likelihood of occurrence and impact on the organization (department) goals. The most essential risks need urgent attention.

*Risk respond and risk mitigation.* Management has to construct effective plan to deal with each significant risk identified. Tools aiming to mitigate risks are established at internal documents (instructions, rules, methods, etc.).

*Monitoring.* Risks are monitored on an ongoing basis. Where risks change or new risks are identified then those risks are added to the risk assessment for appropriate categorisation and action. Internal audit process is the main tool for risk monitoring.

IMC's management is responsible for day-to-day monitoring, identification, assessment and planning mitigation activities concerning operational risks in the course of its ordinary performance. Internal controls at IMC are the main tools of operational risks mitigation process. Established internal policies and internal regulatory documents are the primary mediums of internal controls implementation.

The Board of Directors currently maintains responsibility for overseeing enterprise risk management process and strategic risks. Major risk exposures are regularly discussed at the board meetings.

**IMC's accounting-related risk management system**

IMC's control system relies on daily resource planning analyses which are detailed by cost center 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.

The Group's internal control and risk management system in relation to the process for preparing consolidated financial statements is closely related to control mechanisms of accounting procedures. Consolidated accountes are prepared on the basis of verified and approved accounting system data, which cannot be corrected. Consolidated accounts are carried out by specialists, the level of which is maintained annually by training. The accounts are verified by the management by comparing of control points with management reports.

**The Internal Control and Risk Management Department**

The Internal Control and Risk Management Department was established as the separate unit in a corporate governance structure of the Group.

The Department is created with the aim of the regular independent monitoring and estimation of effectiveness of the IMC corporate governance, efficiency of separate business processes at the level of group and separate structural subdivisions, assessing of adequacy of the risk management process, providing with recommendations and participation during an improvement process. The Department participates in improvement of internal control, risk management and governance processes.

The Department regularly provides the management of IMC and the Audit Committee with independent and objective valuations and consultations. This involves an objective analysis of actual data with the aim of estimation and expression of an opinion on reliability of systems, processes, operations.

**IMC Corporate Misconduct Hotline**

Corporate hotline was launched at IMC to prevent and inform possible breaches of internal regulations, such as cases of discrimination, dishonest conduct, harassment, thefts, any type of corruption and bribery, etc. The hotline encompasses several anonymous channels for whistleblowers – call-center, email box, web-interface. IMC guarantees anonymity and protection for all informants, if this does not contradict the current legislation. All reasonable masseges via hotline are processed and feedback is sent to whistleblowers. More information concerning the hotline for stakeholders is available via web-link https://imc.ethicontrol.com/web/en/pages/about.

**Anti-corruption and bribery matters**

It is the policy of the Group not to engage in bribery or corruption and comply with applicable anti-corruption laws.

We adhere to the UN Global Compact principles of bribery and anti-corruption:

- We shall work against corruption in all its forms, including extortion and bribery.
- Making, promising or offering any payments, gifts or inducements with the purpose of influencing someone (incl. government officials, suppliers, clients, etc.) to act improperly is strictly forbidden; the same applies to accepting payments, gifts or inducements.
- All payments should be reasonable and fall within the acceptable commercial practice.
- All such expenses have to be properly recorded in the accounts.
- We do not tolerate so-called facilitating payments (for example small unofficial payments to officials in order to speed up processes).
- The Group does not make political contributions.
- When engaging in business relationships the Group chooses its partners with the same zero tolerance approach to corruption and bribery.
- The Group appreciates the risk of corruption and bribery in the countries it operates and continues to take measures to minimize this risk.
- All funds received and paid by the Group and its subsidiaries during the course of business are strictly accounted and handled via bank transfers exclusively to minimize the possibilities of cash being taken in or out for the purposes of bribery. In 2019, the Group continued to ensure its adherence to such cash management.

- **Personnel**

For more than a decade, IMC has been proud of its stable and well-coordinated team – professionals with valuable skills, knowledge and experience. Respect to employees' rights and needs, application of future-oriented approaches, continuous learning and training programs provision are all at the core of IMC's personnel management.

In 2016 IMC implemented crucial policies that are extremely important for staff to understand that the company they work in is respectful to its employees and human rights. IMC employs people based on principles of equal opportunity, without distinction to race, color, gender, sexual orientation, religion, descent or origin. IMC standards related to employees and human rights are declared in the following documents:

- 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.

Policies are freely available to all employees and guests of IMC. The company policy prohibits discrimination based on color, ethnic or social origin, sex, pregnancy, civil, family status or status of a person caring for, language, religion or other opinion, political or other opinion, national or social origin, citizenship, economic status, association with a national minority, gender identity, age, disability, state of health, genetic characteristics of a person, and other signs or combinations of any of these attributes, actual or imaginary, as well as prohibited discrimination on the basis of association for any of the above listed features. The number of IMC staff by gender in 2019: men – 1291; women – 812; total – 2103. About 38% of the company's staff consists of women and 62% – men, reflecting the specifics of the agrarian sector in general, and crop farming, as a key area of the IMC, in particular.

In 2018, the IMC introduced a new format for working with proposals and complaints about the company's activities. Employees and shareholders can send their application in writing to e-mail address cs@imcagro.com.ua. Also, the IMC began to work with the Ethicontrol portal (imc.ethicontrol.com), which makes the appeal to the company absolutely confidential.

Education's Regulations defines the process of planning, implementing, administering and evaluating the effectiveness of learning. IMC provides its personnel with training and learning opportunities aligned with strategic goals and values (professionalism, responsibility, teamwork, effectiveness, initiative, honesty, respect) of the Company. Employees obtain knowledge and improve their skills through specialized training programs conducted by internal and external providers. Our learning and development offerings cover range of learnings goals: starting a career, expanding knowledge, personal growth and leadership's development.

IMC is proud of its stable and well-coordinated team of professionals with valuable skills, knowledge and experience. That is why maintaining high level of motivation among the employees of the IMC and preventing main threats of staff (internal and external migration, engagement of young people to work in rural areas and their retention) are important challenges for company executives. A number of non-financial factors have helped to form a new level of staff loyalty to IMC:

- Activation of corporate events (team building, sports tournaments, corporate events)
- Expansion of motivational trips abroad and within the country for different levels of employees (production/non-production departments, top/regional managers, workers)
- Stimulating contacts between clusters in various forms (work meetings, team building, training programs);
- Proactive communication policy through media platforms (corporate website, company's pages on Facebook, corporate newspaper "Visnyk IMC"), personal contacts with IMC headquarter and management vertical
- Active trainings
- Development of targeted help to employees
- Implementation of the program of provision of housing for employees
- Granting vouchers for children to children's camps

In 2019, 320 employees of IMC's production departments, including precision farming technologies and R&D specialists, were trained by representatives of world's leading agribusiness companies. Also 509 linear managers took part in different development training programs of leadership, effective communication, emotional intelligence and people management skills.

The Company spent a total of around UAH 1,2 million on training program in 2019.

In 2019 IMC improved Policy "On targeted help to employees", which allows to receive and fix the amount of financial support to employees, in the case of difficult life circumstances, births of children, weddings, reimbursement of expenses for treatment of employees and close relatives.

The IMC spent UAH 5,32 million on motivational events for staff in 2019: motivational trips abroad – UAH 3,29 million, targeted help to employees – UAH 0,92 million, corporate events - UAH 0,93 million, summer camp for children of employees - UAH 0,18 million. 144 employees of the enterprises of the IMC participated in motivational trips in 2019.

Personnel structure and wages and related charges were the following:

| | 2019 | 2018 | Change in % |
|---|---|---|---|
| Total number of employees | 2 103 | 2 309 | -9% |
| operating personnel | 1 503 | 1 632 | -8% |
| administrative personnel | 580 | 655 | -11% |
| sales personnel | 18 | 19 | -5% |
| non-operating personnel | 2 | 3 | -33% |
| Wages and salaries and related charges per employee (USD, for 12 months ended 31 December) | 11 362 | 8 188 | 39% |

- **Management Incentive plan**

The Extraordinary shareholders meeting approved on 4 July 2017 a management incentive plan providing to Management Team Members and Eligible Employees as defined in the Management Incentive Plan an option to purchase in aggregate up to 1 878 000 new shares of IMC S.A., such number being equal to 6% of the issued stock of IMC S.A. as at the adoption date of such plan, at the price decided at the discretion of the Board of Directors of the Company which shall be equal to at least one euro cent EUR 0.01.

Performance period of the Management Incentive Plan is 3 years, starting from January 1, 2017 and ending on December 31, 2019. During the performance period, the Board of Directors of the Company may discretionarily decide when the shares shall be issued by the Company to the Participants at the Subscription Price.

As a part of this incentive plan, 1 878 000 new ordinary shares were issued with subscription price USD 0.00115. As at 31 December 2017 the purchase option was fully exercised, market share price was USD 2.73.

- **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.

At all IMC's enterprises carry out on Monitoring in the areas: natural resource use and environmental legislation, occupational safety at production (compliance review of IMC HSE principles against the requirements of Ukrainian regulatory documents).

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'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.

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.

The focus of the work of IMC enterprises in 2019 was aimed at maintaining and implementing legislative requirements in the field of Health, Safety and Environment and introducing uniform corporate standards for IMC.

In January 2019, the implementation of the Corporate Standard "Safety Analysis of Work Execution" began. Key directions for the implementation of this project have been developed. The concept was approved by managers and engineers for labor protection at enterprises. Since February 2019, training of linear managers and personnel using the cascade training method began at the enterprises. Safety Analysis of Work Execution (SAWE) is a mandatory sequence of actions that is performed by an employee (group of employees) independently or with the participation of a manager before starting and periodically during the execution of work. The purpose of the SAWE is to analyze the possibility of safely performing/continuing work and taking the necessary measures to protect people and nature.

The objectives of the implementation of the Safety Analysis of Work Execution are the following:
• Regulation of the actions of each employee (group of employees) before and during the execution of work.
• Developing the skills of employees to regularly assess existing sources of danger and apply adequate measures of protection against dangerous and harmful factors.
• Developing skills for elementary risk assessment in the workplace.
• Education in employees of a serious attitude to sources of danger, maintaining the level of attention before starting and in the process of performing work.
• Algorithmization of the process; application of protective measures: Source of danger - Possible consequences - Necessary protective measures.
• Education of workers in the discipline of the application of protective measures based on a constant awareness of the possibility of negative consequences for health, life and the environment.

In 2019, the HSE Motivation Program was continued. Since March of the reporting year, the process of promoting HSE projects has been launched to be awarded by the IMC CEO. 34 projects were submitted in three nominations: Occupational safety and industrial safety, Health protection and Environmental protection. Special Committees were formed to identify the best 3 projects in each nomination. In total, 27 of implemented projects were identifed, of which one winner and two prize winners in each nomination were selected. The winning projects will be implemented in companies of the Group.

In June 2019, the Procedure for the Use and Protection of Water Resources was approved at IMC enterprises.The Procedure establishes uniform requirements and applies to the processes associated with the abstraction, use and protection of water resources, which are used for their own production and household needs by enterprises and are mandatory for structural divisions and officials of the IMC Group.The procedure does not cancel the requirements of the current legislation, internal documents of the enterprises of the IMC and contracting organizations, but can establish a higher level of requirements.

In July 2019, the implementation of the Corporate Transport Security Standard began. This Standard describes the minimum requirements for the safe use, operation, maintenance and repair of vehicles at enterprises. The Standard describes the requirements for personnel, the implementation of a program to improve the culture of driving and driving skills, and also regulates the procedure for periodically conducting targeted safety audits using checklists on 2 topics: "Requirements for the technical condition of vehicles" and "Safety requirements for repairs and technical vehicle maintenance. The implementation of the requirements of this Standard will reduce potential risks during the transport of people and dangerous goods and as a result, reduce the number of accidents, the severity of their consequences, as well as improve the material and technical resources of enterprises.

- **Social policy**

IMC's enterprises have been adhering to approved social policy.

Main principals are the following:

- The key target audience for social activities is a resident of a village living in the regions where IMC operates;
- Realization of social policy is carried out only according to certain priority directions;
- Financing of social activities is carried out exclusively within the framework of the annual budget approved;
- IMC does not provide assistance to religious organizations and political parties.

Priority directions of social policy:

- Targeted assistance to landlords of IMC's enterprises;
- Rural development and consumer services;
- Assistance to school and pre-school institutions;
- Health care, assistance in medical care of peasants (realization of medical projects);
- Assistance in the developments of the culture;
- Help in the development of sport in the countryside.

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 2019 reached UAH 18,1 million (Y2018 – UAH 22 million):

- Targeted assistance to landlords UAH 12,6 mln;
- Rural development UAH 2,0 mln;
- Road repair UAH 2,8 mln;
- Cultural & Sport events sponsorship UA 0,4 mln;
- Sponsorship of school and preschool institutions UAH 0,3 mln.

- **Innovative technologies and R&D**

In 2017 the Research and development department was formed. The elements of precision farming are tested and introduced by R&D department: systems for GPS-monitoring of the machinery, auto-piloting, satellite monitoring, variable norms for seeding, and differentiated fertilization. In 2019 extensive field experiments were carried out - testing the optimal seeding rate (different from the recommendations of the seed producer), selecting the optimal protection products.

Innovative technologies used in operating activities:

- Autopilot systems on heavy tractors - allows to increase efficiency of carrying out of any field operations by 6-8% and corresponding saving of fuel.
- Systems of control of sections during sowing and spraying - a technology that allows to switch off sections at overlaps and save significantly on chemicals, seed and fertilizers.
- Row Sense system and Row Vision system on spraying machines - technology that avoids trampling plants when spraying industrial crops.
- Monitoring the quality of field operations - each seeder and sprayer machine has a controller, which records the actual work done.
- Wialon GPS monitoring system - a software product that is used to organize the traffic control of machines, control fuel and record of work done.
- Satellite monitoring - periodically, during the year, satellite monitoring of all crops in the fields of the IMC is carried out to identify deviations in the growing of crops.
- Carrying aerial photography by drones - each of our enterprises is equipped with drones, which provides detailed aerial survey of fields, allowing quickly identification of the nature of heterogeneity and react to any deviations in the vegetation of plants.
- Yield sensors systems on each combine for yield mapping of each field.
- Implementation of Precision Planting equipment into sowing process – extremely increases quality of sowing.
- NFC field data transmition between trucks & weighing system on each grain cart – to control grain movement from field to storage.
- Agrogeoportal - PreAgri - it acts as the only platform for collecting, storing, processing and visualizing all geospatial data from fields.

To improve the qualitative and quantitative characteristics of the activity, IMC conducts research on new technologies and products.

General amount of trials was done on winter wheat, sunflower, corn and soybean - 1724 plots.

Main types of experiments are connected with hybrids and varieties (seeding materials), plant protection products, plant fertilizer systems, precision farming systems, soil silage systems, testing of agricultural equipment (drillers, planters, sprayers etc.).

Results for Y2019:

- 17% of planned corn acreage in season 2020 IMC will sow with new hybrids, which were tested by R&D department during season 2019;
- New for IMC method of sunflower sowing by Horsch Pronto were introduced to large scale production;
- Precision planting equipment was tested on corn and sunflower and introduced to large scale production;
- Fertilization system of winter wheat was changed based on trial results 2019;
- System of herbicide protection on corn was also changed based on trial results 2019;
- In spring 2019, R&D department created separate trial field (Agropolygon) with small plots in 1 cluster of IMC (Pryluky cluster). This approach helped us to concentrate big amount of trials in one location and to analyze the results of trials in equal conditions in more scientific way than previously. Next year (2020), we will create similar Agropolygons in 4 other clusters of IMC;
- R&D department is currently testing the new approach to accounting trials using GIS technologies (joined project with OneSoil and ClimateFieldview). Basically, we had already tested this format on several fields (including Agropolygon) in the season 2019 and we are planning to continue testing this approach.

There were no development costs capitalized in the accounts, the research is done internally and is consequently captured mainly in the costs of personnel and amounted USD 216 thousand for Y2019 (USD 109 thousand for Y2018).

### 2. Operational and Financial Results

The following table sets forth the Company's results of operations derived from the Consolidated financial statements:

| (in thousand USD) | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 | Change in % |
|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | |
| Revenue | 6 | 169 601 | 131 611 | 29% |
| Gain from changes in fair value of biological assets and agricultural produce, net | 7 | 52 768 | 73 326 | -28% |
| Cost of sales | 8 | (170 927) | (138 854) | 23% |
| **GROSS PROFIT** | | **51 442** | **66 083** | **-22%** |
| Administrative expenses | 9 | (13 246) | (11 928) | 11% |
| Selling and distribution expenses | 10 | (21 247) | (11 794) | 80% |
| Other operating income | 11 | 2 708 | 951 | 185% |
| Other operating expenses | 12 | (4 176) | (5 022) | -17% |
| Write-offs of property, plant and equipment | | (260) | (2 287) | -89% |
| **OPERATING PROFIT** | | **15 221** | **36 003** | **-58%** |
| Financial expenses, net | 15 | (3 476) | (4 987) | -30% |
| Effect of lease of right-of-use assets | 19 | (7 640) | - | 100% |
| Effect of additional return | 30 | (2 090) | (3 265) | -36% |
| Foreign currency exchange gain, net | 16 | 6 049 | 567 | 967% |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **8 064** | **28 318** | **-72%** |
| Income tax expenses, net | 17 | (746) | (691) | 8% |
| **NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | | **7 318** | **27 627** | **-74%** |

**Earnings before interest, taxes, depreciation and amortisation (EBITDA)** is calculated as revenue less expenses, the latter excluding tax, interest, depreciation and amortisation. Being a proxy to the operating cash flow before working capital changes, EBITDA is widely used as an indicator of a company's ability to generate cash flows, as well as its ability to service debt. Consequently, the management EBITDA serves as a measure to estimate financial stability of the Company. Besides, excluding the effect of depreciation and amortisation along with cost of capital and taxation provides to external users another measure comparable to similar companies regardless of varying tax environments, capital structures or accounting policies regarding depreciation and amortization.

The Company calculates Normalised EBITDA by adjusting Net profit for the expense items that are deemed to be substantially beyond the control of management, as well as items believed to be non-recurring. The Normalised EBITDA for the periods presented is calculated based on historical information derived from the Consolidated financial statements. The reconciliation to Normalised EBITDA for the period (from continuing operations) is presented as follows:

| (in thousand USD) | For the year ended 31 December 2019 | For the year ended 31 December 2018 | Change in % |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Net profit for the period | 7 318 | 27 627 | |
| Write-offs of property, plant and equipment | 260 | 2 287 | |
| Foreign currency exchange (loss)/gain, net | (6 049) | (567) | |
| Financial expenses, net | 3 476 | 4 987 | |
| Effect of lease of right-of-use assets | 7 640 | - | |
| Income tax expenses, net | 746 | 691 | |
| Depreciation and amortization | 23 803 | 12 556 | |
| **Non recurring items:** | | | |
| Effect of additional return | 2 090 | 3 265 | |
| **Normalised EBITDA** | **39 284** | **50 846** | **-23%** |

Company's Normalised EBITDA decreased in Y2019 in comparison with Y2018 mainly due to strengthening of the Ukrainian hryvnia, growth of selling expenses and lower yields compared to last year's record cropharvest, resulted in decrease in gain from changes in fair value of biological assets and agricultural produce, net in Y2019.

**Revenue**

The Company's revenue from sales of finished products increased by 29% in Y2019 in comparison with previous period.

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

| (in thousand USD) | For the year ended | | |
|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | Change in % |
| Corn | 118 806 | 81 576 | 46% |
| Wheat | 13 480 | 10 637 | 27% |
| Sunflower | 22 753 | 24 331 | -6% |
| Soy beans | 10 817 | 9 818 | 10% |
| Milk | 1 547 | 1 343 | 15% |
| Cattle | 115 | 147 | -22% |
| Potatoes | - | 885 | -100% |
| Other | 1 201 | 1 676 | -28% |
| | **168 719** | **130 413** | **29%** |

The most significant portion of the Company's revenue comes from selling corn, which represented 70,4% in Y2019 and 62,6% in Y2018 of total revenue.

The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

| | For the year ended | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| **Corn** | | |
| Sales of produced corn (in tonnes) | 711 134 | 495 823 |
| Realization price (U.S. $ per ton) | 167 | 165 |
| Revenue from produced corn (U.S. $ in thousands) | 118 806 | 81 576 |
| **Wheat** | | |
| Sales of produced wheat (in tonnes) | 76 542 | 62 978 |
| Realization price (U.S. $ per ton) | 176 | 169 |
| Revenue from produced wheat (U.S. $ in thousands) | 13 480 | 10 637 |
| **Soy beans** | | |
| Sales of produced soy beans (in tonnes) | 32 819 | 27 312 |
| Realization price (U.S. $ per ton) | 330 | 359 |
| Revenue from produced soy beans (U.S. $ in thousands) | 10 817 | 9 818 |
| **Sunflower** | | |
| Sales of produced sunflower (in tonnes) | 81 001 | 80 902 |
| Realization price (U.S. $ per ton) | 281 | 301 |
| Revenue from produced sunflower (U.S. $ in thousands) | 22 753 | 24 331 |
| **Potatoes** | | |
| Sales of produced potatoes (in tonnes) | - | 8 290 |
| Realization price (U.S. $ per ton) | - | 107 |
| Revenue from produced potatoes (U.S. $ in thousands) | - | 885 |
| **Other (produced only)** | | |
| Total sales volume (in tonnes) | 9 738 | 18 694 |
| Total revenues (U.S. $ in thousands) | 1 201 | 1 676 |
| **Total sales volume (in tonnes)** | **911 234** | **693 999** |
| **Total revenue from sale of crops (U.S. $ in thousands)** | **167 057** | **128 923** |

Revenue relating to sales of corn increased by 46% to USD 118,8 million in current period from USD 81,6 million in previous period, mainly due to an increase in realization volume in 2019.

Revenue relating to sales of wheat increased by 27% to USD 13,5 million in current period from USD 10,6 million in previous period, due to - increase in sales volume in 2019.

### Cost of sales

The Company's cost of sales changed to USD 170,9 million in current period from USD 138,9 million in previous period. 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 | | |
|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | Change in % |
| Raw materials | (116 378) | (96 669) | 20% |
| Change in inventories and work-in-progress | 457 | 13 868 | -97% |
| Depreciation and amortization | (20 311) | (10 210) | 99% |
| Wages and salaries of operating personnel and related charges | (13 233) | (9 148) | 45% |
| Fuel and energy supply | (10 676) | (13 868) | -23% |
| Third parties' services | (5 894) | (6 032) | -2% |
| Rent | (2 320) | (15 042) | -85% |
| Repairs and maintenance | (1 300) | (1 086) | 20% |
| Taxes and other statutory charges | (1 172) | (589) | 99% |
| Other expenses | (100) | (78) | 28% |
| | **(170 927)** | **(138 854)** | **23%** |

Raw materials increased in current period to USD 116,4 million from USD 96,7 million in previous period mainly as a result of inflation and exchange rate fluctuations.
Depreciation and amortization increased in current period to USD 20,3 million from USD 10,2 million in previous period due to impact of IFRS 16.
Wages and salaries of operating personnel and related charges increased in current period to USD 13,2 million from USD 9,1 million in previous period due to growth both in terms of salaries and additional premiums. Increase in cost of sales consists both of increase in quantity of sales and of increase of cost of several items, described above.

### Gross profit

The Company's gross profit decreased to USD 51,4 million in current period from USD 66,1 million in previous period, an 22% year-on-year decrease. In relative terms, the gain from changes in fair value of biological assets and agricultural produce decreased by 28%.

### Administrative expenses

Administrative expenses increased year-on-year to USD 13,2 million in current period from USD 11,9 million in previous period, reflecting an increase in wages and salaries of administrative personnel and related charges to USD 10,3 million from USD 9,4 million.

### Selling and distribution expenses

Selling and distribution expenses increased year-on-year to USD 21,2 million in current period from USD 11,8 million in previous period, reflecting an increase in sales volume and delivery costs in 2019.

### Foreign currency exchange, net

Foreign currency exchange gain, net increase to USD 6,0 million in current period from USD 0,6 million in previous period. This increase reflected the strengthening of UAH in 2019 in comparison with 2018 – 16,9% of revaluation as at 31 December 2019 in comparison with 1,4% of revaluation as at 31 December 2018, 5,3% of revaluation for the average rate 2019/2018 in comparison with 2,2% of devaluation for the average rate 2018/2017.

### 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 2019 | 31 December 2018 |
| Net cash flows from operating activities | 54 117 | 28 173 |
| Net cash flows from investing activities | (4 580) | (4 530) |
| Net cash flows from financing activities | (46 197) | (22 130) |
| **Net increase in cash and cash equivalents** | **3 340** | **1 513** |

*Net cash flow from operating activities*

The Company's net cash inflow from operating activities increased to USD 54,1 million in current year from USD 28,2 million in previous year. The increase in 2019 was primarily attributable to changes in inventories.

*Net cash flow from investing activities*

The Company's net cash outflow from investing activities is almost equal to the previous year amount - USD 4,6 million in Y2019 and USD 4,5 million in Y2018.

*Net cash flow from financing activities*

Net cash outflow from financing activities increased to USD 46,2 million in current year from USD 22,1 million in previous year. The increase in 2019 outflow was due to the big repayments of bank loans and due to changes of presentation of the article lease payments (in Y2018 land lease payments were reflected in operating activities as payments to other creditors, the new IFRS 16 requires reflecting payments in financial activities).

## 3. Risk report

### Risks relating to the Industry

- *Grains prices volatility*

  Changes in market prices for grains can adversely influence on IMC's earnings and financial results.

  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.

  Sound control over the grains production costs at IMC allows the Group to ensure sufficient level of marginality regardless of price fluctuations. The Group cooperates with large grain traders, which allows to sell large quantities of grain at the most favorable prices of the export market.

### Operational risks

- *Adverse weather conditions*

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

  The land cultivated by the Group is spread between different climate zones of Ukraine. This allows to reduce the possible negative impact of adverse weather conditions. Additionally, to mitigate an influence of this risk IMC uses 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 growth 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.

- *Increase of inputs costs*

  The Group's operating costs could increase and adversely affect IMC's financial performance. The risk of the Group's operating costs increase is basically connected to a possible price growth for fuel, seeds, fertilizers and crop protection materials.

  To reduce the risks mentioned above 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 that allows to use and purchase seeds, fertilizers and crop protection materials more efficiently;
  - has built long-term and mutually benefitted relationships with suppliers of seeds, fertilizers and crop protection materials.

- *Customer concentration risk*

  Focusing on large wholesale world traders, the Group has a small pool of customers and could be influenced by customer concentration risk. But the work of the Group with a small number of customers is not due to the lack of other customers or the impossibility of entering new markets, but to the selected sales strategy - the best conditions for selling are ensured by relations with large traders. To control the risk before each sale, a tender is held among buyers to determine the best conditions of the transaction. Making a choice in the direction of the buyer, management understand the level of supply and demand for the products on the market with other participants and Group's capabilities in the event of a change of buyer.

- *Credit risk*

  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 key personnel shortage*

  A lack of key personnel can threaten the overall performance of IMC.

  The Group conducts series of activities to mitigate this risk. IMC offers competitive working conditions for potential employees. Performance related remuneration scheme exists to motivate and retain key staff. IMC cooperates with a number of Ukrainian educational institutions for selection and hiring talented students. Educational and professional trainings are regularly held for personnel at IMC.

- *Risk of land loss*

  Land is a key resourse in agricultural production and termination of essential number of land lease agreements can cause significant damage for the Group.

  To mitigate this risk, the Group holds a number of social events for the local communities to make IMC's presence beneficial for Company's land lessors. The terms of land lease agreements have been revised and re-signed in the best interest of counterparties. As at 31 December 2019 90% of land lease agreement are valid for a period over 5 years and 40% of contracts are valid for a period of more than 10 years (as at 31 December 2018 92% and 76% correspondingly).

- *Risk of cybersecurity incidents*

  IMC's corporate information system can be corrupted by virus attack or external intrusion.

  Operations of the Group are highly dependent on corporate IT system in all aspects. In 2017 companies of the Group have experienced a cybersecurity attack which has not had a material impact on our business. To prevent and mitigate this risk a series of actions has been done. The infrastructure of IMC's intranet has been improved in order to mitigate the risk of unauthorized external intrusion. A backup process was reconstructed to ensure a maximum possible safety of corporate business data. The riskiest points of unauthorized external intrusion have been isolated outside IMC's intranet.

**Financial risks**

- *Risk of capital deficiency*

  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, financing by international financial organizations.

- *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.

- *Risk of interest rate volatility*

  Fluctuations of interest rates influence on the cost of IMC's borrowings.

  The Group utilizes balancing strategy to mitigate interest rate risk. The portfolio of IMC's borrowings consists of 28% of float rate debt and 72% of fixed rate debt.

  IMC's creditors are well-known banks with a foreign capital or international financial institutions. As result, the cost of IMC's financial resources is lower than the market average.

- *Fluctuation in currency exchange rates*

  Unfavorable movements of currency exchange rates can lead to deteriorating of company's financial results.

  The main functional currencies for IMC are Ukrainian hryvnia and US dollar. Since the Group is export oriented, most of regular financial planning cash inflows are matched in US dollar, when outflows are matched both in US dollar and Ukrainian hryvnia. Stable revenue in US dollar limits the risk resulting from national currency devaluation. In 2019, the Ukrainian hryvnia strengthened against the US dollar from the beginning to the end of the year, which was reflected on the one hand, in a decrease in the Group's financial result for the year (due to the fact that the revenue was formed at a lower rate than the cost), on the other hand, net assets of the Group at the end of the year increased in US dollar terms.

**Legal and regulatory risks**

- *Risk of non-compliance*

  The Group's business is influenced by regulatory rules of each country where IMC operates. A breach of these rules can cause legal proceedings and additional costs for the Company.

  The monitoring of legislation changes is constantly conducted by the Legal Department at IMC. Employees regularly visit specialized events on legal issues. Group's business operations are conducted in accordance with current legislation taking into account possible future regulatory development.

**Risk of COVID-19 pandemic**

In 2020 the global spread of COVID-19 is affecting every one of us.

To prevent the spread of COVID-19 coronavirus since mid-February, the company has taken proactive preventative measures in accordance with an approved program of action aimed primarily at protecting the health of its employees and their families, our suppliers and consumers.

Management forecasts on the impact of the COVID-19 pandemic on IMC's future business are the following:

*2020 sowing campaign*

Firstly, the sowing plan for 2020 is slightly changed compared to 2019 - the area under soybean in 2019, which was almost 11 thousand hectares, was given for winter wheat (8 thousand hectares) in 2019 and for corn (3 thousand hectares) in 2020. This means that 8,000 hectares of sowing have already been carried out in autumn 2019, which reduces the load on the spring sowing campaign 2020.

Secondly, the favorable weather conditions allowed us to increase significantly the area where carbamide was applied. For comparison, the area with carbamide applied in 2018 amounted to 15 thousand hectares, while in 2019 - 33 thousand hectares, that making the fields more prepared for further sowing.

Thirdly, we have the necessary materials and technical support - seeds and fertilizers have already been purchased and are in stock. We work with big suppliers and predict that there will be no significant disruption in the supplying of materials. We are also ready for sowing in terms of machinery - new productive machinery was leased for field works: 20 new harvesters in 2019 and 10 new tractors in 2020.

Field sowing works being carried out. We have minimized the number of employees involved and provided them with protective equipment. In general, the sowing campaign runs as usual.

*Future revenues*

The available inventories at stock as at 31 December 2019 are already contracted and are awaiting its turn for shipment. There are no problems with the availability of wagons to deliver grain to the port. There are no restrictions on freight traffic. We expect that the shipment of corn harvested in 2019 will run without problems.

We understand that the quarantine will weaken the overall rate of goods consumption, but we do not expect it will apply to basic foodstuffs, including the grain of the future 2020 harvest. So we do not anticipate difficulties in sales of future crops.

*Financing*

Bank loans are represented by long-term loans and revolving credit lines. Long-term loans are paid as usual on a schedule, revolving credit lines are used to replenish operating funds and are renewed annually. As at 31 December 2019 such credit lines were opened in the amount of USD 28.5 million. As at 07 April 2020 credit lines in the amount of USD 18.5 million were updated, the new rates are lower than last year by 0.5-1.0%%. A credit line in the amount of USD 10 million will be updated in May according to the schedule. There are no problems with financing, we are paying off our debts, the necessary credit lines were updated.

**4. Selected Financial Data**

(in thousand USD)

| | For the year ended | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| I. | Revenue | 169 601 | 131 611 |
| II. | Operating profit/(loss) | 15 221 | 36 003 |
| III. | Profit/(loss) before income tax | 8 064 | 28 318 |
| IV. | Net profit/(loss) | 7 318 | 27 627 |
| V. | Net cash flow from operating activity | 54 117 | 28 173 |
| VI. | Net cash flow from investing activity | (4 580) | (4 530) |
| VII. | Net cash flow from financing activity | (46 197) | (22 130) |
| VIII. | Total net cash flow | 3 340 | 1 513 |
| IX. | Total assets | 298 408 | 198 206 |
| X. | Share capital | 59 | 59 |
| XI. | Total equity | 133 193 | 120 670 |
| XII. | Non-current liabilities | 93 641 | 18 816 |
| XIII. | Current liabilities | 71 574 | 58 720 |
| XIV. | Weighted average number of shares | 33 178 000 | 33 178 000 |
| XV. | Net profit/(loss) per ordinary share (in USD) | 0,22 | 0,83 |
| XVI. | Book value per share (in USD) | 4,01 | 3,62 |

On behalf of the Management:

Chief Executive Officer ALEX LISSITSA signed

Chief Financial Officer DMYTRO MARTYNIUK signed

**IMC S.A.**
*Société anonyme*
Registered office: 16 rue Erasme
L-1468Luxembourg, 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, 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 | Initial 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 | 2022 |
| 5. Mr. Kamil Jan Gaworecki, non-executive director | 01 June 2016 | 2022 |

With regard to the appointment and replacement of Directors, the Company is governed by its 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 criterias 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 12 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 case of 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 a written notice of 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 video conference 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 annual accounts intended to give a true and fair view. The Board has appointed LGL Corporate Services (Luxembourg) S.A. as Administrator. (previously known as Totalserve Management (Luxembourg) S.a.r.l.).

## 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 annual accounts and consolidated 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 2019 Audit committee consisted of two members, Alfons Balmann (chairman), a non-executive director and Kamil Jan Gaworecki (member), non-executive director. In the year 2019 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 meetings as it is determined in the 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 (not adopted yet)

- 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 2019 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.

**Personnel**

IMC employs people based on principles of equal opportunity, without distinction to race, color, gender, sexual orientation, religion, descent or origin. IMC standards related to employees and human rights are declared in the following documents:

- 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.

Policies are freely available to all employees and guests of IMC. The company's policy prohibits discrimination based on color, ethnic or social origin, sex, pregnancy, civil, family status or status of a person caring for, language, religion or other opinion, political or other opinion, national or social origin, citizenship, economic status, association with a national minority, gender identity, age, disability, state of health, genetic characteristics of a person, and other signs or combinations of any of these attributes, actual or imaginary, as well as prohibits discrimination on the basis of association for any of the above listed features.

**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 annual accounts and consolidated 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 for consolidated financial statements for Y2019 and Y2018 were carried by BDO Audit S.A.

**Takeover bids Law statement**

- The structure of the capital of the Company is represented in Note 29. The Company is a publicly listed company whose shares are owned primarily by investors and Agrovalley Limited whose beneficial owner is Mr. Oleksandr Petrov, chairman of the Board of Directors. As of 31 December 2019, Mr. Oleksandr Petrov held 24 605 935 shares in the Company, what is equal to 74,16%;
- 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 29. 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 2001/34/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 transactions in the shares in the Company. Following the rules of the notification, the Company notifies both stock exchanges via appropriate regulatory filings.

On behalf of the Management:

| | | |
|---|---|---|
| Chief Executive Officer | ALEX LISSITSA | signed |
| Chief Financial Officer | DMYTRO MARTYNIUK | signed |

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1, rue Jean Piret
Boîte Postale 351
L-2013 Luxembourg

# REPORT OF THE REVISEUR D'ENTREPRISES AGREE

To the Shareholders of
IMC S.A.
16, rue Erasme
L-1468 Luxembourg

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of IMC SA and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" (CSSF). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and the ISAs are further described in the «Responsibilities of "*Réviseur d'Entreprises Agréé*" for the audit of the consolidated financial statements » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Existence and valuation of biological assets (notes 3, 7, 21 and 24 to the consolidated financial statements)**

Biological assets (non-current and current) are valued at initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs.

Estimating the fair value is a complex process as it is based on discounted cash flows and involves various inputs requiring significant judgments and estimates. As a consequence, we have determined the existence and the valuation of biological assets as a key audit matter.

Our procedures were as follows:

- Considering the appropriateness of the model used by the Group and its consistency with prior periods;
- Reviewing the existence of Biological assets on a sample basis
- Reviewing the inputs used in the calculation, such as yields, prices through comparison with internal supporting documentation including prior years' actual data and external data;
- Verifying whether the model is arithmetically correct;
- Reviewing the disclosures in the consolidated financial statements, including disclosures of key assumptions, judgments and sensitivity analysis.

**Existence and valuation of inventories - Work in progress - (notes 3, 8 and 23 to the consolidated financial statements)**

Inventory contains a significant portion of work in progress linked to preparation of the lands for future harvest.

Estimating the costs to be allocated to the work in progress is a complex process as it is based on judgments of management using the recommendations of scientific sources and agronomic calculations of the internal services of the Group.

As a consequence, we have determined the existence and valuation of work in progress as a key audit matter.

Our procedures were as follows:

- Confirming the existence of lands in preparation for future harvest through year end observation on a sample basis;
- Reviewing the main assumptions underlying the costs allocation used by the Group (standard direct and indirect costs allocated to hectares of land on the basis of different factors such as the type of crop and the geographical location of the land);
- Applying a control on a sample basis of the input data used by the Group in their costs allocation model to internal supporting information and documents;
- Reviewing the disclosures in the consolidated financial statements, including disclosures of key assumptions and judgments.

**Going concern (note 2 - going concern and note 4 - operating environment)**

As mentioned in note 4 to the consolidated financial statements, the Group is mainly active in Ukraine.

In 2014, Ukraine was faced with political and economic turmoil, including the annexation by the Russian Federation of Crimea and separatist movements in Lugansk and Donetsk regions.

Even though the Group has no assets in the regions mentioned above, the Group suffered from the consequences of these events on the Ukrainian economy.

The Group is to a significant extent financed by banks and financial institutions, through loan contracts with covenants. Loans and borrowings (excluding lease liabilities) represent as at 31 December 2019, 15.76% of total liabilities and equity.

Assessment on going concern is largely dependent on forecasts and estimates made by management.

We therefore have considered going concern as a key audit matter.

Our procedures were as follows:

- Obtaining and evaluating the assessment made by management on going concern;
- Challenging the reasonableness of the key assumptions underlying the business plan and cash flow forecasts, through a review of past performance and comparison with prior forecasts, a review of the sensitivity analyses of the models, where possible a comparison of the assumptions with external data ;
- Verifying that based on the conditions of the contracts, the bank covenants are met as at 31 December 2019, and that these are expected to be met based on the forecast prepared by the management until 31 December 2020;
- Evaluating whether events and developments since the beginning of the year 2020 may have an impact on the business plan and forecasts;
- Obtaining assessment of management and evaluating the impact of the Covid 19 outbreak on the going ability of the Group.

**IFRS 16- Right of use of assets and lease liabilities (notes 5 and 19)**

As mentioned in note 5 to the consolidated financial statements, the Group has adopted IFRS16 from 1 January 2019. The Group had adopted a modified retrospective approach for the application of IFRS 16.

The Group recognizes lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 and evaluated the right-of-use assets. Lease liabilities as to right-of-use assets were measured at the present value of the remaining lease payments, discounted using the Group's average borrowing rate.

Application of IFRS 16 is a complex accounting process as it involves several assumptions and management's estimates in the determination of the average's borrowing rate and the application of the practical expedients.

Extensive disclosures are also required as per IFRS 16 in respect of the first application.

As a consequence, we have considered IFRS 16 as a key audit matter.

Our procedures were as follows:

- Reviewing the memo prepared by management on the application of IFRS 16 ;

- Performing other substantive procedures including the assessment of the information received from the management in relation with the identification of all the lease agreements in place and the appropriateness of the Management's interpretation of accounting in the context;

- Reviewing the calculations of net present value (future discounted leases payments), depreciation and interest based on requirements of IFRS 16;

- Reviewing the disclosures made to the consolidated financial statements and ensuring assumptions used and expedients applied are clearly disclosed.

**Other information**

The Board of directors is responsible for the other information. The other information comprises the information stated in the single management report and the Corporate Governance Statement 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.

**Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Responsibilities of the "Réviseur d'Entreprises Agréé" for the audit of the consolidated financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

**Report on Other Legal and Regulatory Requirements**

We have been appointed as “Réviseur d’Entreprises Agréé” by the General Meeting of the Shareholders on 25 April 2017. As BDO Audit merged with HRT Révision, which was appointed as “Réviseur d’Entreprises Agréé” for year-end 2016, the duration of our uninterrupted engagement is 4 years.

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

The Corporate Governance Statement is presented on pages 20 to 24 of the consolidated financial statements. The information required by Article 68ter 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, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

**Other matter**

The Corporate Governance Statement includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) 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.

We confirm that the prohibited non-audit services referred to in the EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Luxembourg, 30 April 2020

BDO Audit
Cabinet de révision agréé
represented by

p.p.

Jean-Philippe Barret

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 31 December 2019**
*(in thousand USD, unless otherwise stated)*

| | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | 6 | 169 601 | 131 611 |
| Gain from changes in fair value of biological assets and agricultural produce, net | 7 | 52 768 | 73 326 |
| Cost of sales | 8 | (170 927) | (138 854) |
| **GROSS PROFIT** | | **51 442** | **66 083** |
| Administrative expenses | 9 | (13 246) | (11 928) |
| Selling and distribution expenses | 10 | (21 247) | (11 794) |
| Other operating income | 11 | 2 708 | 951 |
| Other operating expenses | 12 | (4 176) | (5 022) |
| Write-offs of property, plant and equipment | | (260) | (2 287) |
| **OPERATING PROFIT** | | **15 221** | **36 003** |
| Financial expenses, net | 15 | (3 476) | (4 987) |
| Effect of lease of right-of-use assets | 19 | (7 640) | - |
| Effect of additional return | 30 | (2 090) | (3 265) |
| Foreign currency exchange gain, net | 16 | 6 049 | 567 |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **8 064** | **28 318** |
| Income tax expenses, net | 17 | (746) | (691) |
| **NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | | **7 318** | **27 627** |
| | | | |
| Net profit/(loss) for the period attributable to: | | | |
| Owners of the parent company | | 7 482 | 27 697 |
| Non-controlling interests | | (164) | (70) |
| | | | |
| Weighted average number of shares | | 33 178 000 | 33 178 000 |
| Basic profit per ordinary share (in USD) | | 0,22 | 0,83 |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Effect of foreign currency translation | | 21 513 | 1 955 |
| **Items that will no be reclassified to profit or loss** | | | |
| Deferred tax charged directly to amortization of revaluation reserve | | 212 | 259 |
| **TOTAL OTHER COMPREHENSIVE INCOME** | | **21 725** | **2 214** |
| | | | |
| **TOTAL COMPREHENSIVE PROFIT** | | **29 043** | **29 841** |
| Comprehensive income/(loss) attributable to: | | | |
| Owners of the parent company | | 29 149 | 29 903 |
| Non-controlling interests | | (106) | (62) |

signed
Alex Lissitsa
Chief Executive Officer

signed
Dmytro Martyniuk
Chief Financial Officer

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2019**
*(in thousand USD, unless otherwise stated)*

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | 75 950 | 72 648 |
| Right-of-use assets | 19 | 101 203 | - |
| Intangible assets | 20 | 1 934 | 2 099 |
| Non-current biological assets | 21 | 2 590 | 1 857 |
| Prepayments for property, plant and equipment | 22 | 171 | 566 |
| **Total non-current assets** | | **181 848** | **77 170** |
| | | | |
| **Current assets** | | | |
| Inventories | 23 | 91 850 | 101 578 |
| Current biological assets | 24 | 13 224 | 7 983 |
| Trade accounts receivable, net | 25 | 277 | 459 |
| Prepayments and other current assets, net | 26 | 6 027 | 7 096 |
| Cash and cash equivalents | 28 | 5 182 | 3 920 |
| **Total current assets** | | **116 560** | **121 036** |
| **TOTAL ASSETS** | | **298 408** | **198 206** |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Equity attributable to the owners of parent company** | | | |
| Share capital | 29 | 59 | 59 |
| Share premium | | 29 512 | 29 512 |
| Revaluation reserve | | 39 654 | 48 603 |
| Retained earnings | | 172 945 | 172 822 |
| Effect of foreign currency translation | | (109 298) | (130 753) |
| **Total equity attributable to the owners of parent company** | | **132 872** | **120 243** |
| Non-controlling interests | | 321 | 427 |
| **Total equity** | | **133 193** | **120 670** |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 31 | 3 218 | 3 027 |
| Long-term loans and borrowings | 32 | 2 998 | 15 789 |
| Long-term lease liabilities as to right-of-use assets | 19 | 87 425 | - |
| **Total non-current liabilities** | | **93 641** | **18 816** |
| | | | |
| **Current liabilities** | | | |
| Current portion of long-term borrowings | 32 | 16 502 | 14 467 |
| Current portion of long-term lease liabilities as to right-of-use assets | 19 | 15 863 | - |
| Short-term loans and borrowings | 33 | 27 538 | 28 500 |
| Trade accounts payable | 34 | 2 867 | 3 049 |
| Other current liabilities and accrued expenses | 35 | 8 804 | 12 704 |
| **Total current liabilities** | | **71 574** | **58 720** |
| **Total liabilities** | | **165 215** | **77 536** |
| **TOTAL LIABILITIES AND EQUITY** | | **298 408** | **198 206** |

signed

Alex Lissitsa
Chief Executive Officer

signed

Dmytro Martyniuk
Chief Financial Officer

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2019**
*(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 2017** | **59** | **29 512** | **58 825** | **147 853** | **(132 700)** | **103 549** | **489** | **104 038** |
| **Comprehensive income/(loss) for the year** | | | | | | | | |
| Profit/(loss) for the period | - | - | - | 27 697 | - | 27 697 | (70) | 27 627 |
| Amortization of revaluation reserve | - | - | (10 481) | 10 481 | - | - | - | - |
| Deferred tax charged directly to amortization of revaluation reserve | - | - | 259 | - | - | 259 | - | 259 |
| Other comprehensive income | - | - | - | - | 1 947 | 1 947 | 8 | 1 955 |
| **Total comprehensive profit/(loss)** | **-** | **-** | **(10 222)** | **38 178** | **1 947** | **29 903** | **(62)** | **29 841** |
| **Contributions by and distributions to owners** | | | | | | | | |
| Distribution of dividends | - | - | - | (13 209) | - | (13 209) | - | (13 209) |
| **31 December 2018** | **59** | **29 512** | **48 603** | **172 822** | **(130 753)** | **120 243** | **427** | **120 670** |

| | Share capital | Share premium | Revaluation reserve | Retained earnings | Effect of foreign currency translation | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **31 December 2018** | **59** | **29 512** | **48 603** | **172 822** | **(130 753)** | **120 243** | **427** | **120 670** |
| **Comprehensive income/(loss) for the year** | | | | | | | | |
| Profit/(loss) for the period | - | - | - | 7 482 | - | 7 482 | (164) | 7 318 |
| Amortization of revaluation reserve | - | - | (9 161) | 9 161 | - | - | - | - |
| Deferred tax charged directly to amortization of revaluation reserve | - | - | 212 | - | - | 212 | - | 212 |
| Other comprehensive income | - | - | - | - | 21 455 | 21 455 | 58 | 21 513 |
| **Total comprehensive profit/(loss)** | **-** | **-** | **(8 949)** | **16 643** | **21 445** | **29 149** | **(106)** | **29 043** |
| **Contributions by and distributions to owners** | | | | | | | | |
| Distribution of dividends | - | - | - | (16 520) | - | (16 520) | - | (16 520) |
| **31 December 2019** | **59** | **29 512** | **39 654** | **172 945** | **(109 298)** | **132 872** | **321** | **133 193** |

signed
Alex Lissitsa
Chief Executive Officer

signed
Dmytro Martyniuk
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CASH FLOWS
**For the year ended 31 December 2019**
*(in thousand USD, unless otherwise stated)*

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before tax from continuing operations | | 8 064 | 28 318 |
| Adjusted to reconcile loss before tax with net cash used in operating activities: | | | |
| Gain from changes in fair value of biological assets and agricultural produce, net | 7 | (52 768) | (73 326) |
| Disposal of revaluation of biological assets and agricultural produce in the cost of sales, net | 8 | 72 193 | 56 460 |
| Depreciation and amortization | 13 | 23 803 | 12 556 |
| Effect of lease of right-of-use assets | 19 | 7 640 | - |
| Interest expenses and other financial expenses | 15 | 4 035 | 5 352 |
| Foreign currency exchange loss/(gain), net | | (6 328) | (630) |
| Loss/(gain) on disposal of property, plant and equipment | 11 | (119) | 1 521 |
| Effect of additional return | | 2 090 | 3 265 |
| Deferred expenses on options | | 1 702 | 1 702 |
| Write-offs of property, plant and equipment | | 260 | 2 287 |
| Gain on recovery of assets previously written off | 11 | (398) | (338) |
| Interest income | 15 | (559) | (364) |
| Accruals for unused vacations | | 736 | 111 |
| Accruals for audit services | | 87 | 71 |
| Lost crops | 12 | - | 465 |
| Write-offs of VAT | 12 | 101 | 51 |
| Shortages and losses due to impairment of inventories | 12 | 56 | 236 |
| Income from write-offs of accounts payable | 11 | (83) | (19) |
| Income from the exchange of property certificates | 11 | 0 | (31) |
| Gain on disposal of inventories | 11 | (29) | (66) |
| Allowance for doubtful accounts receivable | 12 | 72 | 153 |
| Government grants recognised as income | | (147) | (364) |
| **Cash flows from operating activities before changes in working capital** | | **60 408** | **37 410** |
| Changes in trade accounts receivable | | (18) | (361) |
| Changes in prepayments and other current assets | | 2 736 | 4 132 |
| Changes in inventories | | 3 265 | (21 515) |
| Changes in current biological assets | | (1 906) | 6 870 |
| Changes in trade accounts payable | | (633) | 1 781 |
| Changes in other current liabilities and accrued expenses | | (3 741) | 5 656 |
| **Cash flows from operations** | | **60 111** | **33 973** |
| Interest paid on loans and borrowings | | (4 104) | (5 158) |
| Interest paid on lease liabilities as to right-of-use assets | | (1 039) | - |
| Income tax paid | | (851) | (642) |
| **Net cash flows from operating activities** | | **54 117** | **28 173** |

signed
Alex Lissitsa
Chief Executive Officer

signed
Dmytro Martyniuk
Chief Financial Officer

**CONSOLIDATED STATEMENT OF CASH FLOWS** (continued)
**For the year ended 31 December 2019**
*(in thousand USD, unless otherwise stated)*

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | (6 546) | (5 222) |
| Purchase of intangible assets | | (26) | (38) |
| Proceeds from disposal of property, plant and equipment | | 1 845 | 366 |
| Proceeds from government grants | | 147 | 364 |
| **Net cash flows from investing activities** | | **(4 580)** | **(4 530)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from long-term and short-term borrowings | | 16 274 | 11 408 |
| Repayment of long-term and short-term borrowings | | (30 040) | (20 329) |
| Repayment of long-term and short-term lease liabilities as to right-of-use assets | | (15 911) | - |
| Payment of dividends | | (16 520) | (13 209) |
| **Net cash flows from financing activities** | | **(46 197)** | **(22 130)** |
| **NET CASH FLOWS** | | **3 340** | **1 513** |
| **Cash and cash equivalents as at the beginning of the period** | | **3 920** | **6 092** |
| Effect of translation into presentation currency | | (2 078) | (3 685) |
| **Cash and cash equivalents as at the end of the period** | 28 | **5 182** | **3 920** |

**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

IMC 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. IMC S.A. was formed to serve as the ultimate holding company of Unigrain Holding Limited and its subsidiaries. The registered address of IMC S.A. is L-1468, 16 rue Erasme, Luxembourg, Grand Duchy Luxembourg, its register number within the Registre de Commerce et des Sociétés du Luxembourg is RCS 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., PRJSC Mlibor, PRJSC Poltava Kombikormoviy Zavod and Zemelniy Kadastroviy Centr SA.

In December 2010 IMC 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 Virynske, Ltd, Pisky, Ltd., SE "Viry-Agro" and 80,61% of the voting shares in the company PRJSC "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 Vyrynske Ltd, Pisky Ltd, SE Vyry-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, PRJSC "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.

In May 2016 Ukragrosouz KSM Ltd was joined to Burat-Agro Ltd.

In October 2016 Zemelniy Kadastroviy Centr PE and Agroprogress Holding Ltd left the Group.

In December 2016 Bluerice Limited left the Group.

On 26 April 2017 IMC S.A. (formally Industrial Milk Company S.A., hereinafter the Company) informs that official name of the Company has been changed from Industrial Milk Company S.A. to IMC S.A.

In June 2019 trading company Aristo Eurotrading HK Limited was formed.

All companies comprising the Group were under the control of the same beneficial owner Mr. Petrov O.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 2019 | 31 December 2018 |
| IMC 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 |
| PrJSC Poltava Kombilormoviy Zavod | Granting of PPE into finance lease | Ukraine | 31.12.2007 | 87,56 | 87,56 |
| PrJSC Mlibor | Grain elevator | Ukraine | 31.05.2008 | 74,08 | 72,85 |
| Unigrain Holding Limited | Subholding company | Cyprus | 02.06.2009 | 100 | 100 |
| Aristo Eurotrading Limited | Trading company | British Virgin Islands | 30.08.2011 | 100 | 100 |
| PrJSC "Vyryvske HPP" | Grain elevator | Ukraine | 28.12.2011 | 80,61 | 80,61 |
| PAC Slobozhanschina Agro | Agricultural production | Ukraine | 26.06.2012 | 100 | 100 |
| Agroprogress PE | Agricultural and farming production | Ukraine | 28.12.2012 | 100 | 100 |
| Bobrovitsky Hlebzavod Ltd | Bakery production | Ukraine | 28.12.2012 | 100 | 100 |
| PrJSC "Bobrovitske HPP" | Grain elevator | Ukraine | 28.12.2012 | 92,83 | 92,83 |
| Nosovsky Saharny Zavod Ltd | Storage facilities | Ukraine | 28.12.2012 | 99,9 | 99,9 |
| 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 |
| Aristo Eurotrading HK Limited | Trading company | Hong Kong | 21.06.2019 | 100 | - |

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 123,3 thousand ha (123,0 thousand ha under processing of high quality arable land). As at 31 December 2019 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://www.imcagro.com.ua/en/investor-relations/financial-reports.

Stock information about the Company (company code name on WSE: IMCOMPANY (LU0607203980)):

https://www.gpw.pl/company-factsheet?isin=LU0607203980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

**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, fiar values of 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.

**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 thousands 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.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

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

| Currency | 31 December 2019 | Average for the year ended 31 December 2019 | 31 December 2018 | Average for the year ended 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| UAH/USD | 23,6862 | 25,83734 | 27,688264 | 27,20162 | 28,067223 |
| EUR/USD | 1,12 | 1,12 | 1,15 | 1,18 | 1,19 |

***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 consolidated statement of comprehensive income.

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**

**<u>Property, plant and equipment</u>**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

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 consolidated 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 consolidated 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.

**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 consolidated 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 consolidated 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 consolidated statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

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 consolidated 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 are incurred in the consolidated statement of comprehensive income as Gain (loss) from changes in fair value of biological assets and agricultural produce, net.

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 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 consolidated 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

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 consolidated statement of comprehensive income.

**Financial instruments**

Financial assets and financial liabilities are regognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized on a trade date basis.

All recognized financial assets are measured subsequently in their entirety at their amortised cost or fair value, depending on the classification of the financial assets.

The Group's financial assets include cash and cash equivalents, trade receivables and other receivables and are classified as Financial assets at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any different between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The Group recognises a loss allowance for expected credit losses on financial assets and updates the allowance at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration receives and receivable is recognised in consolidated statement of comprehensive income.

Financial liabilities

All financial liabilities are measures subsequently at amortised cost using the effective interest method or at fair value through profit or loss.

The Group's financial liabilities include trade payables and other payables, loans and borrowings, which are classified as Financial liabilities at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discount estimated future cash payments (including all fees and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

The Group derecognises a financial liability only when the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable is recognised in consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

**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.

An option on Management Incentive Plan is classified as deferred expenses in the amount of exceeding of quoted share price under subscription price with impact on share premium in equity. The deferred expenses are recognized as expenses of the period in the line Wages and salaries of administrative personnel and related charges during the term of exercising of the option.

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.

**Leases**

Applicable before 1 January 2019

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 consolidated 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 consolidated statement of comprehensive income on a straight-line basis over the lease term.

Applicable after 1 January 2019

Refer to Note 5 – IFRS 16 Leases.

**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 consolidated 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 single tax 4th group 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 single tax 4th group is assessed at 0,95% on the deemed value of the land plots owned or leased by the entity (0,95% in 2018). As at 31 December 2019, 5 of the companies comprising the Group were elected to pay single tax 4th group (2018: 5).
- 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.

## Government grants

The Ukrainian legislation provides various 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. The Group recognizes this type of benefits upon the receipt of funds as other operating income in the consolidated statement of comprehensive income.

## 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 consolidated financial statements. The Group discloses information about contingent liabilities in the Notes to the consolidated 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 consolidated 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 consolidated financial statements as Share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

**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.

**Share based payment**

Management Incentive Plan defined an option for a Management to purchase the Group's new shares under the subscription price. The issue of these new shares has an impact on Equity – it increases the line Share capital in the amount of subscription and the line Share premium in the amount that quoted share price exceeds subscription price. At the same time the deferred expenses were recognized in the amount of share premium. The deferred expenses are recognized as expenses of the period in the line Wages and salaries of administrative personnel and related charges during the term of exercising of the option.

**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.

**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.

**Revenue recognition**

Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. According to the new standard a five-step model is established to account for revenue from contracts with customers.

The Group performed an analysis of five-step model as follows:

- the Group concludes contract with the customers in written form, where the parties and each party's rights are mentioned, all conditions relating goods or services, payments and delivery are described.

- the Group is in the business of crops cultivation, dairy farming and providing storage and processing services. Crops and services are sold on their own in separate identified contracts with customers. So the sale of crops and dairy farming products or providing of services is the only performance obligation in contracts with customers.

- the Group receives only short-term advances from its clients and they are presented as a part of Other current liabilities and accrued expenses. The contracts do not contain any variable considerations or warranty obligations. The transaction price is clearly stated in the contract.

- finished products and services transferred to customers at a point in time.

Therefore, the Group recognizes revenue as follows:

- Sales of goods
  Revenue from sales of goods is recognised at the point of transfer of all 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 at the moment of transfer to the customer control over the product or service.

**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 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 consolidated 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 2017 by an independent appraiser LLC "Asset Expertise" (ODS Certificate No.439/15 as of 25 May 2015 issued by State Property Fund of Ukraine).

### 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 no changes in accounting estimates of remaining useful lives of items of property, plant and equipment in Y2019.

### 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.

### 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-determinated 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 milk, milk yields and discount rate.

**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.

**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 expenses on works connected with preparation of the lands for the future harvest obtained from the biological assets of plant growing. The cost of work in progress includes costs of direct materials and labor and other direct productions costs and related production overheads (based on normal operating capacity). Costs allocation to Work-in-progress includes a number of judgments of management based on the recommendations of scientific sources and agronomic calculations of the internal services of the Group.

Inventories as at the year-end are an estimate resulting in a surplus/decrease in inventories when stock take is performed in subsequent year.

Inventory balances at the reporting dates are confirmed by inventories. But the amount of grain at the elevators and the method of its storage do not allow weighing of the whole grain at the time of the inventory. Therefore, enterprises use other methods for determining the amount of grain at the elevator.

The method consists in the following:

- there is passport data of the volume of silo storage tanks

- the commission inventories each tank and determines the volume filled with grain

- there is an indicator "nature of grain", i.e. its weight in 1l

- the volume of grain is multiplied by its nature and the amount of grain in kg is obtained

But in fact, deviations are possible due to permissible errors in grain moisture, which resulting in a surplus/decrease in inventories when stock take is performed in subsequent year during the cleaning the elevator.

**Fair value of financial instruments**

The fair value of financial assets and liabilities is determined by applying various valuation methodologies. Management uses its judgment to make assumptions based on market conditions existing at each balance sheet date. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. 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.

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**Fair value measurement**

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are 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.

**Provision for expected credit losses**

The Group uses a provision matrix to calculate expected credit losses for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

**Impairment of non-financial assets**

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

**Taxation**

The Group mostly operates in the Ukrainian tax jurisdiction. The Group'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.

In December 2010, the revised Tax Code of Ukraine was officially published. The Group considers that it operates in compliance with tax laws of Ukraine.

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. The Group's transfer pricing practice is built in accordance with requirements of transfer pricing legislation.

**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.

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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 military aggression from Russia and the collapse of law enforcement in Lugansk and Donetsk regions.

After a significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains volatile. In 2019, the Ukrainian government continues to implement a comprehensive structural reform program aimed at eliminating existing imbalances in the economy, public finances and governance, combating corruption, and reforming the judiciary in order to provide conditions for economic recovery in the country.

The stabilization of the economy of Ukraine in the near future depends on the success of the actions taken by the government and the provision of continuous financial support to Ukraine by international donors and international financial institutions.

The National Bank of Ukraine continues to follow the policy of floating exchange rate of hryvnia. During 2019, the official exchange rate of Uktainian hryvnia to US dollar of the National Bank of Ukraine decreased by 16,9% from UAH 27,6883 for 1 January 2019 to UAH 23,6862 for 31 December 2019. During 2019, the National Bank of Ukraine reduced the discount rate from 18.0% to 13.5%.

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.

## 5. New and amended standards and interpretations

__Applying of new standards__

**IFRS 16 Leases**

IFRS 16 was issued in January 2016. IFRS 16 is effective for the annual periods beginning on or after 1 January 2019.

The Group used the modified retrospective approach - IFRS 16 was adopted retrospectively from 1 January 2019, and hence has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. There was no change in the opening consolidated statement of changes in equity. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance as at 1 January 2019:

| | As reported 31 December 2018 | Impact of IFRS 16 | As adjusted 1 January 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Right-of-use assets | - | 84 463 | **84 463** |
| Prepayments for property, plant and equipment | 566 | (468) | **98** |
| | **566** | **83 995** | **84 561** |
| **TOTAL ASSETS** | **566** | **83 995** | **84 561** |
| **LIABILITIES AND EQUITY** | | | |
| **Non-current liabilities** | | | |
| Long-term lease liabilities as to right-of-use assets | - | 73 202 | **73 202** |
| | **-** | **73 202** | **73 202** |
| **Current liabilities** | | | |
| Current portion of long-term lease liabilities as to right-of-use assets | - | 13 210 | **13 210** |
| Other current liabilities and accrued expenses | 12 704 | (2 417) | **10 287** |
| | **12 704** | **10 793** | **23 497** |
| **TOTAL LIABILITIES AND EQUITY** | **12 704** | **83 995** | **96 699** |

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

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The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying assets is of low value.

Lease liabilities as to right-of-use assets were measured at the present value of the remaining lease payments, discounted using the Group's average borrowing rate as at 1 January 2019 – 7,6%:

| | 1 January 2019 |
|---|---|
| Operating lease commitments disclosured as at 31 December 2018 | 134 111 |
| Discounted using the borrowing rate of 7,6% | 84 463 |
| Adjusted on a difference in treatment of liability and advances for land lease | 1 949 |
| **Recognised lease liabilities as to right-of-use assets** | **86 412** |

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 31 December 2018.

The following changes in presentation of the consolidated statement of comprehensive income took place:

- In 2018 reporting period land lease expenses were included in Cost of sales as Rent, in 2019 – one part was included in Cost of Sales as Depreciation and amortization and other part was recognised as Effect of lease of right-of-use assets.
- In 2018 reporting period office rent expenses were included in Administrative expenses as Third parties' services, in 2019 – one part was included in Administrative expenses as Depreciation and amortization and other part was recognised as Effect of lease of right-of-use assets (as it relates to financial interests).

The following changes in presentation of the consolidated statement of cash flow:

- In 2018 reporting period rent expenses were not included to adjustments for Cash flows from operating activities before changes in working capital. Rent payments were included in Cash flows from operating activities as Cash flows from operations.
- In 2019 reporting period lease expenses adjusted Cash flows from operating activities before changes in working capital as Depreciation and amortization and as Effect of lease of right-of-use assets. Payments were divided into Interest paid in Cash flows from operating activities and Repayment of long-term and short-term borrowings in Cash flows from financing activities.

Adoption of IFRS 16 has no impact on the Group's finance leases.

In applying IFRS 16 for the first time. The Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

**Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

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The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

**Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and JointVentures.

These amendments had no impact on the consolidated financial statements as the Group does not have longterm interests in its associate and joint venture.

**Annual Improvements 2015-2017 Cycle**

• IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entirepreviously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

• IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3.

The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

• IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

• IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

At the date of authorization of these Consolidated financial statements the following interpretations and 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 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current | 1 January 2022 |
| IFRS 17 Insurance Contracts | 1 January 2021 |
| Amendments to References to Conceptual Framework in IFRS Standards | 1 January 2020 |
| Amendments to IFRS 3 – Definition of a business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 – Definition of Material | 1 January 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform | 1 January 2020 |

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods. An analysis of accepted amendment is given below:

**Amendments to References to Conceptual Framework in IFRS Standards**

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

**Amendments to IFRS 3 – Definition of a business**

The amendments clarif y that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of acti vities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

**Amendments to IAS 1 and IAS 8 – Definition of Material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

**Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform**

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks.

The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. (IAS 39 is amended as well as IFRS 9 because entities have an accounting policy choice when first applying IFRS 9, which allows them to continue to apply the hedge accounting requirements of IAS 39). There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(in thousand USD, unless otherwise stated)*

### 6. Revenue

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Revenue from sales of finished products | a | 168 719 | 130 413 |
| Revenue from services rendered | b | 882 | 1 198 |
| | | **169 601** | **131 611** |

**Disaggregation of revenue from contracts with customers**

The Group presented disaggregated revenue based on the type of finished products (a) and services provided to customers (b), the type of customers (c) and the timing of transfer of goods and services (d).

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

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Corn | 118 806 | 81 576 |
| Sunflower | 22 753 | 24 331 |
| Wheat | 13 480 | 10 637 |
| Soy beans | 10 817 | 9 818 |
| Milk | 1 547 | 1 343 |
| Cattle | 115 | 147 |
| Potatoes | - | 885 |
| Other | 1 201 | 1 676 |
| | **168 719** | **130 413** |

b) Revenue from services rendered was as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Storage | 368 | 313 |
| Transport | 319 | 310 |
| Processing | 113 | 189 |
| Drying | 31 | 248 |
| Other | 51 | 138 |
| | **882** | **1 198** |

c) Revenue by the type of customers was as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Non-residental buyer | 142 674 | 99 706 |
| Ukrainian buyer | 26 927 | 31 905 |
| | **169 601** | **131 611** |

d) Finished products and services transferred to customers at a point in time.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

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

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Current biological assets | 24 | 2 264 | 432 |
| Non-current biological assets | 21 | 135 | (629) |
| Agricultural produce | 24 | 50 369 | 73 523 |
| | | **52 768** | **73 326** |

### 8. Cost of sales

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Raw materials | a | (116 378) | (96 669) |
| Change in inventories and work-in-progress | b | 457 | 13 868 |
| Depreciation and amortization | 13 | (20 311) | (10 210) |
| Wages and salaries of operating personnel and related charges | 14 | (13 233) | (9 148) |
| Fuel and energy supply | | (10 676) | (13 868) |
| Third parties' services | | (5 894) | (6 032) |
| Rent | | (2 320) | (15 042) |
| Repairs and maintenance | | (1 300) | (1 086) |
| Taxes and other statutory charges | | (1 172) | (589) |
| Other expenses | | (100) | (78) |
| | | **(170 927)** | **(138 854)** |

a) Raw materials for the year ended 31 December 2019 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 USD 72 193 thousand (USD 56 460 thousand for the year ended 31 December 2018).

b) Change in inventories and work-in-progress comprises changes in work-in-progress, agricultural produce and current biological assets.

### 9. Administrative expenses

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Wages and salaries of administrative personnel and related charges | 14 | (10 300) | (9 443) |
| Depreciation and amortisation | 13 | (614) | (335) |
| Professional services | a | (430) | (456) |
| Bank services | | (331) | (283) |
| Third parties' services | | (267) | (373) |
| Transport expenses | | (237) | (266) |
| Repairs and maintenance | | (235) | (200) |
| Other expenses | | (832) | (572) |
| | | **(13 246)** | **(11 928)** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

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

| Fee Category | Fees billed by Luxembourg approved audit firm (BDO Audit SA) | | Other fees billed by BDO Luxembourg (BDO) | | Fees billed by other audit firms | |
|---|---|---|---|---|---|---|
| | For the year ended 31 December 2019 | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the year ended 31 December 2018 | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
| Audit fees | 98 | 48 | - | - | - | - |
| Audit related fees | 12 | 36 | - | - | 44 | 110 |
| Tax fees | - | - | 2 | 3 | - | - |
| | **110** | **84** | **2** | **3** | **44** | **110** |

## 10. Selling and distribution expenses

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Delivery costs | | (20 595) | (11 078) |
| Wages and salaries of sales personnel and related charges | 14 | (232) | (203) |
| Depreciation | 13 | (156) | (239) |
| Other expenses | | (264) | (274) |
| | | **(21 247)** | **(11 794)** |

## 11. Other operating income

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Gain on recovery of assets previously written off | | 398 | 338 |
| Government grants recognised as income | | 147 | 364 |
| Gain on disposal of PPE | | 119 | - |
| Income from write-offs of accounts payable | | 83 | 19 |
| Gain on disposal of inventories | | 29 | 66 |
| Income from the exchange of property certificates | | - | 31 |
| Other income | a | 1 932 | 133 |
| | | **2 708** | **951** |

a) Other income comprises an amount USD 1 598 thousand of penalty received due to terms of the corn sale contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

### 12. Other operating expenses

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Depreciation | 13 | (2 722) | (1 752) |
| Charity | | (504) | (416) |
| Wages and salaries of non-operating personnel and related charges | 14 | (130) | (112) |
| Write-offs of VAT | | (101) | (51) |
| Allowance for doubtful accounts receivable | 27 | (72) | (153) |
| Shortages and losses due to impairment of inventories | | (56) | (236) |
| Loss on disposal of property, plant and equipment | | - | (1 521) |
| Lost crops | | - | (465) |
| Other expenses | | (591) | (316) |
| | | **(4 176)** | **(5 022)** |

### 13. Depreciation and amortisation

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **Depreciation** | | | |
| Cost of sales | 8 | (10 191) | (9 467) |
| Other operating expenses | 12 | (2 722) | (1 752) |
| Administrative expenses | 9 | (488) | (333) |
| Selling and distribution expenses | 10 | (156) | (239) |
| Depreciation as a part of article "Lost crops" | | - | (20) |
| | | **(13 557)** | **(11 811)** |
| **Amortisation** | | | |
| Cost of sales | 8 | (10 120) | (743) |
| Administrative expenses | 9 | (126) | (2) |
| | | **(10 246)** | **(745)** |
| | | **(23 803)** | **(12 556)** |

### 14. Wages and salaries expenses

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Wages and salaries | (20 483) | (16 271) |
| Related charges | (3 412) | (2 635) |
| | **(23 895)** | **(18 906)** |
| | | |
| The average number of employees, persons | 2 103 | 2 309 |
| Remuneration of management | 2 821 | 3 113 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

The distribution of wages and salaries and related charges was as follows:

| | Note | For the year ended 31 December 2019 | | For the year ended 31 December 2018 | |
|---|---|---|---|---|---|
| | | **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 | 8 | (13 233) | 1 503 | (9 148) | 1 632 |
| Administrative personnel | 9 | (10 300) | 580 | (9 443) | 655 |
| Sales personnel | 10 | (232) | 18 | (203) | 19 |
| Non-operating personnel | 12 | (130) | 2 | (112) | 3 |
| | | **(23 895)** | **2 103** | **(18 906)** | **2 309** |

## 15. Financial expenses, net

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Interest income on bank deposits | 559 | 364 |
| Interest expenses on loans and borrowings | (3 932) | (5 243) |
| Other expenses | (103) | (108) |
| | **(3 476)** | **(4 987)** |

## 16. Foreign currency exchange gain/(loss), net

During the Y2019 the strengthening of Ukrainian Hryvnia took place – 16,9% of revaluation as at 31 December 2019 in comparison with 1,4% of revaluation as at 31 December 2018, 5,3% of revaluation for the average rate 2019/2018 in comparison with 2,2% of devaluation for the average rate 2018/2017. As a result, during the Y2019 the Group recognised net foreign exchange gain in the amount of USD 6 049 thousand (USD 567 thousand of gain for the Y2018) in the Consolidated statement of comprehensive income.

## 17. Income tax expenses

The corporate income tax rate for the year ended 31 December 2019 was: 18% in Ukraine, 12,5% in Cyprus, 17% in Luxemburg.

The components of income tax expenses were as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Current income tax | (830) | (651) |
| Deferred tax | 84 | (40) |
| **Income tax benefit (expenses) reported in the statement of comprehensive income** | **(746)** | **(691)** |
| | | |
| **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 | 212 | 259 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

Reconciliation between tax expenses and the accounting value multiplied by tax rate was as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| **01 January** | **(3 027)** | **(3 198)** |
| Income tax benefit (expenses) for the period recognized in other comprehensive income | 212 | 259 |
| Income tax benefit (expenses) for the period recognized in profit or loss | 84 | (40) |
| Effect of foreign currency translation | (487) | (48) |
| **31 December** | **(3 218)** | **(3 027)** |

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Profit before tax from continuing operations | 8 064 | 28 318 |
| Profit before tax from continuing operations of companies non-payers of incom tax | (4 468) | 25 892 |
| Profit before tax from continuing operations of companies payers of income tax | **12 532** | **2 425** |
| Profit before tax from continuing operations of companies payers of income tax: | | |
| Ukraine | (985) | (1 145) |
| Cyprus | 428 | 54 |
| Luxembourg | (6 890) | (9 042) |
| BVI | 13 638 | 12 558 |
| Hong Kong | 6 341 | - |
| | **12 532** | **2 425** |
| Tax at statutory tax rate: | | |
| Ukraine 18% | - | - |
| Cyprus 12,5% | 53 | 7 |
| Luxembourg 17% | - | - |
| BVI 0% | - | - |
| Hong Kong 0% | - | - |
| | **53** | **7** |
| Non-taxable items | 693 | 684 |
| Income tax benefit | **746** | **691** |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

### 18. Property, plant and equipment

| | Land and buildings | Machinery | Motor vehicles | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **INITIAL COST** | | | | | | |
| **31 December 2017** | **56 736** | **40 919** | **22 941** | **586** | **1 543** | **122 725** |
| Additions | 662 | 3 522 | 1 040 | 108 | 47 | 5 379 |
| Disposals | (5 004) | (2 324) | (2 337) | (30) | - | (9 695) |
| Transfer | 577 | 45 | - | 16 | (638) | - |
| Effect from translation into presentation currency | 836 | 534 | 332 | 6 | 31 | 1 739 |
| **31 December 2018** | **53 807** | **42 696** | **21 976** | **686** | **983** | **120 148** |
| | | | | | | |
| **31 December 2018** | **53 807** | **42 696** | **21 976** | **686** | **983** | **120 148** |
| Additions | 771 | 3 017 | 3 419 | 48 | 55 | 7 310 |
| Disposals | (1 905) | (8 017) | (2 397) | (498) | - | (12 817) |
| Transfer | 592 | 430 | - | - | (1 022) | - |
| Effect from translation into presentation currency | 9 040 | 6 803 | 3 811 | 76 | 77 | 19 807 |
| **31 December 2019** | **62 305** | **44 929** | **26 809** | **312** | **93** | **134 448** |
| | | | | | | |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **31 December 2017** | **(11 196)** | **(17 107)** | **(11 925)** | **(549)** | **-** | **(40 777)** |
| Depreciation for the period | (2 610) | (5 682) | (3 418) | (101) | - | (11 811) |
| Disposals | 1 973 | 1 659 | 1 872 | 30 | - | 5 534 |
| Effect from translation into presentation currency | (141) | (163) | (136) | (6) | - | (446) |
| **31 December 2018** | **(11 974)** | **(21 293)** | **(13 607)** | **(626)** | **-** | **(47 500)** |
| | | | | | | |
| **31 December 2018** | **(11 974)** | **(21 293)** | **(13 607)** | **(626)** | **-** | **(47 500)** |
| Depreciation for the period | (4 368) | (6 134) | (3 045) | (9) | - | (13 556) |
| Disposals | 1 626 | 6 489 | 2 220 | 497 | - | 10 832 |
| Effect from translation into presentation currency | (2 272) | (3 566) | (2 374) | (62) | - | (8 274) |
| **31 December 2019** | **(16 988)** | **(24 504)** | **(16 806)** | **(200)** | **-** | **(58 498)** |
| | | | | | | |
| **Net book value** | | | | | | |
| **31 December 2017** | **45 540** | **23 812** | **11 016** | **37** | **1 543** | **81 948** |
| **31 December 2018** | **41 833** | **21 403** | **8 369** | **60** | **983** | **72 648** |
| **31 December 2019** | **45 317** | **20 425** | **10 003** | **112** | **93** | **75 950** |

As at 31 December 2017 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.631/16 as of 28 November 2016 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

*(in thousand USD, unless otherwise stated)*

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.

### Impairment test

As at 31 December 2019 and 31 December 2018 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.

### If PPE were measured at cost their book value would be the following:

| Net book value | Land and buildings | Machinery | Motor vehicles | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| 31 December 2017 | 6 988 | 12 106 | 4 764 | 78 | 1 543 | 25 479 |
| 31 December 2018 | 7 185 | 13 964 | 5 084 | 87 | 983 | 27 303 |
| 31 December 2019 | 9 008 | 15 197 | 7 899 | 143 | 93 | 32 340 |

### PPE in finance lease

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Machinery | 33 | 683 |
| Motor vehicles | - | 278 |
| | **33** | **961** |

### Pledged PPE

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Land and buildings | 28 667 | 24 427 |
| Machinery | 9 979 | 5 127 |
| Motor vehicles | 5 048 | 1 506 |
| Other | 12 | 3 |
| | **43 706** | **31 063** |

### Capitalized cost

There were no borrowing costs capitalized as a part of costs of property, plant and equipment during the year ended 31 December 2019 and 2018.

### Assets under construction

Included in property, plant and equipment as at 31 December 2019 was an amount of USD 93 thousand (USD 983 thousand as at 31 December 2018) relating to expenditure for property, plant and equipment in the course of construction.

### Capital commitments

As at 31 December 2019 the Group had capital commitments in the amount of USD 2 349 thousand (USD 4 063 thousand as at 31 December 2018).

*(in thousand USD, unless otherwise stated)*

### 19. Right-of-use assets

Amounts recognised in the consolidated statements of financial position:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Right-of-use assets** | | |
| Land | 94 775 | - |
| Office | 171 | - |
| Machinery | 6 257 | - |
| | **101 203** | **-** |
| **Lease liabilities as to right-of-use assets** | | |
| Long-term | 87 425 | - |
| Current portion | 15 863 | - |
| | **103 288** | **-** |

Amounts recognised in the consolidated statements of comprehensive income:

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Amortisation of right-of-use assets | | | |
| Land | 8 | (8 800) | - |
| Office | 9 | (126) | - |
| Machinery | 8 | (819) | - |
| | | **(9 745)** | **-** |
| Effect of lease of right-of-use assets | | (7 640) | - |

Following changes took place in the right-of-use assets:

| | Land | Office | Machinery | Total |
|---|---|---|---|---|
| **Deemed cost as at 1 January 2019** | **84 199** | **264** | **-** | **84 463** |
| Additions | 10 405 | - | **6 555** | **16 960** |
| Amortisation | (8 800) | (126) | **(819)** | **(9 745)** |
| Disposals | (4 952) | - | **-** | **(4 952)** |
| *Cost disposals* | *(5 256)* | - | - | *(5 256)* |
| *Accumulated amortisation disposals* | *304* | - | - | *304* |
| Effect from translation into presentation currency | 13 923 | 33 | **521** | **14 477** |
| | | | | **-** |
| Cost as at 31 December 2019 | 104 042 | 308 | **7 151** | **111 501** |
| Accumulated amortisation as at 31 December 2019 | (9 267) | (137) | **(894)** | **(10 298)** |
| **Net book value as at 31 December 2019** | **94 775** | **171** | **6 257** | **101 203** |

**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 2017** | **16** | **355** | **9 187** | **9 558** |
| Additions | 12 | 27 | - | **39** |
| Disposals | - | (169) | - | **(169)** |
| Effect from translation into presentation currency | - | 7 | 125 | **132** |
| **31 December 2018** | **28** | **220** | **9 312** | **9 560** |
| | | | | |
| **31 December 2018** | **28** | **220** | **9 312** | **9 560** |
| Additions | 25 | 2 | - | **27** |
| Effect from translation into presentation currency | 5 | 37 | 1 575 | **1 617** |
| **31 December 2019** | **58** | **259** | **10 887** | **11 204** |
| | | | | |
| **ACCUMULATED DEPRECIATION** | | | | |
| **31 December 2017** | **(15)** | **(1)** | **(6 624)** | **(6 640)** |
| Amortisation for the period | (1) | (1) | (743) | **(745)** |
| Effect from translation into presentation currency | - | - | (76) | **(76)** |
| **31 December 2018** | **(16)** | **(2)** | **(7 443)** | **(7 461)** |
| | | | | |
| **31 December 2018** | **(16)** | **(2)** | **(7 443)** | **(7 461)** |
| Amortisation for the period | - | (1) | (501) | (502) |
| Effect from translation into presentation currency | (2) | - | (1 305) | (1 307) |
| **31 December 2019** | **(18)** | **(3)** | **(9 249)** | **(9 270)** |
| | | | | |
| **NET BOOK VALUE** | | | | |
| **31 December 2017** | **1** | **354** | **2 563** | **2 918** |
| **31 December 2018** | **12** | **218** | **1 869** | **2 099** |
| **31 December 2019** | **40** | **256** | **1 638** | **1 934** |

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.

*(in thousand USD, unless otherwise stated)*

## 21. Non-current biological assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Non-current biological assets - animal-breeding** | | |
| Cattle | 2 528 | 1 830 |
| **Non-current biological assets - plant-breeding** | | |
| Perennial grasses | 62 | 27 |
| **Total non-current biological assets** | **2 590** | **1 857** |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Cattle** | | |
| Cattle, units | 835 | 845 |
| Live weight, kg | 336 026 | 328 690 |
| Book value | **2 528** | **1 830** |

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

| | Cattle |
|---|---|
| **31 December 2017** | **2 334** |
| Transfer (from (to) current biological assets) | 286 |
| Change in fair value | (629) |
| Effect from translation into presentation currency | (161) |
| **31 December 2018** | **1 830** |
| | |
| **31 December 2018** | **1 830** |
| Transfer (from (to) current biological assets) | 288 |
| Change in fair value | 135 |
| Effect from translation into presentation currency | 275 |
| **31 December 2019** | **2 528** |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Perennial grasses** | | |
| Area, ha | 324 | 363 |
| Book value | **62** | **27** |

*(in thousand USD, unless otherwise stated)*

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

| | Perennial grasses |
|---|---|
| **31 December 2017** | **9** |
| Capitalized expenses | 24 |
| Harvesting failure | (6) |
| **31 December 2018** | **27** |
| | |
| **31 December 2018** | **27** |
| Capitalized expenses | 28 |
| Effect from translation into presentation currency | 7 |
| **31 December 2019** | **62** |

## 22. Prepayments for property, plant and equipment

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Prepayments for property, plant and equipment | 171 | 566 |

As at 31 December 2019 an amount of USD 162 thousand or 95% of the total amount of prepayments for property, plant and equipment is due from the 10 most significant counterparties (as at 31 December 2018 – USD 550 thousand or 97%).

## 23. Inventories

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Agricultural produce | a | 75 137 | 87 100 |
| Agricultural materials | | 2 921 | 2 556 |
| Work-in-progress | b | 12 336 | 10 129 |
| Fuel | | 601 | 892 |
| Spare parts | | 536 | 509 |
| Raw materials | | 242 | 324 |
| Finished goods | | 11 | 11 |
| Other inventories | | 66 | 57 |
| | | **91 850** | **101 578** |

As at 31 December 2019 cost value of inventories amounts to USD 67 966 thousand (USD 60 858 thousand as at 31 December 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Sunflower | - | 5 |
| Corn | 74 258 | 83 721 |
| Soya | 438 | 2 676 |
| Wheat | 31 | 37 |
| Silage | 206 | 288 |
| Hay | 34 | 11 |
| Other | 170 | 362 |
| | **75 137** | **87 100** |

The fair value of agricultural produce was estimated based on market price as at date of harvest and is within level 3 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. The cost of work in progress includes costs of direct materials and labor and other direct productions costs and related production overheads (based on normal operating capacity).

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Corn | 13 831 | 12 742 |

## 24. Current biological assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Current biological assets of animal-breeding** | | |
| Cattle | 1 276 | 920 |
| Other | 1 | 2 |
| | **1 277** | **922** |
| **Current biological assets of plant-breeding** | | |
| Wheat | 11 947 | 7 031 |
| Other | - | 30 |
| **Total current biological assets of plant-breeding** | **11 947** | **7 061** |
| **Total current biological assets** | **13 224** | **7 983** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Cattle** | | |
| Cattle, units | 474 | 448 |
| Live weight, kg | 140 294 | 123 594 |
| Book value | **1 276** | **920** |
| **Other** | | |
| Number of animals, units | 3 | 5 |
| Live weight, kg | 1 241 | 2 296 |
| Book value | **1** | **2** |
| **Total book value** | **1 277** | **922** |

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

| | Cattle | Other | Total |
|---|---|---|---|
| **31 December 2017** | **1 635** | **3** | **1 638** |
| Capitalized expenses | 337 | - | **337** |
| Transfer (from (to) non-current biological assets) | (286) | - | **(286)** |
| Sale | (857) | (1) | **(858)** |
| Slaughter | (142) | - | **(142)** |
| Change in fair value | (6) | (1) | **(7)** |
| Effect from translation into presentation currency | 239 | 1 | **240** |
| **31 December 2018** | **920** | **2** | **922** |
| | | | |
| **31 December 2018** | **920** | **2** | **922** |
| Capitalized expenses | 404 | - | **404** |
| Transfer (from (to) non-current biological assets) | (288) | - | **(288)** |
| Sale | (920) | (2) | **(922)** |
| Slaughter | (136) | - | **(136)** |
| Change in fair value | 651 | - | **651** |
| Effect from translation into presentation currency | 645 | 1 | **646** |
| **31 December 2019** | **1 276** | **1** | **1 277** |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Wheat** | | |
| Area, ha | 21 170 | 13 080 |
| Book value | **11 947** | **7 031** |
| **Other** | | |
| Area, ha | - | 103 |
| Book value | **-** | **30** |
| **Total book value** | **11 947** | **7 061** |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

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

| | Corn | Sunflower | Wheat | Soya | Grasses | Other | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2017** | **7 577** | **-** | **6 067** | **-** | **32** | **34** | **13 710** |
| Capitalized expenses (harvesting 2018) | 48 867 | 14 042 | 4 355 | 6 969 | 280 | 122 | 74 635 |
| Revaluation at fair value at the date of harvest (harvesting 2018) | 56 502 | 10 229 | 3 533 | 3 259 | - | - | 73 523 |
| Harvesting (harvesting 2018) | (113 112) | (24 247) | (9 875) | (10 226) | (283) | (146) | (157 889) |
| Harvest failure (harvesting 2018) | (8) | (24) | (20) | (2) | (15) | (57) | (126) |
| Capitalized expenses (harvesting 2019) | - | - | 2 479 | - | - | 31 | 2 510 |
| Change in fair value (harvesting 2019) | - | - | 439 | - | - | - | 439 |
| Effect from translation into presentation currency | 174 | - | 53 | - | (14) | 46 | 259 |
| **31 December 2018** | **-** | **-** | **7 031** | **-** | **-** | **30** | **7 061** |

| | Corn | Sunflower | Wheat | Soya | Grasses | Other | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | **-** | **-** | **7 031** | **-** | **-** | **30** | **7 061** |
| Capitalized expenses (harvesting 2019) | 56 715 | 15 409 | 5 687 | 7 962 | 150 | 419 | 86 342 |
| Revaluation at fair value at the date of harvest (harvesting 2019) | 37 567 | 7 451 | 4 685 | 666 | - | - | 50 369 |
| Harvesting (harvesting 2019) | (94 273) | (22 803) | (12 961) | (8 489) | (162) | (434) | (139 122) |
| Capitalized expenses (harvesting 2020) | - | - | 4 416 | - | - | - | 4 416 |
| Change in fair value (harvesting 2020) | - | - | 1 613 | - | - | - | 1 613 |
| Effect from translation into presentation currency | (9) | (57) | 1 476 | (139) | 12 | (15) | 1 268 |
| **31 December 2019** | **-** | **-** | **11 947** | **-** | **-** | **-** | **11 947** |

As at 31 December 2019 and as at 31 December 2018 there were no pledged biological assets.

Due to the absence of an active market, the fair value of biological assets is estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined rate. The fair value of biological assets is determined by the Group's own agricultural and IFRS experts. The forecast indicators of crop yields used in assessing crops are determined on the basis of the current history of crop yields. The indicators of past periods are taken as a basis and are adjusted taking into account the state of crops, climatic conditions, varietal characteristics of the crop, soil fertility, the application of new technologies.

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 Y2019.

| Description | Fair value as at 31 December 2019 | Valuation technique | Unobservable inputs | Range of unobservable inputs |
|---|---|---|---|---|
| Crops in fields - Wheat | 11 947 | Cash flows | Crops yield - tonnes per hectare | 5,9 |
| | | | Crops price | per ton 177 |
| Cattle | 3 804 | Discounted cash flows | Milk yield - kg per cow | 7065-7839 per year |
| | | | Milk price | 0,3 USD per liter |
| | | | Discount rate | 20,25% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

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, th USD |
|---|---|---|
| Crops yield | 10 | 1 991 |
| | (10) | (1 991) |
| Crops price | 10 | 1 991 |
| | (10) | (1 991) |
| Milk yield | 10 | 387 |
| | (10) | (387) |
| Milk price | 10 | 1 242 |
| | (10) | (1 242) |
| Discount rate | 1 | (37) |
| | (1) | 37 |

## 25. Trade accounts receivable, net

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Trade accounts receivable | | 289 | 469 |
| Allowances for accounts receivable | 27 | (12) | (10) |
| | | **277** | **459** |

As at 31 December 2019 an amount of USD 268 thousand or 96% of the total amount of trade accounts receivable is due from the 10 most significant counterparties (as at 31 December 2018 – USD 450 thousand or 96%).

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 2019 | 277 | 213 | 52 | 12 | - |
| 31 December 2018 | 459 | 389 | 55 | - | 15 |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

## 26. Prepayments and other current assets, net

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Prepayments and other non-financial assets: | | | |
| Deferred expenses | | 851 | 2 553 |
| VAT for reimbursement | | 4 129 | 3 169 |
| Advances to suppliers | | 713 | 578 |
| Allowances for advances to suppliers | 27 | (3) | (3) |
| | | **5 690** | **6 297** |
| Other financial assets: | | | |
| Non-bank accommodations interest free | | 237 | 242 |
| Other accounts receivable | | 143 | 634 |
| Allowances for other accounts receivable | 27 | (43) | (77) |
| | | **337** | **799** |
| | | **6 027** | **7 096** |

Deferred expenses relate to the purchase option according to the Management Incentive Plan (see Note 29).

As at 31 December 2019 an amount of USD 449 thousand or 63% of the total amount of advances to suppliers is due from the 10 most significant counterparties (as at 31 December 2018 – USD 273 thousand or 47%).

As at 31 December 2019 an amount of USD 218 thousand or 92% of the total amount of non-bank accommodations interest free is due from the 10 most significant counterparties (as at 31 December 2018 – USD 197 thousand or 81%).

## 27. Changes in allowances made

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Allowances for trade accounts receivable | 25 | (12) | (10) |
| Allowances for advances to suppliers | 26 | (3) | (3) |
| Allowances for other accounts receivable | 26 | (43) | (77) |
| | | **(58)** | **(90)** |

The movements of the allowances were as follows:

| | Note | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **As at the beginning of the period** | | **(90)** | **(43)** |
| Accrual | 12 | (72) | (153) |
| Use of allowances | | 94 | 104 |
| Reverse of allowances | | 21 | 3 |
| Effect from translation into presentation currency | | (11) | (1) |
| **As at the end of the period** | | **(58)** | **(90)** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(in thousand USD, unless otherwise stated)*

### 28. Cash and cash equivalents

| | Currency | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Cash in bank and hand | USD | 3 779 | 3 382 |
| Cash in bank and hand | UAH | 1 258 | 532 |
| Cash in bank and hand | EUR | 134 | 1 |
| Cash in bank and hand | PLN | 11 | 5 |
| | | **5 182** | **3 920** |

There were no restrictions on the use of cash and cash equivalents during the reporting periods.

### 29. Equity

**Share capital**

IMC S.A. has one class of ordinary shares. The number of authorized, issued and fully paid shares as at 31December 2019 is 33 178 000 (as at 31 December 2018 – 33 178 000). All shares have equal voting rights. Par value of one share is USD 0,0018 (EUR 0,0018).

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | % | Amount | % | Amount |
| AGROVALLEY LIMITED | 74 | 43 | 72 | 43 |
| Other shareholders (each one less than 5% of the share capital) | 26 | 16 | 28 | 16 |
| | **100** | **59** | **100** | **59** |

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

| Number of authorized, issued and fully paid shares | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| **As at the beginning of the period** | **33 178 000** | **33 178 000** |
| Changes for the period | - | - |
| **As at the end of the period** | **33 178 000** | **33 178 000** |

Extraordinary shareholders meeting approved on 4 July 2017 a Management Incentive Plan providing to Management Team Members an option to purchase in aggregate up to 1 878 000 new shares of IMC S.A. As a part of this incentive plan, 1 878 000 new ordinary shares were issued with subscription price USD 0.00115. As at the 31 December 2017 the purchase option was fully exercised, market share price was USD 2.73.

**Share premium**

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

In 2017 Management Incentive Plan was realized. Issue of new shares of IMC S.A. brought to the increase of share capital equaling to USD 3 thousand and share premium in amount of USD 5 125 thousand.

**Revaluation reserve**

The fair value of Group's property, plant and equipment has been measured as at 31 December 2017, 2015, 2010, 2009 by an independent appraiser. As at 31 December 2009 the related revaluation surplus of USD 14 766 thousand was initially recognized in equity, as at 31 December 2010 it was additionally recognized in the amount of USD 4 326 thousand. As at 31 December 2015 the amount of USD 40 390 thousand was recognized as increase in revaluation reserve due to revaluation of PPE. As at 31 December 2017 the amount of USD 22 659 thousand 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

**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**

On 8 July 2016 the Board of Directors of IMC S.A. published its Dividend Policy: The Company intends to pay annual dividends starting from FY 2016 results with a dividend payout ratio up to 10% of Consolidated Net Profit of the Company and its Subsidiaries provided that the Company succeeds to receive dividend payment waivers from its creditors.

On 27 September 2017 the Company paid the interim dividend to the Company's shareholders for an aggregate amount of EUR 1 658 900 (EUR 0.05 per share).

On 14 September 2018 the Company paid the interim dividend to the Company's shareholders for an aggregate amount of EUR 11 280 520 (EUR 0.34 per share).

On 29 August 2019 the Company paid the interim dividend to the Company's shareholders for an aggregate amount of EUR 14 930 100 (EUR 0.45 per share).

**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.

**Management Incentive Plan**

The Extraordinary shareholders meeting approved on 4 July 2017 a management incentive plan providing to Management Team Members and Eligible Employees as defined in the Management Incentive Plan an option to purchase in aggregate up to 1 878 000 new shares of IMC S.A., such number being equal to 6% of the issued stock of IMC S.A. as at the adoption date of such plan, at the price decided at the discretion of the Board of Directors of the Company which shall be equal to at least one euro cent EUR 0.01.

Performance period of the Management Incentive Plan is 3 years, starting from January 1, 2017 and ending on December 31, 2019. During the Performance Period, the Board of Directors of the Company may discretionarily decide when the Shares shall be issued by the Company to the Participants at the Subscription Price.

As a part of this incentive plan, 1 878 000 new ordinary shares were issued with subscription price USD 0.00115. As at 31 December 2017 the purchase option was fully exercised, market share price was USD 2.73.

Options granted under the Plan are the following:

| | For the year ended 31 December 2017 | |
|---|---|---|
| | **Exercise price per share option** | **Number of options** |
| **01 January** | - | - |
| Granted during the period | USD 0.00115 | 1 878 000 |
| Exercised during the period | USD 2.73 | (1 878 000) |
| **31 December** | **-** | **-** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

### 30. Share purchase warrant

According to the Warrant Agreement entered into between the Group and International Finance Corporation (IFC) as at 20 December 2013, IFC had the right to purchase up to 3 098 700 shares of IMC 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 dated 19 December 2013 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 IMC S.A. and International Financial Corporation the Additional Return had to be paid by IMC S.A. to International Financial Corporation. Amount of Additional Return had to 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. All the warrants according to the Warrant agreement dated 20 December 2013 were cancelled on 22 December 2016.

In its treatment until 2015 year-end, 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. 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 at year end 2016, 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%.

In September 2017 new terms of payment of additional return were agreed. In accordance with new terms the amount of additional return is USD 19 742 708 and should be paid in 5 portions starting September 2017 till June 2020. The amortized value of the loan instrument was regarded with effective interest rate of 20,76% (in 2018 – 20,76%).

### 31. Deferred tax assets and liabilities

The major components of deferred tax liabilities were as follows:

| | **Property, plant and equipment** |
|---|---|
| **31 December 2017** | **(3 198)** |
| Considering profit (loss) | (40) |
| Considering equity | 259 |
| Effect of foreign currency translation | (48) |
| **31 December 2018** | **(3 027)** |
| | |
| **31 December 2018** | **(3 027)** |
| Considering profit (loss) | 84 |
| Considering equity | 212 |
| Effect of foreign currency translation | (487) |
| **31 December 2019** | **(3 218)** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

### 32. Long-term loans and borrowings

| | Currency | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Secured** | | | |
| Long-term bank loans | USD | 19 488 | 29 889 |
| Finance lease liabilities | UAH, USD | 12 | 367 |
| **Total long-term loans including current portion** | | **19 500** | **30 256** |
| Current portion of long-term bank loans | USD | (16 490) | (14 110) |
| Current portion of finance lease liabilities | UAH, USD | (12) | (357) |
| **Total current portion** | | **(16 502)** | **(14 467)** |
| **Total long-term loans and borrowings** | | **2 998** | **15 789** |

**Essential terms of credit contracts**

| Creditor | Year of maturity | Currency | Nominal interest rate | 31 December 2019 | |
|---|---|---|---|---|---|
| | | | | Long-term liabilities | Including current portion |
| Non-resident bank* | 2020 | USD | 6M Libor+8,00% | 12 871 | 12 871 |
| Ukrainian bank | 2021 | USD | 6,00% | 1 056 | 528 |
| Ukrainian bank | 2021 | USD | 4,75% | 2 000 | 2 000 |
| Ukrainian bank | 2023 | USD | 5,00% | 1 862 | 699 |
| Ukrainian bank | 2024 | USD | 4,90% | 1 699 | 392 |
| | | | | **19 488** | **16 490** |

| Creditor | Year of maturity | Currency | Nominal interest rate | 31 December 2018 | |
|---|---|---|---|---|---|
| | | | | Long-term liabilities | Including current portion |
| Non-resident bank* | 2020 | USD | 6M Libor+8,00% | 25 782 | 12 919 |
| Ukrainian bank | 2021 | USD | 6,00% | 1 552 | 496 |
| Ukrainian bank | 2023 | USD | 5,00% | 2 555 | 695 |
| | | | | **29 889** | **14 110** |

* 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 19 743 thousand payable in instalments till June 2020, interest free, discounted by 20,76%.

**Long-term loans outstanding were repayable as follows:**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Within one year | 16 490 | 14 110 |
| In the second to fifth year inclusive | 2 998 | 15 779 |
| | **19 488** | **29 889** |

The Group has committed to comply with loans covenants.

As at 31 December 2018 the Group was in compliance with all loans covenants.

As at 31 December 2019 as a result of increase in liabilities due to impact of new IFRS 16 a covenant on long-term loan in the amount USD 2 000 thousand from Ukrainian bank was violated by the Group. The Group received from the bank waiver of rights to require compliance with the breached covenant as at 31 December 2019, but after the end of reporting period. The loan was reclassified as current portion of long-term loan in the full amount.

**Finance lease liabilities were presented as follows:**

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of minimum lease payments | Minimum lease payments | Present value of minimum lease payments |
| Within one year | 12 | 12 | 369 | 357 |
| In the second to fifth year inclusive | - | - | 11 | 10 |
| | 12 | 12 | 380 | 367 |
| Less future finance charges | - | - | (13) | - |
| Present value of minimum lease payments | **12** | **12** | **367** | **367** |

## 33. Short-term loans and borrowings

| | Currency | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Secured** | | | |
| Short-term bank loans | USD | 27 538 | 28 500 |

**Essential terms of credit contracts**

| Creditor | Currency | Nominal interest rate | 31 December 2019 |
|---|---|---|---|
| Ukrainian bank | USD | 5,00% | 10 000 |
| Ukrainian bank | USD | 5,50% | 5 538 |
| Ukrainian bank | USD | 5,25% | 5 100 |
| Ukrainian bank | USD | 5,25% | 5 000 |
| Ukrainian bank | USD | 5,25% | 1 900 |
| | | | **27 538** |

*(in thousand USD, unless otherwise stated)*

| Creditor | Currency | Nominal interest rate | 31 December 2018 |
|---|---|---|---|
| Ukrainian bank | USD | 5,00% | 10 000 |
| Ukrainian bank | USD | 5,25% | 6 500 |
| Ukrainian bank | USD | 5,25% | 5 100 |
| Ukrainian bank | USD | 5,25% | 5 000 |
| Ukrainian bank | USD | 5,25% | 1 900 |
| | | | **28 500** |

Loans and borrowings from Ukrainian banks are secured with property, plant and equipment in the amount USD 43 706 thousand (Note 18) and inventories in the amount USD 13 831 thousand (Note 23).

### 34. Trade accounts payable

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade accounts payable | 2 867 | 3 049 |

As at 31 December 2019 an amount of USD 2 566 thousand or 89% of the total amount of trade accounts payable is due to the 10 most significant counterparties (as at 31 December 2018 – USD 1 694 thousand or 56%).

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

| | 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 |
|---|---|---|---|---|---|---|---|
| 31 December 2019 | - | 1 134 | 66 | - | 1 667 | - | 2 867 |
| 31 December 2018 | - | 3 018 | 31 | - | - | - | 3 049 |

### 35. Other current liabilities and accrued expenses

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Other liabilities: | | |
| Advances from clients | 5 394 | 7 773 |
| | **5 394** | **7 773** |
| Other accounts payable: | | |
| Accounts payable for the lease of land and property rights | - | 2 417 |
| Wages, salaries and related charges payable | 1 102 | 884 |
| Interest payable on bank loans | 152 | 330 |
| Accruals for unused vacations | 1 250 | 779 |
| Accruals for audit services | 87 | 70 |
| Accounts payable for non-current tangible assets | 289 | 214 |
| Taxes payable | 482 | 217 |
| Other accounts payable | 48 | 20 |
| | **3 410** | **4 931** |
| | **8 804** | **12 704** |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

As at 31 December 2019 an amount of USD 5 388 thousand or 99% of the total amount of advances from clients is due from the 10 most significant counterparties (as at 31 December 2018 – USD 7 083 thousand or 99%).

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

| | 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 |
|---|---|---|---|---|---|---|---|
| 31 December 2019 | 1 250 | 7 467 | - | 87 | - | - | 8 804 |
| 31 December 2018 | 779 | 9 639 | 473 | 604 | 1 209 | - | 12 704 |

### 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.

Remuneration of key management personnel was as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Wages and salaries | 2 094 | 2 520 |
| Directors fees | 694 | 566 |
| Related charges | 32 | 27 |
| | **2 820** | **3 113** |
| The average number of employees, persons | 6 | 6 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*(in thousand USD, unless otherwise stated)*

### 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.

Information on business segments for the year ended 31 December 2019 was the follow:

| | Crop farming | Dairy farming | Elevators and warehouses | Unallocated | Total |
|---|---|---|---|---|---|
| Revenue | 294 864 | 1 662 | 7 789 | - | 304 315 |
| Intra-group elimination | (127 808) | - | (6 906) | - | (134 714) |
| **Revenue from external buyers** | **167 056** | **1 662** | **883** | **-** | 169 601 |
| Gain from changes in fair value of biological assets and agricultural produce, net | 51 982 | 786 | - | - | 52 768 |
| Cost of sales | (166 784) | (1 112) | (3 031) | - | (170 927) |
| **Gross income** | **52 254** | **1 336** | **(2 148)** | **-** | **51 442** |
| Administrative expenses | - | - | - | (13 246) | (13 246) |
| Selling and distribution expenses | - | - | - | (21 247) | (21 247) |
| Other operating income | - | - | - | 2 708 | 2 708 |
| Other operating expenses | - | - | - | (4 176) | (4 176) |
| Write-offs of property, plant and equipment | - | - | - | (260) | (260) |
| **Operating income of a segment** | **52 254** | **1 336** | **(2 148)** | **(36 221)** | **15 221** |
| Financial expenses, net | **-** | **-** | **-** | (3 476) | (3 476) |
| Effect of lease of right-of-use assets | **-** | **-** | **-** | (7 640) | (7 640) |
| Effect of additional return | **-** | **-** | **-** | (2 090) | (2 090) |
| Foreign currency exchange gain, net | **-** | **-** | **-** | 6 049 | 6 049 |
| **Profit before tax** | **52 254** | **1 336** | **(2 148)** | **(43 378)** | **8 064** |
| Income tax expenses, net | **-** | **-** | **-** | (746) | (746) |
| **Net profit** | **52 254** | **1 336** | **(2 148)** | **(44 124)** | **7 318** |
| | | | | | |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 20 693 | 623 | 2 487 | - | 23 803 |
| Additions to non-current assets: | | | | | |
| Property, plant and equipment | 5 451 | 146 | 1 713 | - | 7 310 |
| Intangible assets | 27 | - | - | - | 27 |
| Right-of-use assets | 16 960 | - | - | - | 16 960 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
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Revenues from the 10 most significant counterparties for the year ended 31 December 2019 were as follows:

| | Business segment | % of revenue |
|---|---|---|
| Non-residental buyer | Crop farming | 57,8% |
| Non-residental buyer | Crop farming | 13,7% |
| Ukrainian buyer | Crop farming | 8,8% |
| Ukrainian buyer | Crop farming | 4,8% |
| Non-residental buyer | Crop farming | 4,5% |
| Non-residental buyer | Crop farming | 2,8% |
| Non-residental buyer | Crop farming | 1,9% |
| Non-residental buyer | Crop farming | 1,9% |
| Non-residental buyer | Crop farming | 1,4% |
| Ukrainian buyer | Dairy farming | 0,6% |
| | | **98,2%** |

Information on business segments for the year ended 31 December 2018 was the follow:

| | Crop farming | Dairy farming | Elevators and warehouses | Unallocated | Total |
|---|---|---|---|---|---|
| Revenue | 217 721 | 1 489 | 8 754 | - | 227 964 |
| Intra-group elimination | (88 797) | - | (7 556) | - | (96 353) |
| **Revenue from external buyers** | **128 924** | **1 489** | **1 198** | **-** | **131 611** |
| Gain from changes in fair value of biological assets and agricultural produce, net | 73 962 | (636) | - | - | 73 326 |
| Cost of sales | (136 013) | (1 450) | (2 757) | - | (140 220) |
| **Gross income** | **66 873** | **(597)** | **(1 559)** | **-** | **64 717** |
| Administrative expenses | - | - | - | (11 928) | **(11 928)** |
| Selling and distribution expenses | - | - | - | (11 794) | **(11 794)** |
| Other operating income | - | - | - | 2 317 | **2 317** |
| Other operating expenses | - | - | - | (5 022) | **(5 022)** |
| Write-offs of property, plant and equipment | - | - | - | (2 287) | **(2 287)** |
| **Operating income of a segment** | **66 873** | **(597)** | **(1 559)** | **(28 714)** | **36 003** |
| Financial expenses, net | - | - | - | (4 987) | **(4 987)** |
| Effect of additional return | - | - | - | (3 265) | **(3 265)** |
| Foreign currency exchange gain/(loss), net | - | - | - | 567 | **567** |
| **Profit before tax** | **66 873** | **(597)** | **(1 559)** | **(36 399)** | **28 318** |
| Income tax expenses | - | - | - | (691) | **(691)** |
| **Net profit** | **66 873** | **(597)** | **(1 559)** | **(37 090)** | **27 627** |
| | | | | | |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 9 951 | 177 | 2 428 | - | **12 556** |
| Additions to non-current assets: | | | | | |
| Property, plant and equipment | 4 109 | 1 026 | 244 | - | **5 379** |
| Intangible assets | 39 | - | - | - | **39** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

Revenues from the 10 most significant counterparties for the year ended 31 December 2018 were as follows:

| | Business segment | % of revenue |
|---|---|---|
| Non-resident buyer | Crop farming | 28,8% |
| Non-resident buyer | Crop farming | 28,5% |
| Non-resident buyer | Crop farming | 11,3% |
| Non-resident buyer | Crop farming | 8,6% |
| Ukrainian buyer | Crop farming | 4,7% |
| Non-resident buyer | Crop farming | 4,1% |
| Non-resident buyer | Crop farming | 2,8% |
| Non-resident buyer | Crop farming | 1,8% |
| Non-resident buyer | Crop farming | 1,7% |
| Ukrainian buyer | Crop farming | 1,2% |
| | | **93,5%** |

**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 5-13%% in 2019 (5-13%% in 2018) and depends on validity of the contract.

Areas of operating leased land were as follows:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| **Location of land** | Hectare | Hectare |
| **Poltava region** | | |
| Land under processing | 20 231 | 22 619 |
| Land for grazing, construction, other | 140 | 2 009 |
| **Chernihiv region** | | |
| Land under processing | 78 648 | 77 436 |
| Land for grazing, construction, other | 130 | 1 681 |
| **Sumy region** | | |
| Land under processing | 24 166 | 23 926 |
| Land for grazing, construction, other | 7 | 113 |
| | **123 322** | **127 784** |

According to the Group's strategy, during Y2017-2019 areas of fallow lands and land for grazing and construction were decreased by unrenewing of land lease agreements.

## 39. Financial instruments

Financial instruments as at 31 December 2018 were represented by the following categories:

| Financial instrument | Category | Measurement |
|---|---|---|
| **Financial assets** | | |
| Accounts receivable | Financial assets at amortised cost | Amortised cost |
| Other financial assets | Financial assets at amortised cost | Amortised cost |
| Cash and cash equivalents | Financial assets at amortised cost | Amortised cost |
| **Financial liabilities** | | |
| Loans and borrowings | Financial liabilities at amortised cost | Amortised cost |
| Accounts payable | Financial liabilities at amortised cost | Amortised cost |
| Other financial liabilities | Financial liabilities at amortised cost | Amortised 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, trade accounts receivable, other financial assets, trade accounts payable, other accounts payable, loans and borrowings. As at 31 December 2019 and 2018, 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.

## 40. 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 | - Market prices on products sold, materials and services for production<br>- Changes in interest rates<br>- Fluctuation of foreign currency exchange rates | - Long-term cooperation with reliable suppliers<br>- Maintaining a combination of fixed and floating interest rates; USD and UAH interest rates<br>- USD and UAH interest rates |

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.

*(in thousand USD, unless otherwise stated)*

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 2019 | 31 December 2018 |
|---|---|---|
| Trade accounts receivable, net | 277 | 459 |
| Other financial assets: | | |
| Non-bank accomodations interest free | 237 | 242 |
| Other accounts receivable, net | 99 | 557 |
| Cash and cash equivalents | 5 182 | 3 920 |
| | **5 795** | **5 178** |

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. 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 2019 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 2019 | 277 | 213 | 52 | 12 | - |
| 31 December 2018 | 459 | 389 | 55 | - | 15 |

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

- Liquidity risk

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

*(in thousand USD, unless otherwise stated)*

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 as at 31 December 2019:

| | 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 | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Bank loans and interest payable on bank loans | 2 000 | 439 | 13 113 | 16 871 | 11 757 | 2 997 | - | **47 176** |
| Finance lease liabilities | - | 4 | - | 8 | - | - | - | **12** |
| Lease liabilities as to right-of-use assets | - | 809 | 190 | 2 002 | 12 852 | 46 832 | 40 603 | **103 288** |
| Trade accounts payable | - | 1 134 | 66 | - | 1 667 | - | - | **2 867** |
| Other current liabilities and accrued expenses | 1 250 | 7 467 | - | 87 | - | - | - | **8 804** |
| | **3 250** | **9 853** | **13 369** | **18 968** | **26 276** | **49 829** | **40 603** | **162 147** |

The table below summarizes the maturity profile of Group's financial liabilities based on contractual payments as at 31 December 2018:

| | 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 | - | 532 | 17 927 | 6 000 | 17 561 | 16 699 | **58 719** |
| Finance lease liabilities | - | 46 | 73 | 182 | 56 | 10 | **367** |
| Trade accounts payable | - | 3 018 | 31 | - | - | - | **3 049** |
| Other current liabilities and accrued expenses | 779 | 7 222 | 473 | 604 | 1 209 | - | **10 287** |
| Accounts payable for the lease of land | - | 2 417 | - | - | - | - | **2 417** |
| | **779** | **13 235** | **18 504** | **6 786** | **18 826** | **16 709** | **74 839** |

- 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.

  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.

*(in thousand USD, unless otherwise stated)*

- 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 amount of the expected export revenue 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 2019:

| | Note | UAH | USD | EUR | PLN | Total |
|---|---|---|---|---|---|---|
| Trade accounts receivable, net | 25 | 277 | - | - | - | 277 |
| Cash and cash equivalents | 28 | 1 258 | 3 779 | 134 | 11 | 5 182 |
| Loans and borrowings | 32, 33 | 12 | 47 026 | - | - | 47 038 |
| Lease liabilities as to right-of-use assets | 19 | 98 334 | 152 | 4 802 | - | 103 288 |
| Other current liabilities and accrued expenses | 35 | 3 172 | 5 633 | - | - | 8 804 |
| | | **103 053** | **56 590** | **4 936** | **11** | **164 590** |

The table below summarizes the Group's exposure to foreign currency risk as at 31 December 2018:

| | Note | UAH | USD | EUR | PLN | Total |
|---|---|---|---|---|---|---|
| Trade accounts receivable, net | 25 | 220 | 239 | - | - | 459 |
| Cash and cash equivalents | 28 | 532 | 3 382 | 1 | 5 | 3 920 |
| Loans and borrowings | 32, 33 | 24 | 58 731 | - | - | 58 755 |
| Other current liabilities and accrued expenses | 35 | 4 663 | 8 041 | - | - | 12 704 |
| | | **5 439** | **70 393** | **1** | **5** | **75 838** |

The Group's exposure to foreign currency risk, based on book value, as at 31 December 2019 was as follows:

| | 31 December 2019 | Increase/decrease in USD exchange rate, % | Effect on profit before tax |
|---|---|---|---|
| Cash and cash equivalents | 3 779 | 10 | 378 |
| | | (10) | (378) |
| Loans and borrowings | 47 026 | 10 | (4 703) |
| | | (10) | 4 703 |
| Lease liabilities as to right-of-use assets | 152 | 10 | (15) |
| | | (10) | 15 |
| Other current liabilities and accrued expenses | 239 | 10 | (24) |
| | | (10) | 24 |
| **General effect** | - | 10 | **(4 364)** |
| | | **(10)** | **4 365** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
*(in thousand USD, unless otherwise stated)*

| | 31 December 2019 | Increase/decrease in EUR exchange rate, % | Effect on profit before tax |
|---|---|---|---|
| Lease liabilities as to right-of-use assets | 4 802 | 10 | 480 |
| | | (10) | (480) |

The Group's exposure to foreign currency risk, based on book value, as at 31 December 2018 was as follows:

| | 31 December 2018 | Increase/decrease in USD exchange rate, % | Effect on profit before tax |
|---|---|---|---|
| Cash and cash equivalents | 3 382 | 10 | 338 |
| | | (10) | (338) |
| Loans and borrowings | 32 949 | 10 | (3 295) |
| | | (10) | 3 295 |
| Other current liabilities and accrued expenses | 330 | 10 | (33) |
| | | (10) | 33 |
| **General effect** | - | 10 | **(2 990)** |
| | | **(10)** | **2 990** |

- 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.

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Loans and borrowings | | |
| Fixed rate instruments | 34 155 | 32 607 |
| Variable rate instruments | 12 883 | 26 149 |
| | **47 038** | **58 756** |

The Group's exposure to interest rate risk, based on book value, as at 31 December 2019 was as follows:

| | Note | 31 December 2019 | Increase/decrease in Libor rate, % | Effect on profit before tax |
|---|---|---|---|---|
| Loans and borrowings | 32, 33 | 12 882 | 1 | (129) |
| | | | (1) | 129 |

The Group's exposure to interest rate risk, based on book value, as at 31 December 2018 was as follows:

| | Note | 31 December 2018 | Increase/decrease in Libor rate, % | Effect on profit before tax |
|---|---|---|---|---|
| Loans and borrowings | 32, 33 | 26 149 | 1 | (261) |
| | | | (1) | 261 |

*(in thousand USD, unless otherwise stated)*

**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.

**Customer concentration risk**

Focusing on large wholesale world traders, the Group has a small pool of customers and could be influenced by customer concentration risk. But the work of the Group with a small number of customers is not due to the lack of other customers or the impossibility of entering new markets, but to the selected sales strategy - the best conditions for selling are ensured by relations with large traders. To control the risk before each sale, a tender is held among buyers to determine the best conditions of the transaction. Making a choice in the direction of the buyer, management understand the level of supply and demand for the products on the market with other participants and Group's capabilities in the event of a change of buyer.

## 41. 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 long-term loans and borrowings, current portion of long-term borrowings, short-term loans and borrowings, trade accounts payable, other current liabilities and accrued expenses. The main purpose of these financial instruments is to raise funds for the activities of the Group.

The Group's gearing ratio was as follows:

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Long-term loans and borrowings | 32 | 2 998 | 15 789 |
| Long-term lease liabilities as to right-of-use assets | 19 | 87 425 | - |
| Current portion of long-term borrowings | 32 | 16 502 | 14 467 |
| Current portion of long-term lease liabilities as to right-of-use assets | 19 | 15 863 | - |
| Short-term loans and borrowings | 33 | 27 538 | 28 500 |
| Trade accounts payable | 34 | 2 867 | 3 049 |
| Other current liabilities and accrued expenses | 35 | 8 804 | 12 704 |
| Cash and cash equivalents | 28 | (5 182) | (3 920) |
| Net debt | | **156 816** | **70 589** |
| Total equity | | 133 193 | 120 670 |
| Total net debt and equity | | **290 009** | **191 259** |
| **Gearing ratio** | | **54%** | **37%** |

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.

In 2019 the gearing ratio increased to 54% from 37% in 2018 due to impact of IFRS 16 and the appearance in the consolidated fianancial positionof new assets and liabilities. These obligations are mainly related to the lease of land and existed in the Group all the time before, just should not have been reflected in the balance. For this reason, management does not believe that this increase in gearing ratio carries any risk. If the gearing rate will be calculated without taking into account new obligations comparable with the previous period, it will be 29%.

## 42. Events after the balance sheet date

Conducting its normal operating activity, the Group considers important to highlight the following:

Loans and borrowings and interests are repaid in the amount of USD11 424 thousand.

Loans and borrowings are received in the amount of USD 13 837 thousand.

VAT for reimbursement is received in the amount of USD 3 754 thousand.

As at 31 December 2019 as a result of increase in liabilities due to impact of new IFRS 16 a covenant on long-term loan in the amount USD 2 000 thousand from Ukrainian bank was violated by the Group. As at 06 April 2020 the Group received from the Ukrainian bank waiver of rights to require compliance with the breached covenant as at 31 December 2019. As the waiver was received after the end of reporting period, as at 31 December 2019 the loan was reclassified as current portion of long-term loan in the full amount with maturity date “On demand”.

### COVID-19 pandemic

The global spread of COVID-19 is affecting every one of us. At IMC, we do what we do with the respect to the people and land to serve the vital humanity needs in agricultural and food products of high quality.

To prevent the spread of COVID-19 coronavirus since mid-February, the company has taken proactive preventative measures in accordance with an approved program of action aimed primarily at protecting the health of its employees and their families, our suppliers and consumers.

The company has taken the following actions:

- trainings for the company employees to prevent spreading of the coronavirus by restricting movement, traveling abroad, visiting social gathering places and maintaining personal hygiene during the epidemic;
- updating of the business continuity plan during the pandemic. An action plan in case of force majeure circumstances was introduced to the company employees;
- organizing for all company employees the ability to work remotely (a remote access) using work computers and other technical devices (server equipment, etc.);
- developing of a control mechanism and establishing of a communication system in case the remote work of employees;
- the following preventive measures have been taken in premises and offices: disinfectants have been installed in sanitary areas and at entrances to office premises; daily wet cleaning with the use of disinfectants; hourly ventilated office space; dishwashing occurs only in the dishwasher with hot steam disinfection.

In connection with the introduction of intensified quarantine restrictions in Ukraine due to evolving COVID-19 situation, starting from 16.03.2020 IMC has taken more stringent safeguards and made the following changes to its operations:

- non-production staff transferred to remote work from home;
- to perform production tasks related with economic activities of the company (field works, loading-unloading works, etc.) - to attract only the minimum number of workers providing them with appropriate personal protective equipment;
- cancel all foreign business trips;
- restrict business trips to the regions and to carry out them only in case of urgent necessity with the permission of the director;
- conduct conferences and meetings online;
- cancel all corporate events.

Currently there is no shortage of specialists in all departments of the company. Employees’ workloads and experience make it possible to temporarily replace employees who for health reasons will not be able to work remotely in accordance with internal regulations and procedures..

Management forecasts on the impact of the COVID-19 pandemic on IMC’s future business are the following:

**2020 sowing campaign**

Firstly, the sowing plan for 2020 is slightly changed compared to 2019 - the area under soybean in 2019, which was almost 11 thousand hectares, was given for winter wheat (8 thousand hectares) in 2019 and for corn (3 thousand hectares) in 2020. This means that 8,000 hectares of sowing have already been carried out in autumn 2019, which reduces the load on the spring sowing campaign 2020.

Secondly, the favorable weather conditions allowed us to increase significantly the area where carbamide was applied. For comparison, the area with carbamide applied in 2018 amounted to 15 thousand hectares, while in 2019 - 33 thousand hectares, that making the fields more prepared for further sowing.

Thirdly, we have the necessary materials and technical support - seeds and fertilizers have already been purchased and are in stock. We work with big suppliers and predict that there will be no significant disruption in the supplying of materials. We are also ready for sowing in terms of machinery - new productive machinery was leased for field works: 20 new harvesters in 2019 and 10 new tractors in 2020.

Field sowing works being carried out. We have minimized the number of employees involved and provided them with protective equipment. In general, the sowing campaign runs as usual.

**Future revenues**

The available inventories at stock as at 31 December 2019 are already contracted and are awaiting its turn for shipment. There are no problems with the availability of wagons to deliver grain to the port. There are no restrictions on freight traffic. We expect that the shipment of corn harvested in 2019 will run without problems.

We understand that the quarantine will weaken the overall rate of goods consumption, but we do not expect it will apply to basic foodstuffs, including the grain of the future 2020 harvest. So we do not anticipate difficulties in sales of future crops.

**Financing**

Bank loans are represented by long-term loans and revolving credit lines. Long-term loans are paid as usual on a schedule, revolving credit lines are used to replenish operating funds and are renewed annually. As at 31 December 2019 such credit lines were opened in the amount of USD 28.5 million. As at 07 April 2020 credit lines in the amount of USD 18.5 million were updated, the new rates are lower than last year by 0.5-1.0%%. A credit line in the amount of USD 10 million will be updated in May according to the schedule. There are no problems with financing, we are paying off our debts, the necessary credit lines were updated.

There were no other material events after the end of the reporting date, which have a bearing on the understanding of the financial statements.