Mriya Agro Holding Public Limited

Consolidated Financial Statements

As at 31 December 2012

CONTENTS

GENERAL INFORMATION

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OTHER RESPONSIBLE PERSONS OF THE COMPANY FOR THE FINANCIAL STATEMENTS

DIRECTORS' REPORT

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 2

CONSOLIDATED CASH FLOW STATEMENT 3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 4

1. CORPORATE INFORMATION 5
2. OPERATING ENVIRONMENT 5
3. BASIS OF PREPARATION 6
4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES 6
5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 7
6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ASSUMPTIONS 17
7. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED 20
8. BUSINESS COMBINATION 23
9. REVENUES AND EXPENSES 27
10. INCOME TAX 30
11. EARNINGS PER SHARE 31
12. PROPERTY, PLANT AND EQUIPMENT 32
13. PREPAID LEASE EXPENSES 33
14. OTHER NON-CURRENT ASSETS 34
15. BIOLOGICAL ASSETS - CONSUMABLE 34
16. INVENTORIES 35
17. TRADE AND OTHER RECEIVABLES 36
18. CASH AND BANK DEPOSITS 36
19. OTHER CURRENT ASSETS 36
20. ISSUED CAPITAL AND RESERVES 37
21. INTEREST-BEARING LOANS AND BORROWINGS 38
22. LONG-TERM PAYABLES 40
23. TRADE AND OTHER PAYABLES 40
24. SHARE PURCHASE WARRANT 40
25. OTHER CURRENT LIABILITIES 41
26. COMMITMENTS AND CONTINGENCIES 41
27. RELATED PARTY DISCLOSURES 43
28. FAIR VALUE OF FINANCIAL INSTRUMENTS 45
29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES 45
30. EVENTS AFTER THE REPORTING PERIOD 49

General Information

Directors:

Name	Date of appointment	Date of resignation
Hans Christian Jacobsen	9 March 2011	
Thomas U.W.Puetter	9 March 2011	
Ivan Guta	12 October 2010	
Klavdiya Guta	12 October 2010	
Mykola Guta	12 October 2010	
Andriy Guta	12 October 2010	
Andriy Buryak	12 October 2010	
Vladyslav Lugovskiy	12 October 2010	

Company Secretary:

Vimatex Limited

25 Afroditis Street,
2nd Floor, Flat no. 204,
1060, Nicosia, Cyprus

Independent Auditors:
Ernst & Young Cyprus Ltd
Certified Public Accountants and Registered Auditors

Nicosia Tower Centre
P.O. Box 21656
1511 Nicosia
Cyprus

Registered Office:
25 Afroditis Street,
2nd Floor, Flat no. 204,
1060, Nicosia, Cyprus

Registration number:
211870

Statement of the members of the Board of Directors and other responsible persons of the Company for the Financial Statements

In accordance with Article 9, sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Markets) Law of 2007 ("Law"), we the members of the Board of Directors and the other responsible persons for the financial statements of Mriya Agro Holding Public Limited (the 'Company') for the year ended 31 December 2012, confirm that, to the best of our knowledge:

(a) the annual consolidated financial statements that are presented on pages 1 to 49 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Article 9, section (4) of the Law, and give a true and fair view of the assets and liabilities, the financial position and the profit or losses of the Company and the undertakings that are included in the consolidated accounts as a total, and (b) the Directors' report gives a fair review of the developments and the performance of the business as well as the financial position of the Company and the undertakings included in the consolidated accounts as a total, together with a description of the principal risks and uncertainties that they are facing.

Mykola Guta — Chief Executive Officer

Andriy Buryak — Chief Financial Officer

7 March 2013

Directors' Report

The Directors present their report and consolidated audited financial statements of the Company for the year ended 31 December 2012.

Incorporation and Principal Activities

Mriya Agro Holding Public Limited (hereinafter referred to as the "Company", or collectively with its subsidiaries as the "Group") was incorporated in Cyprus on 8 November 2007 as a limited liability company under the Cyprus Companies Law, Cap. 113. Following the resolution of general meeting on 16 May 2008, the Company was re-registered as a public limited company.

The principal activity of the Group is agricultural production and trading, including growing of potatoes, wheat, barley, pea, rape, sugar beet, buckwheat and corn. Also, the Group is involved in providing technical assistance in land cultivation and harvesting, providing logistical support, agro-service assistance and intermediate services to other agricultural producers.

Review of the development, performance and current position of the Company and the Group and description of the major risks and uncertainties

The Group's development to date, financial results and position as presented in the financial statements are considered satisfactory.

The most significant risks and uncertainties faced by the Company and the Group and the steps taken to manage these risks, are described in Note 26 (i) and Note 29 to the accompanying consolidated financial statements.

Profits and dividends

The Group's results for the years are set out in the Statement of comprehensive income on page 1. The profit for the year amounted to USD 174,293 thousand (2011: USD 149,978 thousand). No dividend was paid or is being proposed and the profit for the year is carried forward to retained earnings.

Expected future development

The Directors do not expect major changes to the principal activities of the Group in the foreseeable future.

Share capital

The authorised capital of the Company comprises 4,363,525 ordinary shares of EUR 0.01 each, 4,250,010 of which (equivalent of USD 63 thousand translated at exchange rate of USD 1.4824/1 EUR, being the rate ruling at the date of the Company's incorporation) were issued, subscribed and fully paid. Details of the issue are described in Note 20 to the accompanying consolidated financial statements.

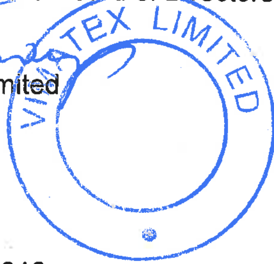
Events subsequent to the reporting date

Significant events that occurred after the end of the financial period are described in Note 30 to the consolidated financial statements.

Independent auditors

The independent auditors, Ernst & Young Cyprus Limited, have signified their willingness to continue in office. A resolution proposing their reappointment and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting of the Company.

By order of the Board of Directors



Vimatex Limited
Secretary

Nicosia
07 March 2013

ERNST & YOUNG

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Independent Auditors' Report

to the members of Mriya Agro Holding Public Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mriya Agro Holding Public Limited (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

A member firm of Ernst & Young Global Limited

Directors: Andreas Demetriou, Neophytos Neophytou, Yiannakis Theoklitou, Stavros Pantzaris, Charalambos Stylianou, Gabriel Onisiforou, Andreas Avraamides, Petros Liassides, Philippos Raptopoulos, Irene Psalti, Savvas Pentaris, Mikhail Khachaturian

Ernst & Young

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

Emphasis of matter

We draw attention to Note 27 to the consolidated financial statements, which discloses a considerable volume of certain crop sales to related parties. Our opinion is not qualified in respect of this matter.

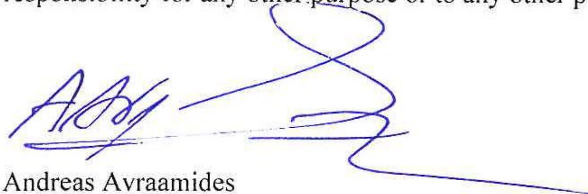
Report on Other Legal Requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Andreas Avraamides
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
7 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(in thousands of US dollars)

	Notes	2012	2011
Revenues	9	347,935	268,308
Net gain on initial recognition of biological assets and agricultural produce and on change in fair value of biological assets	15	215,102	157,350
Total revenues and net gain		563,037	425,658
Cost of sales	9	(318,270)	(248,174)
Gross profit		244,767	177,484
Other operating income	9	13,557	27,196
Administrative expenses	9	(25,115)	(20,684)
Selling expenses	9	(8,769)	(3,233)
Other operating expenses	9	(16,832)	(9,900)
Operating profit		207,608	170,863
Finance income	9	18,948	28,963
Finance costs	9	(50,676)	(50,709)
Foreign exchange (loss) / gain, net		(1,142)	1,461
Profit before tax		174,738	150,578
Income tax expense	10	(445)	(600)
Profit for the year		174,293	149,978
Other comprehensive income / (loss)			
Exchange differences on translation to presentation currency		1,523	(2,100)
Revaluation of property, plant and equipment		-	25,122
Income tax effect	10	-	(1,852)
		-	23,270
Other comprehensive income for the year, net of tax		1,523	21,170
Total comprehensive income for the year, net of tax		175,816	171,148
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the parent	11	0.04	0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012
(in thousands of US dollars)

	Notes	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	12	661,006	381,270
Prepaid lease expenses	13	150,304	120,675
Intangible assets		504	373
Long-term receivables		478	479
Biological assets – Non-consumable		1,884	2,505
Other non-current assets	14	52,046	28,315
		866,222	533,617
Current assets			
Biological assets – Consumable	15	184,822	111,826
Inventories	16	126,616	87,772
Trade and other receivables	17	46,731	108,286
Short-term bank deposits	18	101,833	139,906
Cash at bank	18	2,030	44,391
Other current assets	19	24,998	27,054
		487,030	519,235
TOTAL ASSETS		1,353,252	1,052,852
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	63	63
Share premium		86,245	86,245
Contribution in capital	20, 27	33,680	33,680
Other reserves	20	250	(1,273)
Retained earnings	20	650,981	476,688
		771,219	595,403
Non-current liabilities			
Interest-bearing loans and borrowings	21	261,007	238,029
Long-term payables	22	29,676	23,046
Finance lease liability	26	21,235	24,095
Deferred income on government grants		58	63
Deferred tax liability	10	1,924	2,558
		313,900	287,791
Current liabilities			
Interest-bearing loans and borrowings	21	175,270	112,983
Trade and other payables	23	70,502	38,321
Finance lease liability	26	13,664	11,445
Share purchase warrant	24	2,848	5,178
Deferred income on government grants		9	9
Other current liabilities	25	5,840	1,722
		268,133	169,658
Total liabilities		582,033	457,449
TOTAL EQUITY AND LIABILITIES		1,353,252	1,052,852

Signed and authorised for release on behalf of Mriya Agro Holding Public Limited on 7 March 2013:

Director — Mykola Guta
Director — Andriy Buryak

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012
(in thousands of US dollars)

	Notes	2012	2011
Cash flows from operating activities			
Cash receipts from customers		409,683	310,848
Cash payments to suppliers and employees		(207,812)	(168,693)
Government grants other than interest reimbursement		38	24
Cash generated from operations		201,909	142,179
Interest received		10,754	10,240
Interest paid		(44,302)	(26,039)
Income tax paid		(937)	(1,285)
Net cash flows from operating activities		167,424	125,095
Cash flows from investing activities			
Purchase of property, plant and equipment		(252,891)	(142,413)
Purchase of intangible assets		(203)	(270)
Prepayments for land lease rights		(23,420)	(484)
Re-issuance of land lease agreements	13	(20,935)	-
Acquisition of subsidiaries, less cash acquired	8	(206)	(29,704)
Prepaid consideration for acquisition of subsidiaries		(32,079)	(20,040)
Purchase of other non-current assets		-	(866)
Proceeds from sale of property, plant and equipment		7,013	29,663
Placement on deposits		(136,972)	(169,993)
Withdrawal from deposits		174,939	123,296
Loans repaid by / (granted to) related parties	27	28,454	(24,915)
Net cash flows used in investing activities		(256,300)	(235,726)
Cash flows from financing activities			
Proceeds from loans and borrowings		210,750	392,837
Repayment of loans and borrowings		(146,754)	(222,597)
Payment of finance lease liabilities		(13,610)	(16,140)
Proceeds from loans granted by related parties		-	1,934
Repayments of loans granted by related parties		(3,856)	(3,804)
Net cash flows from financing activities		46,530	152,230
Net (decrease) / increase in cash and cash equivalents		(42,346)	41,599
Net foreign exchange difference		(15)	(125)
Cash and cash equivalents at 1 January	18	44,391	2,917
Cash and cash equivalents at 31 December	18	2,030	44,391

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(in thousands of US dollars)

	Issued capital	Share premium	Contribu-tion in capital (Note 20)	Other reserves (Note 20)	Retained earnings	Total
Balance at 1 January 2011	63	86,245	33,680	(22,443)	326,710	424,255
Profit for the year	-	-	-	-	149,978	149,978
Other comprehensive income	-	-	-	21,170	-	21,170
Total comprehensive income	-	-	-	21,170	149,978	171,148
Balance at 31 December 2011	63	86,245	33,680	(1,273)	476,688	595,403
Profit for the year	-	-	-	-	174,293	174,293
Other comprehensive income	-	-	-	1,523	-	1,523
Total comprehensive income	-	-	-	1,523	174,293	175,816
Balance at 31 December 2012	63	86,245	33,680	250	650,981	771,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

1. Corporate information

Mriya Agro Holding Public Limited (hereinafter referred to as the "Company", or collectively with its subsidiaries as the "Group") was incorporated in Cyprus on 8 November 2007 as a limited liability company under the Cyprus Companies Law, Cap. 113. Following the resolution of general meeting on 16 May 2008, the Company was re-registered as a public limited company.

The Company's registered office is located at 25 Afroditis Street, 2nd Floor, office 204, 1060 Nicosia, Cyprus.

The principal activity of the Group is agricultural production and trading, including growing of potatoes, wheat, barley, pea, rape, sugar beet, buckwheat and corn in Ukraine. Also, the Group is involved in providing technical assistance in land cultivation and harvesting; providing logistical support, agro-service assistance and intermediate services to other agricultural producers.

As at 31 December 2012 and 2011 the Company's shareholders and their respective declared interests were as follows:

	Interest	*Number of shares*
HF Asset Management Limited	80.00%	3,400,004
BNY (Nominees) Limited	20.00%	850,000
Other individuals	Less than 1%	6
	100.00%	4,250,010

As at 31 December 2012 and 2011, the Group's parent, HF Asset Management Limited, was ultimately owned by four members of Guta family, who together exercise ultimate control over the Group.

On 12 June 2008, 20% of the Company's shares were accepted to trading on Frankfurt Stock Exchange in the form of GDRs. The shares represented by GDRs are held by custodian for the benefit of BNY (Nominees) Limited acting as depository. The owners of GDRs are not entitled to vote at the shareholders meetings of the Company, but they can instruct BNY (Nominees) Limited to exercise voting rights attributable to the number of ordinary shares represented by GDRs.

2. Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

3. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment, biological assets, agricultural produce and share purchase warrant that have been measured by reference to fair value.

These consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

Basis of consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit and loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

4. Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended Standards and Interpretations as at 1 January 2012, noted below:

- *IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment)*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with such involvement. Management has assessed that adoption of the amendments from 1 January 2012 did not have any impact on the financial position or performance of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

4. Changes in accounting policy and disclosures (continued)

- *IAS 12 Income Taxes (Amended) –Recovery of Underlying Assets*

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. Management has assessed that adoption of the amendments from 1 January 2012 did not have any impact on the financial position or performance of the Group

5. Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed at fair value. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Foreign currency translation

The functional currency of each of the Group's entities is Ukrainian Hryvnia (UAH).

For the convenience of the principal users, the Group's presentation currency was determined to be the US dollar (USD).

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at the functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences are taken to profit and loss.

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.

ii) Translation to presentation currency

At each reporting date, the assets and liabilities of each company are translated into the Group's presentation currency at the rate of exchange prevailing at the reporting date. The revenues and expenses for the year or, if shorter, the period of consolidation of subsidiary in the Group are translated at the exchange rate prevailing at the date of transaction or average exchange rate for the period if it approximates the rate as of the date of transaction. The equity balances are translated at the exchange rate as at the dates of the initial transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

The relevant exchange rates of UAH for USD were:

	2012	2011
As at 31 December	7.9930	7.9898
Average	7.9910	7.9676

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, and excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of agricultural produce

Revenue from the sale of agricultural produce is recognised when significant risks and rewards of ownership of the goods have passed to the buyer, which may occur on delivery or on shipment of the goods, depending on the terms of the contracts with customers.

Rendering of services

Revenues from services are recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Taxes

Fixed agricultural tax

According to effective legislation, the Ukrainian subsidiaries of the Group involved in production, processing and sale of agricultural products may opt for paying fixed agricultural tax (FAT) in lieu of income tax, land tax and some other local taxes if the revenues from sale of their self-grown agricultural products constitute not less than 75% of their total (gross) revenues. The FAT is assessed at 0.15% on the deemed value of the land plots owned or leased by the entity (as determined by the relevant State authorities). As at 31 December 2012, 24 Ukrainian subsidiaries of the Group elected to pay FAT (2011: 27). The rest of the Group's entities are subject to a regular income tax or unified tax (1 subsidiary in 2012 and 3 subsidiaries in 2011).

Current income tax

Current 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 by the Group entities that are not registered as payers of FAT or unified tax. Current income tax is computed using the tax rates and tax laws that are enacted in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income 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 recognised 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; and
- 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 income tax assets are recognised 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 utilised except:

- where the deferred income 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; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised 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 utilised.

The carrying amount of deferred income 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised 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 relating to items recognised outside profit or loss is recognised outside profit or loss. In such cases, deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Value added tax

The Group's entities involved in the production and sale of agricultural products that met certain quantitative thresholds are subject to the privileged VAT regime, whereby such entities were granted the right to retain net VAT liabilities, rather than remitting such amounts to the state budget, as other taxpayers are required to do. At the same time, such entities are not allowed to claim net VAT credit for refund from the state budget. Following the established industry practice, net VAT liabilities retained by the entities applying privileged VAT regime, determined at the level of individual tax payers, are recognised as income in the period in which they arise. Likewise, the net VAT asset is written off to expenses as incurred.

Biological assets

Biological assets represent unharvested crops and livestock and are recognised and subsequently measured at fair value after deduction for estimated selling costs. The fair value of the Group's biological assets is calculated as the present value of anticipated future cash flows from the asset before tax. The fair value calculation for unharvested crops is based on existing crop acres and assessments regarding crop yield, selling prices and future cultivation costs. The fair value of livestock is based on expected volume of milk produced during the productive lives of the dairy cattle, expected volume of meat at the date of slaughter, respective anticipated prices, average expected productive lives of the livestock and future production costs. The discount rate is estimated by reference to current market-determined pre-tax rates.

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset at each subsequent reporting date is included in profit and loss in the period in which it arises.

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

Agricultural produce

Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the point of harvest. Where applicable, costs to sell include commissions to brokers and dealers, levies by regulatory agencies, commodity exchanges and transfer taxes and duties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Costs to sell exclude transport costs necessary to get assets to a market. Such measurement becomes cost of agricultural produce at the date of harvest.

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is included in profit and loss in the year in which it arises.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with, usually when the grant is received. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit and loss over the expected useful life of the relevant asset by equal annual instalments.

Property, plant and equipment

Property, plant and equipment is initially recognised at cost. After initial measurement, land and buildings, plant and machinery, motor vehicles and tools and devices are carried at fair value less accumulated depreciation (except for land, which is not depreciated) and impairment losses recognised after the date of the revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Repair and maintenance costs are expensed as incurred.

Any revaluation surplus is credited to the assets revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss, in which case the increase is recognised in profit and loss. A revaluation deficit is recognised in profit and loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset category	*Useful life (years)*
Buildings and constructions	7-80
Plant and machinery	3-30
Motor vehicles	5-20
Tools and devices	3-7

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 profit and loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment 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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the 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 recognised in profit and loss as part of finance costs.

Leased assets are depreciated over their useful lives, unless there is no reasonable certainty that the Group will obtain ownership of lease assets by the end of the lease term, in which case the related assets are depreciated over the shorter of their estimated useful lives and the lease terms.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Borrowing costs

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 capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Prepaid lease expenses

The payments made by the Group on entering into or acquiring the land-use rights represent prepaid lease expenses that are amortised over the lease term in accordance with the expected pattern of consumption of the economic benefits embodied in the land-use rights.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost of inventories is determined as follows:

Agricultural produce – the fair value less costs to sell at the point of harvesting.

Work-in-progress - cost of direct materials and labour and a proportion of overheads based on normal operating capacity but excluding borrowing costs. Costs are capitalised 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.

Raw materials, goods for resale and other inventories – purchase cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Net realisable 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.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit and loss in those expense categories consistent with the function of the impaired asset, except for property, plant and equipment previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group does not have the assets that require annual impairment testing regardless of impairment indicators.

Financial assets

Initial recognition and subsequent measurement

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investment not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention on the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank deposits, trade and other receivables, other long-term receivables (all classified as loans and receivables in accordance with IAS 39).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognised as income or expenses when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

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

For financial assets classified as loans and receivables, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is directly reduced for credit losses and the amount of the loss is recognised as part of other operating expenses in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting profit and loss. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing loans and borrowings, finance lease and share purchase warrant.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Trade and other payables

After initial recognition, trade and other payables with fixed maturity are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Share purchase warrant

After initial recognition at its fair value, share purchase warrant is subsequently measured at fair value through profit or loss.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Derecognition

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

Where 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 recognised in profit or loss.

Fair value of financial instruments not traded in an active market

The Group's financial instruments are not traded in an active market. Accordingly, the fair value of such instruments is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Issued capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Gratis contributions of non-monetary assets from shareholders and ultimate controlling party

Gratis contributions of non-monetary assets from the shareholders and ultimate controlling parties are accounted for as equity transactions and recorded as contribution in capital at fair values of assets received.

Provisions

Provisions are recognised 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

5. Summary of significant accounting policies (continued)

Earnings per share

Earnings per share are calculated by dividing net profit attributable to shareholders of the Company by the weighted average number of shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated.

They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Cash and cash equivalents

Cash in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts, if any.

6. Significant accounting judgments and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experience, development plans and other relevant factors. Actual results may differ from these estimates.

Judgments

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

Consolidation of a special purpose entity

In June 2011, one of the Group's subsidiaries established a special-purpose investment fund (the Fund) to manage financing of some of the Group's operating activities. According to Ukrainian legislation, the Fund is not a legal entity, but rather a venture operated and managed by the Group's subsidiary and owned by investors (the Group's related parties) on the basis of joint partial ownership. The investors are not allowed by law to interfere the operations of entity that operates and manages the Fund. They can, however, exercise some oversight functions limited to approving contracts with registrar, custodian, auditor and valuator and authorizing changes to the Fund's by-laws. The Fund's by-laws determine, inter alia, the investment policy and the mechanisms and frequency of profit distributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

6. Significant accounting judgments and assumptions (continued)

The Fund was established in order to accomplish a narrow and well-defined objective and in 2012 and 2011 it was operating solely for the benefit of the Group's entities. As at 31 December 2012 and 2011, there were no significant residual benefits in the Fund that investors could be entitled to. Based on the analysis of all facts and circumstances, the management concluded that the Fund is a special purpose entity of the Group and, accordingly, it was consolidated in these financial statements. The balances and transactions between the Group entities and the Fund were fully eliminated on consolidation.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revaluation of property, plant and equipment

As described in Notes 5 and 12, the Group applies revaluation model of accounting for property, plant and equipment. Under this method, property, plant and equipment is carried at fair value less any subsequent accumulated depreciation and accumulated impairment losses, if any. Estimation of the fair value of property, plant and equipment involves significant judgment and use of assumptions. Management engaged external independent appraisers to estimate the fair value of property, plant and equipment as at 30 November 2011. The method of valuation is further described in Note 12.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates, for possible consequences of future tax audits. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the respective tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entity's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as possible, no provision has been recognised.

Fair value of biological assets

Due to the lack of observable market prices for biological assets in their condition at the reporting dates, the fair value of such biological assets was estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

Fair values of biological assets were based on the following key assumptions:

- expected crop yield is based on the historical information adjusted for the effect of expected weather conditions;
- the average productive life of livestock is determined based on internal statistical information;
- prices for grains, milk and meat are obtained from external verifiable sources (*);
- cultivation and production costs are projected based on actual historical information;
- the discount rate is estimated by reference to current market-determined pre-tax rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

6. Significant accounting judgments and assumptions (continued)

(*) Effective 1 January 2010 the Group has revised its approach to estimation of fair value of biological assets insofar as it relates to sugar beets. The revision was driven by monopolization of Ukrainian sugar market by vertically integrated agrarian holdings resulting in wide spread of transfer pricing practices on Ukrainian market. Therefore, publicly available statistics on prices of sugar beet is no longer considered to be a reliable indicator of fair value. Accordingly, the Group determined the fair value of sugar beet in 2012 based on available wholesale prices for sugar as adjusted for average processing costs.

Further details on biological assets are disclosed in Note 15.

Fair value of share purchase warrant

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

- current stock price, which was taken from Bloomberg,
- strike price as specified in the share purchase warrant,
- risk-free interest rate and volatility based on historical information.

The method of valuation is further described in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

7. Standards issued but not yet effective and not early adopted

- *IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income*

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

- *IAS 19 Employee Benefits (Revised)*

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

- *IAS 28 Investments in Associates and Joint Ventures (Revised)*

The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Management is currently assessing the impact of this standard.

- *IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2014.These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Management is currently assessing the impact of this standard.

- *IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities*

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. Management is currently assessing the impact of this standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

7. Standards issued but not yet effective (continued)

- *IFRS 9 Financial Instruments: Classification and Measurement*

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. This standard has not yet been endorsed by the EU. Management is currently assessing the impact of this standard.

- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Management is currently assessing the impact of this standard.

- *IFRS 11 Joint Arrangements*

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Management is currently assessing the impact of this standard.

- *IFRS 12 Disclosures of Interests in Other Entities*

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Management is currently assessing the impact of this standard.

- *IFRS 13 Fair Value Measurement*

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. Management is currently assessing the impact of this standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

7. Standards issued but not yet effective (continued)

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

The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation applies to waste removal (stripping costs) incurred in surface mining activity, during the production phase of the mine.The interpretation addresses the accounting for the benefit from the stripping activity. Management is currently assessing the impact of this standard.

The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. This project has not yet been endorsed by the EU. Management is currently assessing the impact of this standard.

IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

IAS 16 Property, Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. This guidance has not yet been endorsed by the EU. Management is currently assessing the impact of this standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

7. Standards issued but not yet effective (continued)

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. This amendment has not yet been endorsed by the EU. Management is currently assessing the impact of this standard.

8. Business combination

Acquisitions in 2012

During the year ended 31 December 2012, the Group completed acquisition of 100% interests in Farruka Limited, which owns 100% participation interest in a number of Ukrainian agricultural producers, and Agro-Vita PP. These business combinations have been accounted for using the acquisition method. The acquisition date fair values of acquired assets and liabilities are preliminary and may be adjusted as a result of obtaining additional information from appraiser. The provisional fair value of identifiable assets and liabilities at the date of acquisition were as follows:

	Provisional fair value recognized on acquisition		
	Farruka Limited	Agro-Vita PP	Total
Property, plant and equipment (Note 12)	10,733	61	10,794
Land lease rights	10,178	-	10,178
Inventories	2,948	74	3,022
Biological assets – Consumable (Note 15)	-	318	318
Trade receivables	126	-	126
Other current assets	-	15	15
Cash	6	-	6
	23,991	468	24,459
Long-term payables	(4)	-	(4)
Trade and other payables	(1,778)	(112)	(1,890)
Other current liabilities	(2,213)	(9)	(2,222)
	(3,995)	(121)	(4,116)
Total identifiable net assets at fair value	19,996	347	20,343
Gain on bargain purchase (*) (Note 9)	(14)	(141)	(155)
Purchase consideration transferred (in cash)	19,982	206	20,188

(*) Gain arises because the fair value of the acquired non-monetary assets exceeds the amount paid for those assets. This situation is due to the lack of financial resources in the acquired companies, which does not allow them to utilise their assets in the most efficient manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

8. Business combination (continued)

The fair value of the trade receivables at the dates of acquisitions amounts to USD 126 thousand, which is equal to gross amount of accounts receivable acquired. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

Analysis of cash flows on acquisition:

Cash:			
Cash paid	19,982	206	20,188
Cash acquired	(6)	-	(6)
Net cash outflow	19,976	206	20,182

It is not practicable to determine what would be the revenue and net profit for the year ended 31 December 2012 had the acquisitions occurred on 1 January 2012 in accordance with IFRS, because the acquired operating companies maintained their books in accordance with local accounting standards that are significantly different from IFRSs.

From the date of acquisition the revenue and net profit generated by the acquired companies amounted to USD 2,207 thousand and USD 18,241 thousand, respectively.

Acquisitions in 2011

During the year ended 31 December 2011, the Group acquired from third parties 100% interests in Cyprus-based companies - Wayluku Ventures Limited and Zibureco Limited, each having a number of wholly-owned subsidiaries involved in agricultural business in Ukraine.

The Group also acquired, in separate transactions, 100% participation interest in various other Ukrainian agricultural producers and traders.

The list of subsidiaries acquired from third parties during the year ended 31 December 2011 is as follows:

Name of the company	*Date of incorporation*	*Date of acquisition*
Wayluku Ventures Limited	16 October 2008	30 June 2011
Vejmer Tehnik LLC	3 November 2010	8 September 2011
Alkor Kyiv LLC	4 November 2010	8 September 2011
Barkosoft Agro 2 LLC	29 June 2011	31 October 2011
Lanivtsi Agro LLC	17 May 2011	23 November 2011
Yarmolyntsi EkoFarminh LLC	26 October 2011	25 November 2011
Gray Land Krasilov LLC	27 October 2011	1 December 2011
Olimpus-Plus LLC	15 October 2003	1 December 2011
SKS Digital Print LLC	26 May 2008	1 December 2011
Agrarian traditions LLC	1 November 2011	1 December 2011
Ivane Zolote LLC	22 August 2011	7 December 2011
Izyaslav-Agro LLC	24 November 2010	23 December 2011
Zibureco Limited	27 December 2010	26 December 2011
Kartoplyar LLC	1 November 2011	28 December 2011
Rodyuchiy Korshiv LLC	14 October 2011	30 December 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

8. Business combination (continued)

These business combinations have been accounted for using the acquisition method. The fair value of identifiable assets and liabilities of the acquired entities at the dates of acquisition were as follows:

	Wayluku Ventures Limited	Vejmer Tehnik LLC	Alkor Kyiv LLC	Barkosoft Agro 2 LLC	Lanivtsi Agro LLC	Yarmolyntsi Eko-Farminh LLC	Gray Land Krasilov LLC	Olimpus-Plus LLC	SKS Digital Print LLC	Agrarian traditions LLC	Ivane Zolote LLC	Izyaslav-Agro LLC	Kartoplyar LLC	Rodyuchiy Korshiv LLC	Zibureco Limited	Total
Property, plant and equipment (Note 12)	5,495	906	999	393	-	-	2,023	569	731	-	-	-	9,095	53	5,267	25,531
Land lease rights (Note 13)	15,806	3,394	4,109	9,288	1,510	7,175	9,998	3,688	4,522	1,834	2,743	8,702	2,695	7,829	15,790	99,083
Biological assets – Non-consumable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,105	1,105
Inventories	838	-	-	517	-	-	1,053	-	-	-	-	34	644	38	1,560	4,684
Biological assets – Consumable (Note 15)	-	-	-	-	-	-	-	-	-	-	-	-	1,402	-	-	1,402
Trade receivables	2,344	-	-	154	-	-	340	3,189	138	-	1	447	12	5	356	6,986
Other current assets	91	145	147	-	-	-	209	-	-	-	-	-	-	-	-	592
Cash	-	-	-	-	2	-	13	7	-	-	-	8	827	-	6	863
	24,574	4,445	5,255	10,352	1,512	7,175	13,636	7,453	5,391	1,834	2,744	9,191	14,675	7,925	24,084	140,246
Interest-bearing loans and borrowings	(210)	(4,305)	(5,159)	(8,856)	(1,484)	(7,175)	(8,464)	(3,300)	(5,142)	(1,810)	(2,741)	(8,761)	(8,609)	-	(63)	(66,079)
Trade and other payables	(7,723)	(104)	(31)	(1,438)	(7)	-	(1,957)	(3,783)	(20)	(1)	(3)	(426)	(1,215)	(7,865)	(9,532)	(34,105)
	(7,933)	(4,409)	(5,190)	(10,294)	(1,491)	(7,175)	(10,421)	(7,083)	(5,162)	(1,811)	(2,744)	(9,187)	(9,824)	(7,865)	(9,595)	(100,184)
Total identifiable net assets at fair value	16,641	36	65	58	21	-	3,215	370	229	23	-	4	4,851	60	14,489	40,062
Gain on bargain purchase (*) (Note 9)	(31)	(36)	(65)	(58)	(21)	-	(3,215)	(370)	(229)	(23)	-	(4)	(4,851)	(60)	(532)	(9,495)
Purchase consideration transferred (in cash)	16,610	-	-	-	-	-	-	-	-	-	-	-	-	-	13,957	30,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

8. Business combination (continued)

(*) Gain arises because the fair value of the acquired non-monetary assets exceeds the amount paid for those assets. This situation is due to the lack of financial resources in the acquired companies, which does not allow them to utilise their assets in the most efficient manner.

The fair value of the trade receivables at the dates of acquisitions amounts to USD 6,986 thousand, which is equal to gross amount of accounts receivable acquired. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

Analysis of cash flows on acquisition:

	Wayluku Ventures Limited	Vejmer Tehnik LLC	Alkor Kyiv LLC	Barkosoft Agro 2 LLC	Lanivtsi Agro LLC	Yarmolyntsi Eko-Farminh LLC	Gray Land Krasilov LLC	Olimpus-Plus LLC	SKS Digital Print LLC	Agrarian traditions LLC	Ivane Zolote LLC	Izyaslav-Agro LLC	Kartoplyar LLC	Rodyuchiy Korshiv LLC	Zibureco Limited	Total
Cash paid	16,610	-	-	-	-	-	-	-	-	-	-	-	-	-	13,957	30,567
Cash acquired	-	-	-	-	(2)	-	(13)	(7)	-	-	-	(8)	(827)	-	(6)	(863)
Net cash outflow / (inflow)	16,610	-	-	-	(2)	-	(13)	(7)	-	-	-	(8)	(827)	-	13,951	29,704

It is not practicable to determine what would be the revenue and net profit for the year ended 31 December 2011 had the acquisitions occurred on 1 January 2011 in accordance with IFRS, because the acquired operating companies maintained their books in accordance with local accounting standards that are significantly different from IFRSs.

From the date of acquisition the revenue and net profit generated by the acquired companies amounted to USD 9,158 thousand and USD 19,589 thousand, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

9. Revenues and expenses

Revenues

	2012	2011
Sales of agricultural produce	331,499	254,671
Rendering of services and other sales	16,436	13,637
	347,935	268,308

Cost of sales

	2012	2011
Cost of agricultural produce	300,562	235,620
Cost of services and other sales	17,708	12,554
	318,270	248,174

Other operating income

	2012	2011
VAT retained	11,441	17,524
Gain on accounts payable write-off	1,133	30
Gain on bargain purchase (Note 8)	155	9,495
Other government grants	38	1
Government grants related to agricultural machinery	9	10
Government grants related to crop growing	-	23
Other income	781	113
	13,557	27,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

9. Revenues and expenses (continued)

Administrative expenses

	2012	2011
Staff costs	12,195	9,460
Professional services	4,663	3,662
Rental expenses	2,293	1,889
Bank charges	1,457	814
Fuel expenses	1,111	1,115
Depreciation and amortisation	981	799
Maintenance expenses	679	403
Communication services	541	727
Auditors' remuneration (*)	423	381
Insurance expenses	332	225
Other expenses	440	1,209
	25,115	20,684

(*) the auditors' remuneration comprised the following:

	2012	2011
Statutory audit of the Company's separate parent financial statements and audit of the Group's consolidated financial statements	278	257
Review of the Group's interim consolidated financial statements	93	85
Tax compliance services	3	3
Other assurance services	49	36
	423	381

Selling expenses

	2012	2011
Transportation and storage services	8,055	2,742
Advertising and marketing expenses	160	56
Fuel expenses	107	260
Staff costs	48	57
Other expenses	399	118
	8,769	3,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

9. Revenues and expenses (continued)

Other operating expenses

	2012	2011
Drying and cleaning loss of agricultural produce	13,120	6,076
Charity	1,256	491
Loss on disposal of property, plant and equipment, net	776	287
Bad debt expenses	161	1,119
Loss on revaluation of property, plant and equipment	-	1,448
Other expenses	1,519	479
	16,832	9,900

Finance income

	2012	2011
Interest income on deposits and loans	11,231	10,488
Interest income on receivables (at amortised cost)	5,388	13,206
Total interest income	16,619	23,694
Gain on change in fair value of share purchase warrant (Note 24)	2,329	5,269
	18,948	28,963

Finance costs

	2012	2011
Interest costs	45,733	33,440
Finance lease charges	3,828	3,098
Total interest expenses	49,561	36,538
Loss on initial recognition of financial instruments	1,115	14,171
	50,676	50,709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

10. Income tax

The major components of income tax expense for the year ended 31 December 2012 are:

	2012	*2011*
Current income tax expense	1,079	562
Deferred tax relating to the origination and reversal of temporary differences	(634)	38
Income tax expense reported in profit and loss	445	600
Deferred tax relating to the components of other comprehensive income / (loss):		
Net loss on revaluation of property, plant and equipment	-	(1,852)
Income tax charged to other comprehensive income	-	(1,852)

A reconciliation of the tax expense based on the statutory rate with the actual tax expense is as follows:

	2012	*2011*
Profit before tax	174,738	150,578
Profit generated by FAT and single tax payers (exempt from income tax)	(58,587)	(163,566)
Gain / (loss) generated by CPT payers (Ukrainian operations)	144,607	(11,614)
Loss generated by CPT payers (Foreign operations)	(28,456)	(1,374)
Income tax at the rate applicable in Ukraine (2012: 21%, 2011: 23%)	30,367	(2,671)
Income tax rate at the rate applicable in Cyprus (10%)	(2,846)	(137)
Tax effect of non-taxable income	(29,552)	-
Tax effect of non-deductible expenses	2,476	3,408
Income tax expense	445	600

Deferred income tax as at 31 December relates to the following:

	2011	(Charged) / credited to profit and loss	Charged to other comprehensive income	2012
Deferred tax asset / (liability):				
Property, plant and equipment (i)	(2,165)	241	-	(1,924)
Prepayments made (ii)	(393)	393	-	-
Net deferred tax liability	(2,558)	634	-	(1,924)

	2010	(Charged) / credited to profit and loss	Charged to other comprehensive income	2011
Deferred tax asset / (liability):				
Property, plant and equipment (i)	(1,072)	758	(1,851)	(2,165)
Advances received	640	(640)	-	-
Prepayments made (ii)	(237)	(156)	-	(393)
Net deferred tax asset / (liability)	(669)	(38)	(1,851)	(2,558)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

10. Income tax (continued)

The nature of the temporary differences is as follows:

(i) Property, plant and equipment – differences in depreciation patterns and estimates of the remaining useful lives, different cost basis (fair value vs. historical cost).

(ii) Prepayments made – differences in the period of recognition.

As at 31 December 2012, the Group has not recognised deferred tax liability of USD 96,371 thousand (2011: USD 104,739 thousand) in respect of temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not have any plans that could lead to reversal of these differences in the foreseeable future.

11. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012	2011
Net profit attributable to ordinary equity holders of the parent	174,293	149,978
Weighted average number of ordinary shares for basic earnings per share	4,250,010	4,250,010
Net profit per share attributable to ordinary equity holders of the parent	0.04	0.04

There have been no transactions involving ordinary shares or potential ordinary shares, other than issue of share capital in 2007 and 2008, and issue share purchase warrant in 2010. The Company had 113,515 authorized ordinary shares not issued as at 31 December 2012 (2011: 113,515).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

12. Property, plant and equipment

	Freehold land, buildings and constructions	*Plant and machinery*	*Motor vehicles*	*Tools and devices*	*Construction in progress*	*Total*
Cost or revalued amount:						
At 1 January 2011	79,801	65,473	10,455	2,621	35,785	194,135
Translation to presentation currency	(364)	(359)	(64)	(15)	(416)	(1,218)
Additions and transfers	8,287	43,285	9,544	1,767	103,177	166,060
Acquired though business combination (Note 8)	21,904	3,093	418	116	-	25,531
Revaluations	16,325	15,182	3,812	2,303	-	37,622
Devaluation	(2,981)	(1,224)	(275)	(80)	-	(4,560)
Disposals	(149)	-	(174)	-	-	(323)
At 31 December 2011	122,823	125,450	23,716	6,712	138,546	417,247
Translation to presentation currency	(114)	(58)	(11)	(3)	(58)	(244)
Additions and transfers	246,649	29,523	5,384	2,217	8,810	292,583
Acquired though business combination (Note 8)	10,621	20	-	153	-	10,794
Disposals	(179)	(257)	(155)	(91)	-	(682)
At 31 December 2012	379,800	154,678	28,934	8,988	147,298	719,698
Accumulated depreciation and impairment:						
At 1 January 2011	3,102	8,364	879	838	-	13,183
Translation to presentation currency	(26)	(47)	(5)	(6)	-	(84)
Depreciation charge for the year	5,370	6,360	798	933	-	13,461
Revaluations	5,605	2,759	357	1,195	-	9,916
Devaluation	(90)	(308)	(39)	(26)	-	(463)
Disposals	(12)	-	(24)	-	-	(36)
At 31 December 2011	13,949	17,128	1,966	2,934	-	35,977
Translation to presentation currency	(7)	(10)	(1)	(1)	-	(19)
Depreciation charge for the year	6,444	12,548	2,875	980	-	22,847
Disposals	(8)	(17)	(48)	(40)	-	(113)
At 31 December 2012	20,378	29,649	4,792	3,873	-	58,692
Net book value						
At 1 January 2011	76,699	57,109	9,576	1,783	35,785	180,952
At 31 December 2011	108,874	108,322	21,750	3,778	138,546	381,270
At 31 December 2012	359,422	125,029	24,142	5,115	147,298	661,006

Pledged assets

As at 31 December 2012 property, plant and equipment with a carrying value of USD 92,812 thousand (2011: USD 93,268 thousand) is pledged as security for the Group's bank loans (Note 21).

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2012 was USD 1,446 thousand (2011: USD 1,714 thousand), being the interest costs incurred in connection with borrowing funds specifically for the purpose of obtaining qualifying assets.

Finance lease

The carrying value of plant and equipment held under finance leases at 31 December 2012 amounted to USD 44,145 thousand (2011: USD 45,707 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

12. Property, plant and equipment (continued)

Revaluation

After initial recognition, the Group carries its land and buildings, plant and machinery, motor vehicles and tools and devices at fair value. These classes of assets were revalued as at 30 November 2011 based on fair values determined by accredited independent appraiser, DK Expert LLC. The management believes that no significant changes in fair values occurred between 30 November 2011 and 31 December 2012.

The fair values of property, plant and equipment were determined by reference to market based evidence using the market approach or depreciated replacement cost approach as appropriate. This means that valuations performed by the appraiser are based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset.

If land and buildings, plant and machinery, motor vehicles and tools and devices were measured using the cost model, the carrying amounts would be as follows:

	Carrying amount	
	2012	2011
Freehold land and buildings	310,262	56,474
Plant and machinery	111,956	88,480
Motor vehicles	22,466	17,907
Tools and devices	3,955	2,797

Sales and lease back arrangements

In 2012, the Group entered in several sales and lease back transactions with finance lease companies, whereby the Company sold property, plant and equipment for a total cash consideration of USD 3,948 thousand, and then leased back these items of property, plant and equipment on terms of the relevant finance leases (2011: USD 29,663 thousand).

13. Prepaid lease expenses

The movement in prepaid lease expenses was as follows:

	Cost	*Accumulated amortisation*	*Net book value*
At 1 January 2011	28,147	(2,726)	25,421
Foreign currency translation	(373)	22	(351)
Acquired through business combination (Note 8)	99,083	-	99,083
Prepayments for land lease rights	484	-	484
Charge for the year	-	(3,962)	(3,962)
At 31 December 2011	127,341	(6,666)	120,675
Foreign currency translation	(63)	9	(54)
Acquired through business combination (Note 8)	10,178	-	10,178
Prepayments for land lease rights	23,108	-	23,108
Re-issuance of land lease agreements	20,935	-	20,935
Charge for the year	-	(24,538)	(24,538)
At 31 December 2012	181,499	(31,195)	150,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

14. Other non-current assets

Other non-current assets consisted of the following as at 31 December:

	2012	2011
Prepaid consideration for acquisition of subsidiaries	32,085	19,985
VAT	19,961	8,330
	52,046	28,315

15. Biological assets - Consumable

Biological assets – Consumable consisted of the following as at 31 December:

	2012	2011
Un-harvested crops	182,858	108,668
Cattle	1,964	3,158
	184,822	111,826

A reconciliation of changes in the carrying amount of biological assets for the year ended 31 December 2012 is as follows:

		2012	2011
As at 1 January		111,826	110,706
Translation to presentation currency		(63)	(394)
Acquired through business combination (Note 8)		318	1,402
Costs incurred during the year	(i)	208,048	126,338
Net gain on initial recognition of biological assets and agricultural produce and on change in fair value of biological assets	(ii)	215,102	157,350
Crops harvested during the year	(iii)	(350,409)	(283,576)
As at 31 December		184,822	111,826

(i) Costs incurred during the year are as follows:

	2012	2011
Raw materials	137,079	87,298
Depreciation and amortisation	38,129	14,005
Land lease expenses	20,263	11,192
Staff costs	7,540	4,956
Services	3,751	8,609
FAT	1,286	278
	208,048	126,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

15. Biological assets - Consumable (continued)

(ii) Gain arising from change in fair value less estimated costs-to-sell represents the aggregate gain or loss arising during the period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs-to-sell of biological assets. A discounted cash flow model was used to determine the fair values of biological assets.

(iii) Crops harvested during the year are initially recognised at fair value less costs-to-sell at the point of harvest. The fair value of agricultural produces determined by reference to domestic prices for crops at the point of harvesting as adjusted for expected costs to sell.

The carrying amounts of un-harvested crops as at 31 December are as follows:

	2012		*2011*	
	Hectares	*Amount*	*Hectares*	*Amount*
Winter wheat	137,555	151,874	140,000	92,315
Winter rape	30,060	30,387	40,000	16,353
Winter rye	1,818	597	-	-
Carrying amount	169,433	182,858	180,000	108,668

16. Inventories

Inventories consisted of the following as at 31 December:

	2012	2011
Agricultural produce (at cost or net realisable value)	84,542	69,604
Work in progress (at cost)	32,740	8,828
Raw materials (at cost)	4,371	5,291
Spare parts (at cost)	1,810	1,711
Other inventories (at cost)	3,153	2,338
	126,616	87,772

As at 31 December 2012 agricultural produce with the carrying value of USD Nil (2011: USD 243 thousand) was pledged as collateral for interest-bearing loans and borrowings (Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

17. Trade and other receivables

Trade and other receivables consisted of the following as at 31 December:

	2012	2011
Trade receivables from third parties	17,956	10,512
Trade receivables from related parties (Note 27)	28,613	69,158
Loans granted to related parties (Note 27)	162	28,616
	46,731	108,286

Trade receivables from third parties are non-interest bearing and are generally settled on 1-5 day terms. For larger customers the Group grants credit for up to 90 days. For terms and conditions of related party balances refer to Note 27.

18. Cash and bank deposits

Cash at bank earned interest at fixed rates that varied from 0.5% to 2% per annum.

Bank deposits earned interest at fixed rates of 3.85%-4% (2011: 5.5%-16.7%) per annum depending on the maturity period. Short-term deposits were placed for periods varying between three months and one year depending on the Group's immediate cash requirements.

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise the following at 31 December:

	2012	2011
Cash at bank	2,030	44,391
	2,030	44,391

19. Other current assets

Other current assets consisted of the following as at 31 December:

	2012	2011
VAT and other taxes receivable	18,376	20,394
Prepayments made	6,622	6,660
	24,998	27,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

20. Issued capital and reserves

Share capital

As at 31 December 2012 and 2011, the authorized, issued and fully paid share capital of the Company was as follows:

	Number of shares	
	2012	*2011*
Number of shares authorised for issue	4,363,525	4,363,525
Number of shares issued and fully paid	4,250,010	4,250,010

The issued and fully paid capital of the Company as at 31 December 2012 was USD 63 thousand represented by 4,250,010 ordinary shares with par value of EUR 0.01 each.

Contribution in capital

In 2010, the Group received gratis contribution of property, plant and equipment from members of Guta family, who exercise ultimate control over the Group. The fair value of such property, plant and equipment on the contribution date was USD 33,364 thousand.

Also, in 2010, Guta family members paid, on behalf of the Group, USD 316 thousand for the Group's acquisition of 100% participation interest in Slobidka Smotrytska LLC.

Retained earnings

The Company's ability to pay dividends depends upon the receipt of dividends and distributions from its Ukrainian subsidiaries.

In accordance with local legislation, the Ukrainian subsidiaries can distribute all statutory profits as dividends or transfer them to reserves as specified in their charters. Subsequent use of amounts transferred to reserves may be legally restricted; amounts transferred to reserves typically must be used for the purpose designated when the transfer is made. Profit distributions by Ukrainian entities are normally only declared from current or accumulated earnings as shown in the Ukrainian statutory financial statements, and not out of amounts previously transferred to reserves.

The retained earnings presented in these consolidated financial statements include certain adjustments relating to Ukrainian subsidiaries, which are appropriate for presenting the financial position of the Group in accordance with International Financial Reporting Standards as adopted by the European Union. Accordingly, retained earnings included in the consolidated statements of financial position as at 31 December 2012 and 2011 do not show the amount of distributable reserves available to the shareholders. As at 31 December 2012 and 2011, the unaudited financial statements of the Ukrainian subsidiaries prepared in accordance with Ukrainian Accounting Standards show a combined amount of distributable reserves (accumulated profit of current and previous years) of USD 458,910 thousand and USD 455,387 thousand, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

20. Issued capital and reserves (continued)

Other reserves

Movement in other reserves comprised:

	Assets revaluation reserve	*Foreign currency translation reserve*	*Total*
Balance at 1 January 2011	52,286	(74,729)	(22,443)
Foreign currency translation	-	(2,100)	(2,100)
Revaluation, net of tax	23,270	-	23,270
Balance at 31 December 2011	75,556	(76,829)	(1,273)
Foreign currency translation	-	1,523	1,523
Balance at 31 December 2012	75,556	(75,306)	250

Asset revaluation reserve is used to record increases in the fair value of land and buildings, plant and machinery, motor vehicles, tools and devices and decreases to the extent that such decreases relate to increases on the same assets previously recognised in equity.

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements into presentation currency.

21. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following as at 31 December:

	2012	2011
Current		
Interest-bearing loans and borrowings	143,050	79,016
Interest accrued	9,719	8,787
Current portion of long-term loans and borrowings	22,501	25,180
	175,270	112,983
Non-current		
Interest-bearing loans and borrowings	283,508	263,209
Less: current portion of long-term loans and borrowings	(22,501)	(25,180)
	261,007	238,029
Total interest-bearing loans and borrowings	436,277	351,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

21. Interest-bearing loans and borrowings (continued)

As at 31 December interest rate and currency split for interest-bearing loans and borrowings were as follows:

	Contractual interest rate per annum, 2012-2011	Maturity	2012	Maturity	2011
UAH					
Fixed rate	8.7-18%	-	-	2012	9,636
Floating rate	Libor + 8.5%, Kievmid + 6%	-	-	2012	13,257
			-		22,893
EUR					
Fixed rate	10.75%	2013	6,010	-	-
Floating rate	Euribor + 5.6%	2016	17,414	-	-
			23,424		-
USD					
Fixed rate	8-10.95%	2013-2017	287,381	2012-2016	257,977
Floating rate	Libor + 5-7.5%	2013-2018	125,472	2012-2017	70,142
			412,853		328,119
			436,277		351,012

As at 31 December 2012, interest-bearing loans and borrowings included USD 25 million credit facility (the "C Loan") provided by the International Finance Corporation ("IFC"). According to the agreement with IFC, the loan is repayable on 15 May 2013 by equal portions of USD 2,778 thousand payable each half-year till 15 May 2017. As a precondition to drawing this loan, the Company was obligated to enter into the share purchase agreement with IFC (Note 24). The C Loan agreement was classified as current liability in these consolidated financial statements, because the Company may be required to make early repayment of the loan upon exercise of the warrant by IFC at any time within five years from the date of the C Loan agreement.

The Group has to comply with certain covenants imposed by the banks providing the loans. The main covenants which are to be complied with by the Group are as follows: current ratio, liabilities to tangible net worth, prospective debt service coverage ratio and a ratio of short-term debt to the sum of accounts receivable, inventories and current biological assets. As at 31 December 2012, the Group complied with these main covenants.

As at 31 December the Group's interest-bearing loans and borrowings were secured as follows:

Type of collateral	2012	2011
Property, plant and equipment (Note 12)	92,812	93,268
Inventories (Note 16)	-	243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

22. Long-term payables

As at 31 December 2012, long-term payables represent USD 29,676 thousand due for machinery purchased in 2010 - 2012 (2011: USD 23,046 thousand). The following table represents the contractual payments under the respective purchase contracts and amortised cost of those payments as at 31 December each year:

	Payments		Amortised cost	
	2012	2011	2012	2011
Payable within one year	14,218	9,324	13,531	8,887
Payable in second to fifth year inclusive	35,827	27,972	29,676	23,046
Total payments	50,045	37,296	43,207	31,933
Less: Unamortised discount	(6,838)	(5,363)	-	-
Amortised cost	43,207	31,933	43,207	31,933

23. Trade and other payables

Trade and other payables consisted of the following as at 31 December:

	2012	2011
Payables for property, plant and equipment	30,930	13,116
Trade payables	30,413	15,814
Rent payable	3,258	1,468
Trade payables to related parties	1,996	3,631
Unused vacation accrual	1,367	768
Payroll	1,299	874
Loans received from related parties	303	1,987
Other payables	936	663
	70,502	38,321

Trade and other payables are non-interest bearing and are generally settled on 30-90 day terms, except for some interest-bearing payables for property, plant and equipment (Note 22).

24. Share purchase warrant

	2012	2011
Share purchase warrant	2,848	5,178
	2,848	5,178

Pursuant to a share purchase warrant dated 10 June 2010 entered into between the Company and IFC, the Company has granted IFC the right to purchase up to 2.041% of the Company's issued shares for a total amount up to USD 25 million at an exercise price determined according to a formula set out in the share purchase warrant. The warrant is exercisable any time during five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

24. Share purchase warrant (continued)

As at 31 December 2012 the fair value of share purchase warrant was determined using Black-Scholes model based on the following inputs:

- the current stock price of USD 105 was taken from Bloomberg (2011: USD 193),
- the strike price equals USD 25 million divided by number of shares under the warrant (USD 288),
- risk-free interest rate was 7.37% (2011: 10.25%) and
- the volatility was determined on the basis of historical information as 38.44% (2011: 50.66%).

The share purchase warrant belongs to level 2 (i.e. other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly) in the hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

25. Other current liabilities

Other current liabilities consisted of the following as at 31 December:

	2012	2011
VAT and other taxes payable	4,106	1,516
Advances received	1,734	206
	5,840	1,722

26. Commitments and contingencies

(i) Tax risks

The Group conducts the majority of its operations in Ukraine. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange controls and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities and other Governmental bodies as well as by the courts. Instances of inconsistent interpretations are rather usual and thus there is no clear guidance on the position of the authorities and the courts on most subjects.

As part of its operating activities, the Group is involved in certain transactions, which may be regarded as having an economic substance different from their legal form, as determined and treated by the Ukrainian tax legislation.

The Group management believes that the Group has sufficient basis to support its compliance with all regulations, and that it has paid and accrued all taxes that are applicable. However, it is possible that the relevant governmental authorities may attempt to assess additional income and other taxes and fines against the Group. Such possible tax contingencies could materialize and require the Group to pay additional taxes up to approximately USD 8,280 thousand as at 31 December 2012 (2011: USD 4,718 thousand).

(ii) Capital commitments

As at 31 December 2012 the Group had outstanding commitments for the purchase of property, plant and equipment in amount of USD 147,808 thousand (2011: USD 159,687 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

26. Commitments and contingencies (continued)

(iii) Lease commitments

Finance lease

Finance lease obligations represent mainly the amounts due for the lease of agricultural machinery and equipment. As at 31 December 2012 and 2011, future minimum lease payments under finance lease together with the present value of the net minimum lease payments were as follows:

	Payments		Amortised cost	
	2012	2011	2012	2011
Payable within one year	14,022	12,167	13,664	11,445
Payable in second to fifth year inclusive	27,516	31,046	21,235	24,095
Total payments	41,538	43,213	34,899	35,540
Less: Unamortised discount	(6,639)	(7,673)	-	-
Amortised cost	34,899	35,540	34,899	35,540

Operating lease – group as a lessee

The Group has entered into, or acquired from third parties, commercial lease agreements for land. These leases have an average term of 5-10 years for land lease agreements on farming land and 49 years for land lease agreements on land for buildings.

At the end of each of the lease terms, the lessee has the option to renew the lease agreements. To exercise the renewal option, the lessee is required to give notice to the lessor of such renewal not later than 30 days before the end of the lease term.

As at 31 December 2012 and 2011 future minimum rentals payable under non-cancellable operating leases were as follows:

	2012	2011
Within one year	27,655	13,291
More than one year but not more than five years	92,858	40,102
More than five years	34,435	22,001
	154,948	75,394

As at 31 December 2012, the Group also had commitments related to rent payments for office premises including USD 1,293 thousand (2011: USD 1,875 thousand), and USD Nil (2011: USD 2,620 thousand) payable in the next four years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

27. Related party disclosures

In the course of the business, the Group companies enter into transactions with related parties that are entities under common control of Guta family members and, to lesser extent – with the key management personnel.

Terms and conditions of transactions with related parties are determined in each individual case based on the specific arrangements between the parties involved. Management believes that amounts due from related parties are not impaired and that the amounts payable to related parties will be settled at cost.

The transactions with related parties during the years ended 31 December 2012 and 2011 were as follows:

		2012	*2011*
Sales of goods and services to entities under common control	(i)	59,339	111,774
Loans (repaid by) / granted to entities under common control	(ii)	28,454	(24,915)
Purchases of inventories and services from:			
- entities under common control	(iii)	(4,509)	(674)
- key management personnel		-	(53)
Purchase of property, plant and equipment	(iv)	(16,475)	(36,207)
Payments to equity holders of the parent reinvested to the Group's business	(v)	(26,303)	(6,074)

The balances due from and owed to related parties as at 31 December were as follows:

		2012	*2011*
Trade receivables due from:			
- entities under common control	(i)	28,613	68,908
- key management personnel		-	250
Loans granted to entities under common control	(ii)	162	28,616
Trade and other payables owed to:			
- entities under common control	(iii)	2,149	5,618
- key management personnel		671	648
Advances received from entities under common control	(i)	352	-

(i) Sales of goods and services to entities under common control and related accounts receivable and advances received

In 2012, the Group earned USD 54,949 thousand of revenues from sales of agricultural produce to the entities under common control (2011: USD 109,353 thousand). This constitutes approximately 17% of total sales of agricultural produce for the year ended 31 December 2012 (2011: 43%).

Initial pricing and volumes of agricultural produce to be sold by the Group are agreed by the parties before the start of operational season. The pricing arrangements imply that the Group's consideration for the agricultural produce sold approximates total proceeds from sale of the products processed from such agricultural produce by entities under common control after deduction of their margin and cost of processing.

Also, the Group entities sold other goods and rendered services to entities under common control.

The related trade receivables due from related parties as at 31 December 2012 and 2011 are unsecured, non-interest bearing, and are normally settled in cash on one to nine months terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

27. Related party disclosures (continued)

In 2012, the Group recognised finance costs of USD 982 thousand on initial recognition of trade receivables from related parties at fair value (2011: USD 7,066 thousand) and finance income of USD 5,388 thousand from subsequent measurement of these balances at amortised cost (2011: USD 4,884 thousand).

(ii) Loans granted to and received from entities under common control

Loans granted to and received from entities under common control are unsecured and non-interest bearing, except for USD 4,988 thousand facilities granted in 2011, which bear interest at fixed rate of 4% per annum.

In 2012, the Group recognised finance costs of USD 133 thousand on initial recognition of loans granted to entities under common control at fair value (2011: USD 7,105 thousand). In 2011, the Group recognised finance income of USD 8,322 thousand from subsequent measurement of these balances at amortised cost.

(iii) Purchase of inventory and services

In the course of business, the Group entities make some purchases from entities under common control, including mostly transportation, storage, rental and consulting services. The related costs incurred were included in cost of sales, administrative and selling expenses as appropriate.

(iv) Purchases of property, plant and equipment

In 2012, the Group purchased property, plant and equipment from entities under common control and equity holders of the parent for total cash consideration of USD 16,475 thousand (2011: USD 36,207 thousand).

The entity under common control participates in the construction of most significant property, plant and equipment items mainly by controlling the construction process.

(v) Payments to equity holders of the parent reinvested to the Group's business

In 2012, the Group companies entered into a series of transactions with each other and with the equity holders of the parent, aimed at redistributing financial resources so that some of Group's entities could discharge certain contractual obligations. In the course of such transactions, the Group entities paid USD 26,303 thousand to equity holders of the parent (2011: USD 6,074 thousand). These payments were subsequently reinvested to the Group's business in the form of land lease payments and purchased plant and equipment.

(vi) Compensation to management personnel

Key management personnel consist of six top executives and two non-executives of the Group (2011: six top executives and two non-executives). In 2012 total compensation to these key management personnel, included in administrative expenses – staff costs, amounted to USD 6,638 thousand (2011: USD 6,612 thousand). The amounts not paid as at 31 December 2012 and 2011 are included in trade and other payables.

(vii) Loans from entities under common control

Trade accounts payable as at 31 December 2012 include non interest-bearing loans from entities under common control of USD 303 thousand (2011: USD 1,987 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

28. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated statements of financial position:

	Carrying amount		*Fair value*	
	2012	*2011*	*2012*	*2011*
Financial assets				
Long-term receivables	478	479	478	479
Trade and other receivables	46,731	108,286	46,731	108,286
Cash and bank deposits	103,863	184,297	103,863	184,297
Financial liabilities				
Interest-bearing loans and borrowings	436,277	351,012	446,311	364,921
Finance lease liability	34,899	35,540	33,128	33,814
Long-term payables	29,676	23,046	23,107	20,616
Trade and other payables	70,502	38,321	70,502	38,321
Share purchase warrant	2,848	5,178	2,848	5,178

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values.

Fair value of long-term interest-bearing loans and borrowings, finance lease liability and long-term payables is estimated by discounting the expected future cash outflows by a market rate of interest or, in the case of publicly traded debt – based on the market quotations. The fair value of share purchase warrant was determined using the Black-Scholes model (Note 24).

29. Financial risk management objectives and policies

The Group's principal financial liabilities, other than finance lease liability and derivative, comprise interest-bearing loans and borrowings, trade and other payables and long-term payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has various financial assets, such as trade and other receivables, long-term receivables, cash and bank deposits, which arise directly from its operations. The Group has not entered into any derivative arrangements, except for the share purchase warrant with IFC (Note 24).

The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. Risk management is carried out by the Group's senior management and shareholders who together exercise ultimate control over the Group.

The Group is exposed to market risk, credit risk and liquidity risk. The policies for managing each of these risks are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payables and finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

29. Financial risk management objectives and policies (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt with floating interest rates, mainly linked to LIBOR.

The following tables demonstrate the Group's sensitivity to a reasonably possible change in interest rates. The analyses were applied to interest-bearing loans and borrowings based on the assumption that the amount of liability outstanding at the reporting date was outstanding for the whole year.

2012	*Increase/decrease in Interest rate*	*(Decrease)/Increase of profit before tax*
LIBOR	+0.05%	(58)
LIBOR	-0.05%	58
EURIBOR	+0.16%	(29)
EURIBOR	-0.16%	29

2011	*Increase/decrease in Interest rate*	*(Decrease)/Increase of profit before tax*
LIBOR	+0.15%	(105)
LIBOR	-0.15%	105

The Group has not entered into transactions designed to hedge against the interest rate risk.

Foreign currency risk

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies. Such exposure arises from sales or purchases by the Group's entities in currencies other than their respective functional currencies. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following tables demonstrate the Group's sensitivity to a reasonably possible change in the exchange rates of Ukrainian hryvnia to US dollar and EUR. The analyses were applied to monetary assets and liabilities denominates in foreign currencies at the reporting dates.

31 December 2012	*Increase/decrease in foreign currency exchange rates*	*(Decrease)/Increase of profit before tax*
UAH/EUR	+12.67%	(7,904)
UAH/EUR	-12.67%	7,904
UAH/USD	+7.10%	(30,862)
UAH/USD	-7.10%	30,862

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

29. Financial risk management objectives and policies (continued)

31 December 2011	*Increase/decrease in foreign currency exchange rates*	*(Decrease)/Increase of profit before tax*
UAH/EUR	+27.20%	(9,509)
UAH/EUR	-27.20%	9,509
UAH/USD	+23.25%	(74,551)
UAH/USD	-23.25%	74,551

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and bank loans and borrowings.

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group reallocates resources and funds among Group entities to achieve optimal financing of the business needs of each entity.

The tables below summarise the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments as at 31 December 2012 and 2011:

31 December 2012	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	25,000	85,036	95,785	343,137	-	548,958
Finance lease liability	-	3,664	10,358	27,516	-	41,538
Long-term payables	-	-	-	35,827	-	35,827
Trade and other payables	-	60,454	10,568	-	-	71,022
	25,000	149,154	116,711	406,480	-	697,345

31 December 2011	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Interest-bearing loans and borrowings	25,000	67,852	51,575	349,176	65	493,668
Finance lease liability	-	3,117	9,050	31,046	-	43,213
Long-term payables	-	-	-	27,972	-	27,972
Trade and other payables	-	24,318	14,440	-	-	38,758
	25,000	95,287	75,065	408,194	65	603,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

29. Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The financial instruments, which potentially expose the Group to significant concentrations of credit risk, consist principally of cash in banks, and trade and other receivables. The Group's maximum credit risk exposure at 31 December 2012 comprised USD 150,594 thousand (2011: USD 292,583 thousand).

Credit risk is managed in accordance with the procedures established by the Group's senior management. Credit evaluations are performed for all customers requiring credit over a certain amount in accordance with the criteria approved by the management. The credit risk exposure is regularly monitored and analysed on a case-by-case basis. The Group does not require collateral as security for the financial assets.

At 31 December 2012, the Group had 9 customers (2011: 7 customers) that owed the Group more than USD 1,000 thousand each and collectively accounted for approximately 73% (2011: 83%) of all receivables.

In 2011, the Group generated revenue of USD 41,387 thousand (15.4% of net revenues) from sales to one significant customer.

As at 31 December 2012 and 2011 the ageing of the Group's trade and other receivables was as follows:

		Past due, but not impaired				
	Neither past due, nor impaired	*Less than 3 months*	*3-6 months*	*6-12 months*	*More than 12 months*	*Total*
2012	33,760	5,570	3,108	3,474	819	46,731
2011	102,275	3,416	849	1,374	372	108,286

Capital risk management

The Group considers debt and shareholders' equity as primary capital sources. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements and capital expenditures and sustain the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital to ensure and maintain flexibility relating to the Group's access to capital markets.

No changes were made in the objectives, policies or processes of capital risk management during the year ended 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012
(in thousands of US dollars)

29. Financial risk management objectives and policies (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt its interest-bearing loans and borrowings, finance lease liability, trade and other payables, share purchase warrant less cash and bank deposits.

	2012	2011
Interest-bearing loans and borrowings (Note 21)	436,277	351,012
Finance lease liability (Note 26)	34,899	35,540
Long-term payables (Note 22)	29,676	23,046
Trade and other payables (Note 23)	70,502	38,321
Share purchase warrant (Note 24)	2,848	5,178
Less cash and bank deposits (Note 18)	(103,863)	(184,297)
Net debt	470,339	268,800
Total equity attributable to parent	771,219	595,403
Total capital and net debt	1,241,558	864,203
Gearing ratio	38%	31%

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy. The Group's policy is to keep the gearing ratio below 40%.

30. Events after the reporting period

In 2013, two of the Group's subsidiaries terminated of the certain sales contracts entered into during the year ended 31 December 2012. Subsequently, the customer returned agricultural produce that the Group has supplied in 2012 and, accordingly, the Group derecognized trade accounts receivable of USD 2,866 thousand.