

A wide, flat green field, likely a grassland or pasture, stretches towards a distant horizon. The sky is overcast and grey. On the right side, a line of tall, thin trees stands in a row. The overall scene is a landscape photograph used as a background for a report.

Management report on 2012 achievements and developments

Chairman's statement

Dear investors and partners,

Now we are pleased to inform you about achievements and developments of 2012 financial year.

First, I would like to emphasize that our strategy goal remains the same – to create the leading Ukrainian vertically integrated, diversified agricultural holding, while providing sustainability and profitability to society and shareholders.

In this context, we have:

- Increased our arable land bank by 31,000 ha, and total land bank to 92,000 ha;*
- Strengthened our processing capacities significantly by acquiring a flour milling complex ("Pererobnyk" JSC) and oil crushing facilities ("Agrotechnologiya" LLC);*
- Sowed 1.63 times more winter crops than we did in the prior year;*
- Moved further in reconstruction of our pig breeding complex.*

These achievements in 2012 came in the face of many challenges, related mainly to poor weather conditions, which adversely affected our financial results.

We continue to believe the industry and market opportunities are still attractive and promising, which makes us strongly believe that the 2013 financial year (assuming average for region weather conditions during vegetation period) we will benefit from the investments made in 2011 and 2012.

Despite negative factors, KSG Agro Group is generating healthy cash flow and margins, which helps us to feel confident about our future.



*Chairman of the board,
Sergiy Kasianov*

Management report

- 1 Operating environment and Ukrainian market
- 2 Strategy implementation in 2012
- 3 Corporate governance
- 4 Internal control system
- 5 Information with respect to Article 11 of the Law of 19 May 2006 on takeover bids
- 6 Financial and operational results
- 7 Subsequent events
- 8 Business and financial risks
- 9 Forecasts
- 10 Selected financial data

1. Operating environment and Ukrainian market

The general economic 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 is 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 more developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The country is experiencing a decline in gross domestic product, capital markets instability, significant deterioration in the liquidity of the banking sector, and tighter credit conditions.

While 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. In addition, the government has in the past introduced temporary restrictions on agricultural exports and introduced quotas to protect the domestic agriculture markets.

These things affect the Group's financial position, results of operations and business prospects.

The Ukrainian agricultural sector and its potential

The agricultural sector remains one of the most promising in Ukraine and many experts believe it has the greatest investment potential.

Additionally, according to U S -Ukraine Business Council (USUBC), the global environment is excellent for Ukrainian agricultural development.

Ukraine, in the near future, has the potential to be a much stronger global player in the agricultural sector, because:

1. Ukraine has more agricultural territory than any other country in Europe, 11.7% (32.4 M ha or 80.1 M acres) of Europe's arable land.
2. The country offers a unique climate and geographical benefits:
 - Ukraine accounts for 1/3 of the world's black soil
 - the average depth of the humus layer in Ukraine is 40-60 cm, (compared to Europe which is 5-30 cm.)
 - a stable continental climate accommodates a wide variety of grain, oilseed and vegetable production
 - strategically located in the middle of a large and growing global trade zone with access to Black Sea shipping links.
3. Ukraine is one of the world's leading grain and oils exporters.

4. Ukraine is a leading producer of grain and oilseeds with significant room for expansion and improvement:
- Grain and oilseeds is produced on 80.5% of Ukraine's arable farmland.
 - Future production will benefit from increased yields and additional farmland bought back under grain production.
 - With the appropriate policies and investment, the grain harvest in Ukraine could increase to over 100 million tonnes per year (more than 2.5 times the production in 2010).

Average crop yields in Ukraine are still lower than in Western Europe. Decades of poor management and under-investment have resulted in crop yields far below the country's potential.

Ukraine still has significant room to improve yields and increase margins. Crop yields are estimated to be able to rise by 50% just through the use of new technologies. Exemplary Ukrainian farmers adopting Western agronomic techniques are already consistently achieving US and EU yields.

Ukraine offers numerous cost advantages over its western neighbours, such as comparatively low labor costs, land pricing, and cost optimization opportunities that could result from economies of scale being applied to Ukrainian farming.

Additional keys to successful agricultural growth in Ukraine is effective government policies and reforms, a supportive tax regime that creates a pro-business and investment environment, and private and competitive markets. All of these should facilitate a major inflow of investment into the sector.

2. Strategy implementation in 2012

In 2012 the Company and its subsidiaries (hereinafter «the Group» or «KSG Agro» or «the Company») continued to implement its development strategy announced during its initial public offering (“IPO”):

Strategy	Strategy implementation results in 2012
<p>Land bank expansion and improvement of land bank usage efficiency</p> <ul style="list-style-type: none"> • Focus on land bank expansion via acquisition of agricultural entities with land lease rights as well as on organical growth through attracting new land owners • Development of land bank as land cluster model, which assumes highly concentrated location of fields and self sufficiency in farming infrastructure of each cluster • Land bank expansion in prime quality agricultural areas, in the so-called black earth belt, with favourable weather conditions adding to its operational efficiency • Improvement of fertilization and cultivation approaches, accompanied by higher penetration of modern agricultural technologies will lead to further increase in efficiency of main crops harvesting • Deeper vertical integration via development of food processing segment, in order to increase profitability and mitigate risks from crops’ prices volatility • Modernization of existing irrigation infrastructure across more than 2,000 ha and expansion of irrigated land up to 5,000 ha by 2016 	<ul style="list-style-type: none"> • In 2012 KSG Agro SA increased its land bank under control to 92 thousand hectares (an increase of 50%) • Since its IPO, the Group increased its grain storage capacities from approximately 60 thousand tonnes to approximately 120 thousand tonnes and motor vehicles from 584 units to 1,211 units • Moved further in reconstruction of the Group’s pig breeding complex

<p>Revenue diversification</p> <ul style="list-style-type: none"> • Further development of new business segments, in particular, fuel agro-pellet production and pig breeding and bring their share in the Group's revenues to about 30% by 2015 • Diversification of operations also helps to maintain liquidity at sufficient level through the whole financial year, consequently contributes to solving problems of seasonal cash flow, which is attributable to companies of agricultural sector 	<ul style="list-style-type: none"> • The Group 365 tonnes acquired flour milling capacity of per day, animal feed-stuff production capacity of 200 tonnes per day, and groats production of 70 tonnes per day. • The Group purchased facilities for processing of 14,400 tonnes of sunflower seed per year, and oil crushing output of approximately 5,760 tonnes per year.
--	---

Development of KSG AGRO

As at 31 December 2012, KSG Agro is an agricultural holding with total controlled land bank of approximately 92 thousand hectares.

The Group is primarily engaged in the production of grains such as sunflowers, wheat, barley, winter coleseed (rape) and soybeans, vegetables production and groceries products such as flour, cereals, macaroni and oil processed from wheat and sunflower seeds. In addition the Group breeds animals for meat and milk production.

KSG Agro S.A. was incorporated under the name Borquest S.A. on 16 November 2010 (date of incorporation) as a "Société Anonyme" under Luxembourg company law and for an unlimited period. On 8 March 2011, the Company's name changed into the current denomination. The registered office of the Company is established in Luxembourg, 46A avenue J.F. Kennedy, L-1855 Luxembourg and the Company number with the Registre de Commerce is B 156 864. The Company's financial year begins on 1st January and closes on 31st December. In 2012, the Group obtained control over the following farming and processing companies:

Pererobnyk JSC (Ukraine)

Agroplaza LLC (Ukraine)

Stepove LLC (Ukraine)

Dzherelo LLC (Ukraine)

Kolosyste LLC (Ukraine)

Prudy LLC (Ukraine)

Kirovske LLC (Ukraine)

Uyutne LLC (Ukraine)

Yelizavetove LLC (Ukraine)

Hlibodar LLC(Ukraine)

Trading house World Food LLC (Ukraine)

3. Corporate governance

The Board of Directors (the "Board") observes the majority of the rules of the Warsaw Stock Exchange corporate governance rules included in the "Code of Best Practice for WSE Listed Companies" to the form and extent determined by Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated 21 November 2012. This Code of Best Practice for WSE Listed Companies is available at the official website of the Warsaw Stock Exchange: http://www.corp.gov.gpw.pl/lad_corp.asp

The Board of Directors consists of five members, three of which hold executive roles (Directors A), and two non-executive directors (Directors B)

The Board nominates at least three members to its Audit Committee, which performs a review and evaluation, at least annually, of its performance, members' performance, and the internal audit department performance, including reviewing compliance with the Company's authorized charter and instructions.

Mr. Sergiy Kasianov, chairman of the Board of Directors, has a significant indirect holding of securities in the Company. No other person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the Company's share capital.

There are no restrictions on voting rights.

Appointment and replacement of Directors and amendments to the Articles of Association

With regard to the appointment and replacement of Directors, its Articles of Association (hereafter referred as the "Articles of Association" and Luxembourg Statute comprising the Companies Law 1915 govern the Company. A general meeting of the shareholders under the quorum may amend the Articles of Associations from time to time and majority requirement provided for by the law of 10 August 1915 on commercial companies in Luxembourg, as amended.

Powers of Directors

The Board is responsible for managing the business affairs of the Company within the clauses of the Articles of Association. The Directors may only act at duly convened meetings of the Board of Directors or by written consent in accordance with article 9 of Articles of Association.

Rights of the shareholders

The Company's Articles of Association and national laws and regulations govern the operation of the shareholders meetings and define the key powers of shareholders and provide a, description of their rights.

Transfer of shares

Transfer of shares is governed by the Articles of Association of the Company.

4. Internal control system

The Company's management is responsible for establishing and maintaining adequate controls over financial reporting process for the Group, which includes the appropriate level of Board of Directors' involvement.

The Group's internal control structure consists, in particular, of organizational arrangements with clearly defined lines of responsibility and delegation of authority. The Group has developed and expanded quickly and now needs to further develop and formalize its systems and control practices.

The Company is embarking on a program to strengthen its internal controls over financial reporting, that includes:

- Hiring a more experienced Chief Financial Officer to lead the financial reporting and treasury functions of the Group;
- Recruiting a new head of IFRS reporting and an IFRS reporting team; and
- Formalizing and disseminating to all companies in the Group policies and procedures that:
 - support the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group;
 - provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Luxembourg, Cypriot or Ukrainian accounting principles, as appropriate, and where required, transformation of these local accounts to International Financial Reporting Standards as adopted by the European Union;
 - that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
 - provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group's assets that could have a material effect on the financial statements.

We believe that it is essential for the Group to conduct its business affairs in accordance with the highest ethical standards. The changes set out above are designed to support this principle.

5. Information with respect to Article 11 of the Law of 19 May 2006 on takeover bids

Article 11 a) the structure of their capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents.

According to article 5.1 of the articles of association of the Company (the **Articles**), the Company's subscribed share capital amounts to one hundred forty-nine thousand two hundred fifty-five United States Dollars (USD 149,255.00) represented by fourteen million nine hundred twenty-five thousand five hundred (14,925,500) shares having a nominal value of one Cent (USD 0.01) each.

All the issued share capital of the Company is admitted to listing and trading on the main market of the Warsaw Stock Exchange.

The Company issued on 26 April 2012 warrants to subscribe to (i) seven hundred fifty thousand (750,000) shares at a price of thirty-five Poland Zloty (PLN 35.00) each and (ii) seven hundred fifty thousand (750,000) shares at a price of forty Poland Zloty (PLN 40.00) each for the benefit of Global Yield Fund Limited in accordance with and subject to the terms and conditions of the warrants.

Article 11 b) any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to article 46 of Directive 2001/34/EC.

The shares of the Company are transferred in accordance with customary procedures for the transfer of securities in Book-entry form.

Furthermore, there is no restriction in relation with the transfer of securities pursuant to article 7.5 of the Articles. The sole requirement is that any transfer shall be recorded in the register of shares of the Company.

In accordance with article 7.10 of the Articles, any shareholder, company or individual, who acquires or sells shares, including certificates representing shares of the Company, shall notify to the Company the percentage of the voting rights he/she/it will own pursuant to such acquisition or sale, in case such percentage reaches the thresholds of 5%, 10%, 15%, 20%, 33 1/3%, 50% and 66 2/3% or supersedes or falls under such thresholds. The shareholders shall also notify the Company should the percentage of their respective voting rights reach the above mentioned thresholds or supersede them or fall under such thresholds pursuant to certain events amending the voting rights repartition of the Company.

Those notification requirements apply also to certain situations as listed by article 9 of the law of 11 January 2008 on transparency obligations with respect to the information of companies which securities are listed on a regulated market.

Article 11 c) significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Directive 2004/109/EC.

In accordance with the information available on the website of the Warsaw Stock Exchange as of the date of this report, the main shareholders of the Company are:

- ICD Investments S.A. holds nine million eight hundred thousand (9,800,000) shares, representing 65.66% of the issued share capital of the Company.
- Generali Otwarty Fundusz Emerytalny holds one million four hundred ninety-two thousand seven hundred six (1,492,706) shares, representing 10% of the issued share capital of the Company.
- ING Towarzystwo Funduszy Inwestycyjnych holds seven hundred ninety-one thousand seven hundred thirty-five (821,886) shares each, representing 5.51% of the issued share capital of the Company.
-

Article 11 d) the holders of any securities with special control rights and a description of those rights.

There are no special control rights.

Article 11 e) the system of control of any employee share scheme where the control rights are not exercised directly by the employees.

There is no employee share scheme.

Article 11 f) any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

Pursuant to article 7.10 of the Articles, if a shareholder breaches the thresholds mentioned in point b) and fails to notify the Company within the period of four (4) listing days, as stated therein, the exercise of voting rights attached to the new participation exceeding the relevant threshold will be suspended.

Article 11 g) any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities or voting rights within the meaning of Directive 2004/109/EC.

To the best of our knowledge there are no such agreements.

Article 11 h) the rules governing the appointment and replacement of board members and the amendment of the articles of association.

Pursuant to article 8 of the Articles, the directors of the Company (the **Directors** or the **Board**, as applicable) are to be appointed by the general meeting of the shareholders of the Company (the **General Meeting**) for a period not exceeding six (6) years and until their successors are elected. Moreover, the decision to suspend or dismiss a Director must be adopted by the General Meeting with a majority of more than one-half (1/2) of all voting rights present or represented. When a legal person is appointed as Director, the legal entity must designate a permanent representative (*représentant permanent*) in accordance with article 51bis of the law of 10 August 1915 on commercial companies, as amended (the **Company Law**).

In accordance with article 20 of the Articles, the Articles may be amended from time to time by a General Meeting under the quorum and majority requirements provided for by the Company Law.

Article 11 i) the powers of board members, and in particular the power to issue or buy back shares.

Under the provisions laid down in article 5.4 of the Articles, the Board is authorized during a period expiring 5 (five) years after the publication of the present authorization in the *Mémorial C, Recueil des Sociétés et Associations* (i.e. 08 July 2011), to increase in one or several times the share capital of the Company within the limits of the authorized capital. The authorized capital of the Company is set at one hundred fifty thousand seven hundred forty-five United States Dollars (USD 150,745.00) represented by fifteen million seventy-four thousand five hundred (15,074,500) shares with a nominal value of one Cent (USD 0.01).

With respect to the acquisition of own shares, article 6 of the Articles establishes that the Company may acquire its own Shares to the extent permitted by law. To the extent permitted by Luxembourg law, the Board is irrevocably authorized and empowered to take any and all steps to execute any and all documents to do and perform any and all acts for and in the name and on behalf of the Company which may be necessary or advisable in order to effectuate the acquisition of the shares and the accomplishment and completion of all related actions.

According to article 11.2 of the Articles, the Board is vested with the broadest powers to perform all acts of administration and disposition in the company's interests and within the objectives and purposes of the Company. All powers not expressly reserved by law or by the Articles to the General Meeting fall within the competence of the Board.

Article 11 j) any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements.

To the extent of our knowledge there are no such agreements.

Article 11 k) any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

To the extent of our knowledge there are no such agreements.

6. Financial and operational results

The volume of the main crops harvested by the Group in 2012 and 2011 is follows:

Crop production, tonnes

Crop	2012	2011
Sunflower	42,006	51,372
Winter wheat	42,563	36,177
Winter barley	3,423	3,571
Spring barley	6,469	6,747
Soybeans	-	609
Winter coleseed (rape)	3,978	1,579
Other crops	5,169	7,220
Total	103,608	107,275

The following table sets forth the Group's results of operations for the years ended 31 December 2012 and 2011, as derived from the Group's Consolidated Financial Statements:

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011	% Change
Revenue	37,222	34,665	7%
Net change in fair value of biological assets and agricultural produce	22,116	14,834	49%
Cost of Sales	(39,751)	(35,592)	12%
Gross profit	19,587	13,907	41%
Gain on acquisition of subsidiaries	601	16,261	(96%)
Selling, general and administrative expenses	(5,697)	(4,725)	21%
Government grants received	5,735	1,983	189%
Other operating expenses	(2,057)	(621)	231%
Other operating income	76	1,470	(95%)
Operating profit	18,245	28,275	(35%)
Finance income	1,117	1,739	(36%)
Finance expenses other than those related to share purchase warrant	(7,361)	(2,882)	155%
Loss on share purchase warrant	(389)	-	100%
Profit before tax	11,612	27,132	(57%)
Income tax benefit	48	240	(80%)
Profit for the year	11,660	27,372	(57%)
EBITDA*	25,228	30,119	(16%)
Adjusted EBITDA***	24,627	13,858	78%

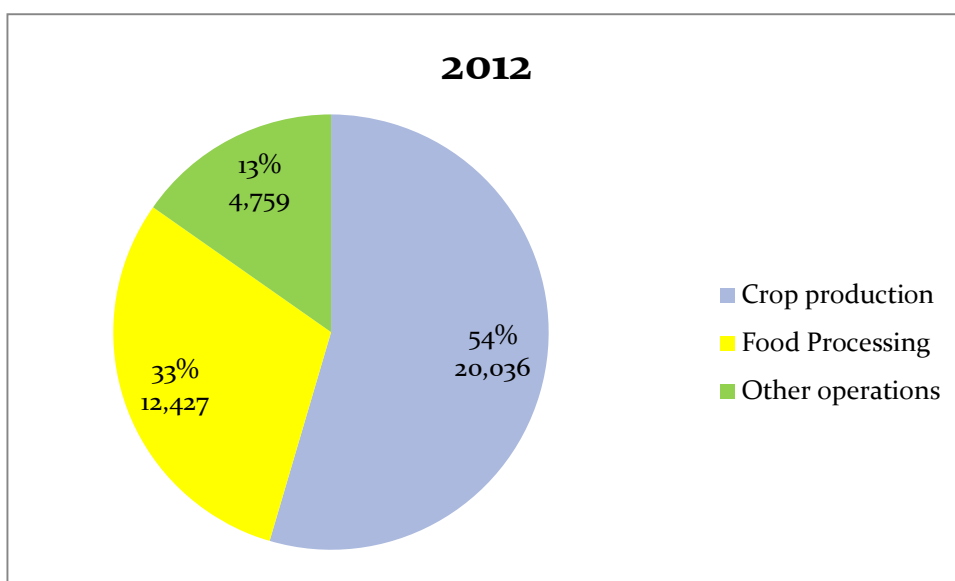
* EBITDA is calculated as operating profit increased by depreciation of property, plant and equipment and amortisation of intangible assets accrued during the year.

*** Adjusted EBITDA is calculated as EBITDA decreased by gain on acquisition of subsidiaries.

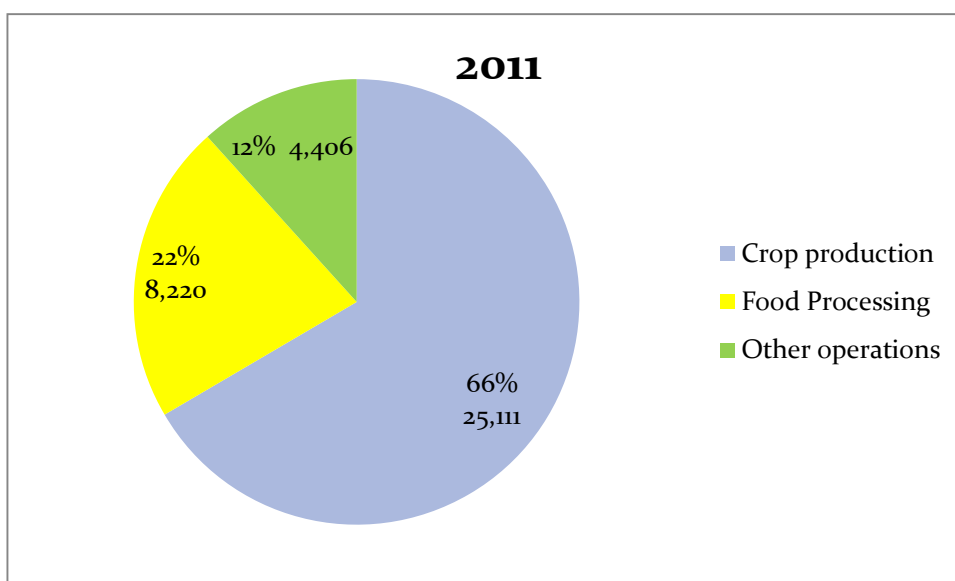
Revenue

The following charts sets forth the Company's revenue by segment:

Revenue by segment in 2012



Revenue by segment in 2011



The Company's revenue from sales of finished products increased year-on-year by 6% (while cost of sales increase by 9%) primarily because of further vertical integration.

The most significant portion of the Company's revenue comes from selling sunflower seeds, which represented 34% and 57% of total revenue for the years ended 31 December 2012 and 2011, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

	2012	2011	Change, %
Sunflower			
Sales (in thousands of USD)	12,583	19,719	(36.2%)
Sales (tones)	26,944	47,803	(43.6%)
Average price (USD/tonne)	467	413	13%
Wheat			
Sales (in thousands of USD)	7,391	2,893	155%
Sales (tones)	29,680	19,541	52%
Average price (USD/tonne)	249	148	68%

Revenue relating to sales of sunflower seeds decreased by 36% to USD 12,600 thousand for the year ended 31 December 2012 from USD 19,700 thousand for the year ended 31 December 2011, reflecting 13 percent higher average price per tonne realized on significantly lower sales volume resulting from poor weather conditions for shipping poor in December 2012, causing the Company to not meet its target for sunflower seed dispatch.

Revenue from wheat sales increased by 155% to USD 7,400 thousand for the year ended 31 December 2012 from USD 2,900 thousand for the year ended 31 December 2011 due to significant increases in both tonnes sold and average selling price.

Income from changes in fair value and on initial recognition of biological assets and agricultural products, net

Income from changes in the fair value and on initial recognition of biological assets and agricultural produce, increased by 49% from USD 14,834 thousand for year ended 31 December 2011 to 22,116 thousand for the year ended 31 December 2012. The increase in 2012 was mainly because the sowed area increased significantly compared to the prior period year-end. In addition, bad weather conditions at the end of 2011 resulted in a reduced winter crop and therefore decreased fair value for biological assets recognized as at 31 December 2011.

Cost of sales

The Company's cost of sales increased by 12% to USD 39,751 thousand for the year ended 31 December 2012 from USD 35,592 thousand for the year ended 31 December 2011.

Gross profit

The Company's gross profit increased from USD 13,907 thousand for the year ended 31 December 2011 to USD 19,587 thousand for the year ended 31 December 2012, a 41% increase.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 39% from USD 4,092 thousand for the year ended 31 December 2011 to USD 5,697 thousand for the year ended 31 December 2012, reflecting an increase in transportation expenses due to changes in supply terms for wheat and the increase in the quantity of wheat sold. In addition, we experienced increases in our legal and other professional expenses (audit and related) driven by a significant increase in number of entities in 2012.

Other operating income

The Company's other operating income decreased by 95% to USD 76 thousand for the year ended 31 December 2012 from USD 1,470 thousand for the year ended 31 December 2011 because one-off gains on write-off of accounts payable and insurance compensation in 2011..

Other operating expenses

The Company's other operating expenses increased by 231% to USD 2,057 thousand for the year ended 31 December 2012 from USD 621 thousand for the year ended 31 December 2011 mainly because of write-off of unrecoverable VAT and damaged goods in 2012.

Government grants

The Group benefits from a privileged VAT regime on its agriculture operations in Ukraine. VAT that the Group collects on agricultural sales which it is allowed to retain as a result of this regime is recorded as government grants. VAT retained in this manner increased by 189% to USD 5,735 thousand for the year ended 31 December 2012 from USD 1,983 thousand for the year ended 31 December 2011.

Financial expenses

The Company's financial expenses increased by 155% to USD 7,361 thousand for the year ended 31 December 2012 from USD 2,882 thousand in the year ended 31 December 2011, reflecting the increase in the Group's borrowings.

Financial income

The Company's financial income decreased by 36% to USD 1,117 thousand for the year ended 31 December 2012 from USD 1,739 thousand in the year ended 31 December 2011 mainly due to lower foreign exchange gain in 2012.

Income tax expenses

The Company recorded an income tax benefit of USD 48 thousand for the year ended 31 December 2012 compared to an income tax benefit of USD 240 thousand for the year ended 31 December 2011.

Profit for the year

Profit for the period decreased by 57% to USD 11,660 thousand for the year ended 31 December 2012 from USD 27,372 thousand for the year ended 31 December 2011. This change reflects all of the items discussed above, but was primarily impacted by the gain on acquisition of subsidiaries of USD 15,628 thousand in 2011, which was only USD 601 thousand in 2012.

Cash flows

The following table sets out a summary of the Company's cash flows in 2012 and 2011:

(in USD thousands)	2012	2011
Net cash flow from operating activities	(6,798)	(12,356)
Net cash flow from investing activities	(25,370)	(36,066)
Net cash flow from financing activities	31,757	49,614
Net cash flow for the year	(411)	1,192

7. Subsequent events

From the 31 December 2012 up to the date of publishing this report the Company has experienced the following significant events:

- An agreement was signed with Netafim to supply the Group with drop irrigation systems and technologies covering 1402 hectares of arable land area
- Reconstruction of the first line of the Group's pig breeding complex was completed and a first delivery of 1,466 sows was received.
- The Company settled its Alfa Bank and Credit Agricole loans which existed as at 31 December 2012 and attracted new tranches of USD 6,250 thousand and USD 3,000 thousand, respectively.
- Share buyback program has been enforced from March 2013 and the Company already received USD 85 thousand as cash inflow from financing activities.

8. Business and financial risks

Weather conditions

Weather conditions are a significant operating risk affecting the Group's crop growing operations. Weather not only directly impacts crop yields, but also the cost of, and the Group's ability to complete, harvests. Weather and other aspects of growing conditions may also lead to a greater use of fertilisers and other chemicals, which may also increase costs. Accordingly, the Group is highly susceptible to changes in the growing conditions of the regions in which it operates, as determined by the weather and otherwise, and the resulting impact on the production of crops. The Group irrigates not all land it farms and is therefore reliant on rainfall to water its crops. In the event of a shortage of rainfall the Group may lose some of its crops. Floods, heavy rainfall, snow and/or frost may also have an adverse effect on the Group's crops. The Group has no ability to control the effect of climate changes and poor weather conditions. Such factors may adversely affect the Group's business, results of operations and financial condition. But used technology of direct sowing, irrigation and proper adopting of crop rotation are main risk reducing actions.

Tax exemptions and government support, which may be discontinued in the future

Under Ukrainian law, producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, agricultural companies engaged in the production, processing and sale of agricultural products may apply to be registered as payers of fixed agricultural tax ("FAT"), provided that their agricultural production

accounts for more than 75 per cent of total production for the preceding tax (reporting) year. FAT is paid in lieu of corporate income tax, land tax, duties for geological survey works and duties for trade patents.

The Ukrainian Government provides various types of support to domestic agricultural producers the most significant of which is a privileged VAT regime.

State support currently received by the Company could be discontinued in the future.

Price level for the Group's produce and key inputs

The Group's financial performance is largely dependent on the disposable income of its customers in Ukraine and the countries of the Group's export as well as the price of key inputs for its end products, which are mainly impacted by the respective crop harvest in Ukraine and overseas.

The selling prices and operating costs associated with producing our products are volatile and are determined by market conditions.

If any or all of these factors depress prices or increase our operating costs, our business, results of operations and financial condition may be adversely affected.

Prices for fertiliser in Ukraine are highly influenced by global fertiliser prices. In the event of a rise in fertiliser prices the Group may either reduce the amount of fertiliser it uses, thereby potentially reducing crop yields, continue to acquire similar quantities of fertiliser at a higher price, thereby incurring greater costs, or employ a combination of these approaches. In addition, the Group purchases substantial quantities of crop protection chemicals which could also experience increases in price.

Such factors could materially affect the Group's costs and/or crop output and, as a result, the Group's business, financial condition and results of operations.

Thus risk management procedures in procurement are based on ongoing cost structure monitoring (in particular, fuel expenditure) and wholesale purchases from long-term suppliers.

Business seasonality

Due to the seasonality of the Group's business and its related short-term financing requirements, it may experience liquidity problems.

The Group is required to perform various agricultural operations, such as fertilising, planting and harvesting, during specific seasons in the agricultural calendar. The time period for completing these key operations is very limited. The Group is exposed to the risk of equipment breakdown or failure or injury to, or death of, personnel at all times. If any of these risks or other risks that may interrupt operations, such as poor weather, were realised during a key period in the agricultural calendar, the Group may have to incur significant expense to remedy the situation, which could materially and adversely affect the Group's business, financial condition and results of operations.

Due to the seasonal nature of the Group's business, the Group requires high levels of financing in the period immediately following the harvest to support the purchase of raw materials as they become available. The Group fulfils its seasonal financing requirements by obtaining credit lines from commercial banks, which are repaid in the course of the financial year or longer on the condition that its sales to customers are timely settled. If the majority of the Group's customers

were unable or unwilling to fulfill their payment obligations in a timely manner, the Group would be forced to repay its credit lines from other resources, thus jeopardizing its liquidity.

Currency-related and interest rate risks

The Group is subject to currency-related and interest rate risks.

Fluctuations in the value of USD, which is the Group's reporting currency, against other currencies, such as UAH, and EUR, have in the past had, and may have in the future, an adverse effect on the Group's results of operations. All domestic sales are in UAH, which is not a freely tradable currency. The results of domestic operations are reported in UAH and then converted into USD at applicable exchange rates for inclusion in our consolidated financial statements. Moreover, although most of Group's contracts (such as lease agreements and goods supply contracts) are denominated in UAH, payments under certain of such contracts are calculated and adjusted based on the applicable exchange rate of UAH to USD or EUR on the date of payment. A change in the value of these currencies compared to UAH would have a negative effect on the Group's results of the operations. The Group also encounters currency exchange risks to the extent that it incurs operating expenses in a currency other than that in which it has obtained financing or those in which it generates revenues.

In the ordinary course of business, the Group does not enter into hedging transactions in order to manage the exposure to foreign exchange, currency and interest rate risks. The Group cannot assure prospective investors that any hedging transaction that it may enter into in order to protect against such risks will be successful or that shifts in currency exchange rates generally will not have a material adverse effect on the financial condition or results of operations.

Management believes it is responding appropriately to support the sustainability of the Company's business in the current circumstances.

9. Forecasts

The Group plans to focus its efforts on increasing operating efficiency, which is based on proper crop rotation, usage of modern agricultural equipment and technologies and general cost reductions.

In addition the Company is continuing to implement its plan to increase its land bank to 200 000 hectares over the next three years.

10. Selected financial data

<i>In thousands of US dollars</i>	2012	2011
Income Statement summary		
Revenue	37,222	34,665
Profit for the year	11,660	27,372
EBITDA	25,228	30,119
Balance Sheet summary		
Property, plant and equipment	76,489	50,663
Total non-current assets	109,341	72,727
Cash and cash equivalents	711	1,122
Term deposits	5,747	4,380
Inventories	20,354	14,800
Current biological assets	38,882	13,363
Total current assets	89,392	49,206
Total assets	203,766	121,933
Total equity attributable to owners of the parent Company	80,502	71,685
Total equity	106,120	89,987
Loans and borrowings	9,914	5,201
Total non-current liabilities	13,105	6,345
Loans and borrowings	48,709	18,145
Total current liabilities	84,541	25,601
Total equity and liabilities	203,776	121,933

Key financial ratios were as follows:

	2012	2011
Net debt*/EBITDA	1.97	0.63
Return of equity*	0.11	0.30
Current ratio***	1.06	1.92

* Net debt is calculated as total amount of loans and borrowings decreased by amount of term deposits.

** Return on equity is calculated as profit for the year divided by total equity.

*** Current ratio is calculated as total current assets divided by total current liabilities.

KSG Agro S.A.

Consolidated Financial Statements

31 December 2012

Contents

Statement of the Board of Directors and Management's Responsibility

Independent Auditor's Report

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position.....	1
Consolidated Income Statement.....	2
Consolidated Statement of Comprehensive Income.....	2
Consolidated Statement of Cash Flows.....	3
Consolidated Statement of Changes in Equity.....	4

Notes to the Consolidated Financial Statements

1. Background.....	5
2. Operating Environment.....	5
3. Summary of Significant Accounting Policies	5
4. Critical Accounting Estimates and Judgements in Applying Accounting Policies	13
5. Business Acquisitions.....	14
6. Non-current Assets Held for Sale.....	19
7. New Accounting Pronouncements	19
8. Property, Plant and Equipment	20
9. Intangible Assets.....	20
10. Inventories and Agricultural Produce.....	21
11. Current Biological Assets.....	22
12. Cash and Cash Equivalents and Term Deposits	23
13. Trade and Other Accounts Receivable.....	23
14. Share Capital and Share Premium.....	24
15. Put Option and Share Purchase Warrants	25
16. Loans and Borrowings.....	26
17. Trade and Other Accounts Payable.....	27
18. Revenue	28
19. Cost of Sales.....	28
20. Selling, General and Administrative Expenses.....	28
21. Other Operating Expenses	28
22. Finance Income and Expenses	29
23. Income Tax	29
24. Operating Segments.....	30
25. Related Parties.....	32
26. Contingencies, Commitments and Operating Risks	33
27. Financial Risk Management.....	34
28. Capital Risk Management.....	35
29. Fair Value of Financial Instruments	36
30. Events after the Reporting Period	36

KSG Agro S.A.

Statement of the Board of Directors and management's responsibility for the preparation and approval of the consolidated financial statements

The following statement is made with a view to clarify responsibilities of management and Board of Directors in relation to the consolidated financial statements of the KSG AGRO S.A. and its subsidiaries (further – the Group).

The Board of Directors and the Group's management are responsible for the preparation of the consolidated financial statements of the Group as of 31 December 2012 and for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In preparing the consolidated financial statements, the Board of Directors and management are responsible for:

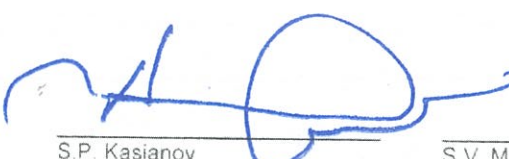
- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Compliance with relevant IFRSs and disclosure of all material departures in Notes to the consolidated financial statements;
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The Board of Directors and management are also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS as adopted by the European Union;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

In accordance with Article 3 of the law of Luxembourg of 11 January 2008 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, we declare that, to the best of our knowledge, the consolidated financial statements for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the period of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole. In addition, the management report includes a fair review of the development and performance of the business and the position of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

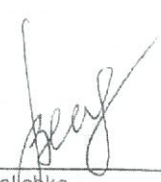
The consolidated financial statements as of 31 December 2012 and for the year then ended were approved on 21 May 2013.



S.P. Kasianov
(Chairman of the Board)



S.V. Mazin
(Chief Executive Officer)



L.V. Velichko
(Chief Financial Officer)



Audit report

To the Shareholders of
KSG Agro S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of KSG Agro S.A., which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in equity 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 Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

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

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

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



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KSG Agro S.A. as of 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.

Report on other legal and regulatory requirements

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 21 May 2013

A handwritten signature in blue ink, appearing to be 'M Minet', written over the printed name 'Marc Minet'.

Marc Minet

Consolidated Statement of Financial Position

	Note	31 December 2012	31 December 2011*
<i>In thousands of US dollars</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	8	76,489	50,663
Intangible assets	9	27,537	20,524
Long-term biological assets		1,856	1,540 ^{***}
Promissory notes receivable		352	-
Term deposits	12	3,107	-
Total non-current assets		109,341	72,727
Current assets			
Current biological assets	11	38,882	13,363
Inventories and agricultural produce	10	20,354	14,800
Trade and other accounts receivable	13	19,836	14,141 ^{***}
VAT receivable		3,862	1,400
Term deposits	12	5,747	4,380
Cash and cash equivalents	12	711	1,122
		89,392	49,206
Non-current assets held for sale	6	5,033	-
Total current assets		94,425	49,206
TOTAL ASSETS		203,766	121,933^{***}
EQUITY			
Share capital	14	149	149
Share premium	14	36,821	36,821
Prepayment for future share issue	15	432	-
Retained earnings		42,919	34,811
Currency translation reserve		181	(96)
Equity attributable to the owners of the Company		80,502	71,685^{***}
Non-controlling interests		25,618	18,302
TOTAL EQUITY		106,120	89,987
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	9,914	5,201
Promissory notes issued		413	579
Deferred tax liability	23	2,778	565
Total non-current liabilities		13,105	6,345
Current liabilities			
Loans and borrowings	16	48,709	18,145
Trade and other accounts payable	17	34,737	6,907
Share purchase warrant	15	389	-
Promissory notes issued		424	313
Income tax payable		282	236
Total current liabilities		84,541	25,601^{***}
TOTAL LIABILITIES		97,646	31,946
TOTAL LIABILITIES AND EQUITY		203,766	121,933

Approved for issue and signed on behalf of the Board of Directors on _____ 2013.

S.P. Kasianov
(Chairman of the Board)

S.V. Mazin
(Chief Executive Officer)

L.V. Velichko
(Chief Financial Officer)

* The Group has finalized the purchase price allocation in 2012 and comparative balances as of 31 December 2011 have been amended accordingly. Effect of completion of acquisition accounting is disclosed in Note 5.

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.**Consolidated Income Statement**

<i>In thousands of US dollars</i>	Note	2012	2011
Revenue	18	37,222	34,665
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs	11	22,116	14,834
Cost of sales	19	(39,751)	(35,592)
Gross profit		19,587	13,907
Gain on acquisition of subsidiaries	5	601	16,261
Other operating income		76	1,470
Government grant received		5,735	1,983
Selling, general and administrative expenses	20	(5,697)	(4,725)
Other operating expenses	21	(2,057)	(621)
Operating profit		18,245	28,275
Finance income	22	1,117	1,739
Finance expenses other than those related to share purchase warrant	22	(7,361)	(2,882)
Loss on share purchase warrant	15	(389)	-
Profit before tax		11,612	27,132
Income tax benefit	23	48	240
Profit for the year		11,660	27,372
Profit attributable to:			
Owners of the Company		8,108	27,140
Non-controlling interest		3,552	232
Profit for the year		11,660	27,372
Earnings per share			
Weighted-average number of common shares outstanding		14,925,500	13,535,564
Basic earnings per share, USD		0.54	2.01
Diluted earnings per share, USD		0.54	2.01

Consolidated Statement of Comprehensive Income

<i>In thousands of US dollars</i>	2012	2011
Profit for the year	11,660	27,372
Other comprehensive income, net of income tax		
Currency translation differences	277	(139)
Total comprehensive income for the year	11,937	27,233
Total comprehensive income attributable to		
Owners of the Company	8,385	27,044
Non-controlling interests	3,552	189
Total comprehensive income for the year	11,937	27,233

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.**Consolidated Statement of Cash Flows**

<i>In thousands of US dollars</i>	Note	2012	2011
Cash flows from operating activities			
Profit before tax		11,612	27,132
Adjustments for:			
Depreciation and amortization	8, 9	6,983	1,845
Impairment of trade and other accounts receivable	21	443	491
Impairment of VAT receivable	21	773	-
Provision for inventory	21	489	-
Unrealised gain on biological assets and agricultural produce		(16,146)	(779)
Exchange differences		334	(498)
Losses less gains on share purchase warrant	15	389	-
Loss on disposal of property, plant and equipment		-	44
Finance expenses other than share purchase warrant	22	7,361	2,882
Finance income	22	(1,117)	(1,739)
Gain on acquisition of subsidiaries	5	(601)	(15,628)
Operating cash flows before working capital changes		10,520	13,750
Change in trade and other accounts receivable		(4,428)	(12,182)
Change in current biological assets		(5,397)	(5,205)
Change in inventories and agricultural produce		(3,752)	(8,949)
Change in trade and other accounts payable		2,374	5,075
Cash used in operations		(683)	(7,511)
Interest paid		(6,007)	(2,366)
Income tax paid		(108)	-
Cash used in operating activities		(6,798)	(9,877)
Cash flow from investment activities			
Acquisition of property, plant and equipment		(8,234)	(7,783)
Proceeds from disposal of property, plant and equipment		206	-
Purchase of intangible assets		(63)	-
Acquisition of promissory notes, other than own		(352)	-
Acquisition of subsidiaries, net of cash acquired	5	(13,088)	(25,076)
Interest received		635	1,173
Term deposit placed		(4,474)	(4,380)
Net cash used in investment activities		(25,370)	(36,066)
Cash flow from financing activities			
Proceeds from bank loans and other borrowings		44,538	23,273
Repayment of bank loans		(11,833)	(8,593)
Contributions to share capital		432	36,821
Reorganisation of interests		-	(2,479)
Acquisition of non-controlling interest		-	(1,371)
Repayment of financial lease liabilities		(1,380)	(516)
Net cash received from financing activities		31,757	47,135
Net (decrease)/increase in cash and cash equivalents		(411)	1,192
Cash and cash equivalents at the beginning of the year		1,122	30
Effect of exchange rate differences on cash and cash equivalents		-	(100)
Cash and cash equivalents at the end of the year		711	1,122

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.
Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company					Non-controlling interest	Total equity	
		Share capital	Share premium	Prepayment for future share issue	Currency translation reserve	Retained earnings			Total attributable to owners of the Company
<i>In thousands of US dollars</i>									
Balance as at 31 December 2010		2,628	-	-	-	7,671	10,299	1,363	11,662
Profit for the year		-	-	-	-	27,140	27,140	232	27,372
Other comprehensive loss		-	-	-	(96)	-	(96)	(43)	(139)
Total comprehensive income for the year		-	-	-	(96)	27,140	27,044	189	27,233
Issue of share capital		-	36,821	-	-	-	36,821	-	36,821
Acquisition of non-controlling interest		-	-	-	-	-	-	(1,371)	(1,371)
Business combinations	5	-	-	-	-	-	-	18,121	18,121
Integration of interests – reorganization		(2,479)	-	-	-	-	(2,479)	-	(2,479)
Balance as at 31 December 2011		149	36,821	-	(96)	34,811	71,685	18,302	89,987
Profit for the year		-	-	-	-	8,108	8,108	3,552	11,660
Other comprehensive income		-	-	-	277	-	277	-	277
Total comprehensive income for the year		-	-	-	277	8,108	8,385	3,552	11,937
Business combinations	5	-	-	-	-	-	-	3,764	3,764
Issue of share capital	14	-	-	432	-	-	432	-	432
Balance as at 31 December 2012		149	36,821	432	181	42,919	80,502	25,618	106,120

The accompanying notes are an integral part of these consolidated financial statements

1. Background

KSG Agro S.A. (the "Company") was incorporated under the name Borquest S.A. on 16 November 2010 as a "Société Anonyme" under Luxembourg company law for an unlimited period. On 8 March 2011 the Company's name was changed to KSG Agro S.A.

The registered office of the Company is at 46A avenue J.F. Kennedy, L-1855 Luxembourg and the Company number with the Registre de Commerce is B 156 864.

The Company, its subsidiaries and joint operation (together referred to as the "Group") produces, processes and sells agricultural products and its business activities are conducted mainly in Ukraine.

The Group's parent is ICD Investments S.A., registered in Switzerland, and the ultimate controlling party is Mr. Sergiy Kasianov.

These consolidated financial statements are presented in US dollars ("USD"), unless otherwise stated.

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 is 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 more developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The country is experiencing a decline in gross domestic product, capital markets instability, significant deterioration in the liquidity of the banking sector, and tighter credit conditions.

While 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. In addition, the government has in the past introduced temporary restrictions on agricultural exports and introduced quotas to protect the domestic agriculture markets.

These matters could affect the Group's financial position, results of operations and business prospects.

3. Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of a share purchase warrant at fair value and the recognition of biological assets and agricultural produce based on fair value less estimated costs to sell.

Consolidated financial statements. Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

3. Summary of Significant Accounting Policies (continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest is recorded as a separate component of the Group's equity.

Goodwill. Goodwill on acquisitions of subsidiaries is presented within intangible assets in the consolidated statement of financial position. It is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business from which the goodwill arose. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Joint operations. The Group accounts for the interest in the joint operations to the extent of:

- the assets that it controls and the liabilities that it incurs; and
- the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Financial instruments

Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

3. Summary of Significant Accounting Policies (continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are accounted for at amortized cost using the effective interest method, net of provision for impairment after their initial evaluation. Loans and receivables that mature more than 12 months after the consolidated statement of financial position date are included into non-current assets. The Group's financial assets are term deposits, trade and other accounts receivable, cash and cash equivalents.

Classification of financial liabilities. Financial liabilities within the scope of IAS 39 are classified as financial liabilities through profit or loss and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities include trade and other accounts payable, loans and borrowings, finance lease, promissory notes issued and derivative financial liability on warrants issued. Derivative financial liability on warrants issued is measured at fair value through profit or loss. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Land lease rights. Land lease rights acquired in business combinations are initially recognised at their fair value and subsequently are carried at cost less accumulated amortisation and impairment losses. When agreements on the right to lease land are renegotiated, the Group capitalises incurred costs relating to the agreement prolongation and revises useful lives of land lease rights based on the prolonged term.

Property, plant and equipment. Property, plant and equipment items are stated at cost less accumulated depreciation and, where applicable, accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects, if the recognition criteria are met. All repair and maintenance costs are expensed as incurred. 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 or 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.

Construction-in-progress represents the cost of properties, plant and equipment which have not yet been completed less any accumulated impairment. This includes cost of construction works, cost of plant and equipment and other direct costs.

3. Summary of Significant Accounting Policies (continued)

The Group leases the land on which its operations are located under operating lease agreements and therefore land is not included in the consolidated financial statements.

At each end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings and structures	5-30
Agricultural equipment	3-15
Vehicles and office equipment	3-17

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Fixed agricultural tax. The Company's subsidiaries in Ukraine engaged in the production, processing and sale of agricultural products may opt for paying a fixed agricultural tax ("FAT") in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, vehicle tax, duties for geological survey works and duties for trade patents if the revenues from sale of their self-grown agricultural products constitute not less than 75% of their total gross revenues. The amount of 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, 22 Ukrainian subsidiaries of the Group elected to pay FAT (31 December 2011: 13). The rest of the Group's entities are subject to regular income tax.

3. Summary of Significant Accounting Policies (continued)

Value added tax. In Ukraine VAT is levied at two rates: 20% on sales and imports of goods within the country, works and services and 0% on the export of goods and provision of works or services to be used outside Ukraine. Output VAT on the sale of goods and services is accounted for on the date the goods/services are delivered to a customer or the date the payment is received from the customer, whichever is earlier. Input VAT is accounted for as follows: entitlement to an input tax credit for purchases arises when VAT invoice is received which is issued on the earlier of the date of payment to the supplier or the date, on which the goods/services are received or entitlement to an input tax credit for imported goods or services arises on the date the tax is paid.

VAT related to sales and purchases is recognised in the statement of financial position on a net basis and disclosed as an asset or liability to the extent it has been recorded in VAT declarations. Prepayments issued and prepayments received are disclosed in these consolidated financial statements net of VAT balances as it is expected that such balances will be settled by delivery of the underlying product or service.

The Group's subsidiaries involved in the production and sale of agricultural produce and that meet certain other criteria are subject to a privileged VAT regime. For such qualifying entities, the net VAT payable is not transferred to the State authorities, but is retained in the business for use in agricultural production. Such net VAT liabilities are credited to profit and loss as government grants.

Government grants. According to the Ukrainian VAT legislation VAT which agricultural producers charge on sales of agricultural produce, net of VAT paid on purchases, is not transferred to the State budget but can be retained for use in agricultural production. These government grants are recognised in profit or loss for the year once the Group makes the qualifying expenditures on agricultural supplies or equipment.

Biological assets. Biological assets represent crops in the field and livestock and are measured at fair value less costs to sell.

Crops in the field. The fair value of crops in the field is determined by using valuation techniques, as there is no market for winter crops of the same physical condition. 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 of crops in the field is based on the existing field under winter crops and the assessments regarding expected crop yield on harvest, time of harvest, future cultivation, treatment, harvest costs and selling prices. The discount rate is determined by reference to current market determined pre-tax rate.

Livestock. The fair value of livestock is determined by using valuation techniques, as there is no market for pigs and cows of the same physical conditions, such as weight, age, breed and milking capacity. 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 determined by reference to current market determined pre-tax rate.

A gain or loss arising on initial recognition of a biological asset at the fair value less costs to sell and from a change in the fair value less costs to sell of a biological asset at each subsequent reporting date is included in income statement 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. Dairy cattle are classified as non-current and livestock husbandry and crops in the field are classified as current biological assets.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding the cost of field preparation is reclassified to biological assets held at fair value.

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.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. The cost of work in progress comprises fuel and other raw material, direct labour, depreciation and amortization, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3. Summary of Significant Accounting Policies (continued)

Advances issued. Advances issued to suppliers are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances issued to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets or services relating to an advance will not be received, the carrying value of the advance is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred 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. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less. Cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale. Non-current assets are classified in the statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Share capital. Ordinary shares are classified as equity. Share premium is the difference between the fair value of the consideration received for the issue of shares and the nominal value of the shares. The share premium account can only be used for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the legislation in Luxembourg on reduction of share capital.

3. Summary of Significant Accounting Policies (continued)

Loans and borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Financial assistance payable. Financial assistance payable is initially recognised at the fair value and carried at amortised cost using the effective interest method. Financial assistance is disclosed within trade and other payables.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits - defined contribution plan. The Group makes statutory unified social contribution to the Pension Fund of Ukraine in respect of its Ukrainian based employees. The contributions are calculated as a percentage of current gross salary and are expensed when incurred.

Wages, salaries, unified social contribution to Pension Fund of Ukraine, paid annual leave and sick leave, bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

Functional and presentation currency. The currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is the Ukrainian hryvnia. As the Group's management uses USD when monitoring operating results and financial conditions of the Group, the presentation currency of the financial statements is USD. All information in USD has been rounded to the nearest thousand, except when otherwise indicated. The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognized in profit or loss. Translation at year end does not apply to nonmonetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. Summary of Significant Accounting Policies (continued)

The exchange rates used for translating foreign currency balances were:

	2012	2011
USD/UAH as of 31 December	7.9930	7.9898
USD/UAH average for the year	7.9910	7.9676
EUR/UAH as of 31 December	10.5372	10.2981
EUR/UAH average for the year	10.2683	11.0928

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues from rendering of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenues are shown net of Value Added Tax and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, fair value of agricultural produce, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs mainly comprise interest income and cash and cash equivalents and bank deposits, interest expense on borrowings and finance leases and exchange differences on borrowings.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately

Reclassifications. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. As of 31 December 2011, effect of reclassifications for presentation purposes was as follows:

<i>In thousand of US dollars</i>	As originally presented as at 31 December 2011	Reclassification	As reclassified as at 31 December 2011
Loans and borrowings (current)	17,189	956	18,145
Trade and other accounts payable	7,860	(953)	6,907
Income tax payable	238	(2)	236
Selling, general and administrative expenses	(4,092)	(633)	(4,725)
Other operating income (expense), net	18,460	(18,460)	-
Other operating income	-	1,470	1,470
Gain on acquisition of subsidiaries	-	16,261	16,261
Other operating expenses	-	(621)	(621)
Government grant received	-	1,983	1,983
Finance expense, net	(1,143)	1,143	-
Finance income	-	1,739	1,739
Finance expense	-	(2,882)	(2,882)

In 2011 consolidated statement of cash flows the Group has also reclassified USD 1,371 thousand paid on acquisition of non-controlling interest and USD 2,479 thousand paid on reorganization of interests from operating activities to financing activities, which was previously disclosed there by an error.

To conform with presentation applied in 2012, interest payable in the amount of USD 815 thousand should have been reclassified from trade and other accounts payable to current loans and borrowings as at 1 January 2011.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the Group's accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next year are:

Biological assets. In the absence of observable market prices for biological assets in their condition at the reporting dates, the fair value of biological assets was estimated as the present value of future net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

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

- expected crop yield on harvest is based on an assessment performed by an independent inspector;
- the average productive life of livestock is determined based on internal statistical information;
- market prices for grains, milk and meat are obtained from external sources (commodity exchanges, purchase prices stipulated by the State Reserve Fund in Ukraine etc.);
- cultivation, treatment, harvesting and production costs, including land lease costs are projected based on historical information and adjusted, where necessary, to conform with new raw materials and production techniques currently in use;
- time of harvest is estimated based on the historical data;
- the discount rate is estimated as weighted average cost of capital determined using the capital asset pricing model.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers.

All CGUs relate either to crop production or food processing activities. Key assumptions used in determining the fair value of current biological assets as at 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
Expected crop yield, ton/ha:		
- Winter wheat	4.2	3.0
- Winter barley	3.6	2.4
- Winter colseseed (rape)	2.6	1.4
Prices, USD/ton:		
- Winter wheat	238	219
- Winter barley	242	200
- Winter colseseed (rape)	575	538
Total expected cultivation and production costs by crops, USD/ha:		
- Winter wheat	164	110
- Winter barley	157	111
- Winter colseseed (rape)	280	144
Discount rate, %	20.2	21.3

Sensitivity of the fair value of crops in the field to changes in key assumptions is as follows:

<i>In thousand of US dollars</i>	31 December 2012	31 December 2011
Increase/(decrease) in the expected crop yield or expected selling prices by 10%	4,650/(4,650)	1,559/(1,559)
Decrease/(increase) in the expected cultivation and production costs until the harvest by 10%	958/(958)	388/(388)
Decrease/(increase) in the discount rate by 100 basis points	154/(154)	48/(48)

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Agricultural produce. Agricultural produce is the harvested product of the Group's biological assets. It is recorded at its estimated fair value less costs to sell, at the point of harvest. The determination of fair value for a biological asset or agricultural produce is facilitated by grouping the produce according to significant attributes; for example, by type or quality. The fair value of each group of agricultural produce at the end of the reporting period is determined as lower of the available average market price for similar products at the point of harvest and net realizable value. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers. A 10% increase or decrease in market prices compared to the selling prices used would result in an increase or decrease in the fair value of agricultural produce of USD 638 thousand (31 December 2011: an increase or decrease in the fair value of agricultural produce of USD 531 thousand).

Goodwill. The Group tests goodwill for impairment at least annually. The recoverable amount of each cash-generating unit was determined based on fair value less costs to sell calculations (Note 9). These calculations use cash flow projections based on budgets covering a five-year period. Cash flows beyond this five-year period are extrapolated using the estimated growth rates below. Management determined budgeted gross margin based on past performance and its market expectations. The key assumptions used in the management's projections as of 31 December 2012 to which the recoverable amount is the most sensitive were:

Crop production CGUs (Soyuz-3, Unirem Agro, Agrotehnologiya, Agrofirma Vesna, Agro Golden, Agropolza, Dnipro)

- discount rate is estimated by the reference to current market-determined pre-tax rates (20.2%);
- revenue growth rate varies from 6% to 34% depending on the type of crop and year;
- yield growth rate - varies from 2% to 11% depending on the type of crop and year;

Food processing CGU (Kovbasna Liga)

- discount rate is estimated by the reference to current market-determined pre-tax rates (20.2%);
- gradual increase of meat production capacity and reaching the maximum capacity by 2016;
- steady capacity of sunflower oil production at the level of 95%.

Management's estimates show that reasonably possible changes in the key assumptions would not cause impairment of goodwill.

Subsidiaries. The Group consolidates the result of Parisifia Trading Ltd (Cyprus), although it only holds 50% of the voting rights, because it has the power to govern its financial and operating policies through arrangements with the other 50% shareholder. The Group also consolidates the results of Pererobnyk PrJSC, also a company in which it holds 50% of the voting rights, because it has the power to govern its financial and operating policies through its sole presence in the supervisory and management boards of the company and ability to determine remuneration of its representatives in these governance bodies. Majority of the supervisory and management board members are employees of other entities of the Group. Judgement is required to determine whether the substance of the relationship between the Group and a subsidiary indicates that the entity is controlled by the Group. In making this judgement management considered arrangements with the other shareholders of the subsidiary.

5. Business Acquisitions

Agrotehnologiya LLC

In May 2012, the Group acquired control over Agrotehnologiya LLC ("Agrotech"), a company incorporated in Ukraine, through acquisition of 51% of its share capital for cash consideration totalling USD 1,070 thousand. The Group acquired Agrotech to expand its food processing business. The goodwill of USD 923 thousand recognised on the acquisition is attributable to the synergy expected from combining the operations of the Group and Agrotech (Note 9).

The revenue and net loss of Agrotech included in the consolidated income statement from the date of acquisition totalled USD 681 thousand and USD 33 thousand, respectively. If the acquisition had been completed on 1 January 2012, the revenues and net profit of the Group would be USD 1,552 thousand higher and USD 21 thousand higher, respectively (unaudited).

5. Business Acquisitions (continued)*PrJSC Pererobnyk*

In 2012, a 50%-owned subsidiary of the Group acquired control over PrJSC Pererobnyk ("Pererobnyk"), a company incorporated in Ukraine, through acquisition of 50% of its share capital for cash consideration of USD 2,862 thousand. The Group consolidated Pererobnyk starting from November 2012 when it received permission for the acquisition from the Anti-Monopoly Committee of Ukraine. The Group concluded that it has control over Pererobnyk with 50% of the voting rights because it has the power to govern the financial and operating policies through its sole presence on the supervisory and management boards of the company. The Group acquired Pererobnyk as part of its strategy to develop vertically-integrated operations as Pererobnyk will produce flour from the wheat produced by other Group entities and its feed mill will be used by the Group's pig-breeding farms. The gain on acquisition of Pererobnyk of USD 75 thousand arose because a lack of financial resources in the acquired company did not allow the company to utilize its assets in the most efficient manner. Management found it impracticable to determine the impact on the Group's total revenue and net profit for the year ended 31 December 2012 had the acquisition of Pererobnyk occurred on 1 January 2012.

Agroplaza group of companies

In 2012, a 50%-owned subsidiary of the Group acquired control over Agroplaza group of companies (Stepove LLC, Dzherelo LLC, Kolosyste LLC, Hlebodar LLC, Prudy LLC, Uytne LLC, Kirovske LLC, Yelizavetove LLC, World Food LLC – all incorporated in Ukraine), through acquisition of 99.9% voting rights in Agroplaza for cash consideration of USD 9,570 thousand. The Group consolidated Agroplaza group of companies (Stepove LLC, Dzherelo LLC, Kolosyste LLC, Hlebodar LLC, Prudy LLC, Uytne LLC, Kirovske LLC, Yelizavetove LLC, World Food LLC) starting from 6 November 2012, when permission for the acquisitions was obtained from the Anti-Monopoly Committee of Ukraine and legal title over 99% of the share capital of these companies passed to the Group. The Group acquired Agroplaza to expand its crop production business and increase its land bank.

The contractual consideration was USD 9,570 thousand, out of which USD 5,271 thousand remained unpaid as of 31 December 2012. The final amount of consideration payable will be determined by September 2013. As of the reporting date the Group recognised consideration payable at the fair value of USD 5,271 thousand, which does not differ from the maximum amount payable in accordance with the purchase contract. As the initial accounting for a business combination was incomplete at 31 December 2012 the Group reported provisional amounts for the fair value of unpaid consideration and gain on acquisition of USD 526 thousand. The gain on acquisition of Agroplaza arose because a lack of financial resources in the acquired company did not allow the company to utilize its assets in the most efficient manner.

Management considered it impracticable to determine the impact on the Group's total revenue and net profit for the year ended 31 December 2012 had the acquisition of Agroplaza occurred on 1 January 2012.

The following table summarises the fair values of the net assets acquired in 2012 at the date of each acquisition. The fair value of property, plant and equipment was determined by independent appraisers. The fair value of other assets and liabilities was determined by management.

5. Business Acquisitions (continued)

<i>In thousands of US dollars</i>	Agrotech	Agroplaza	Pererobnyk	Total
Voting right acquired (Note 4)	51.00%	99.90%	50.00%	
Effective interest attributable to the owners of the Company	51.00%	49.95%	25.00%*	
Associates acquired concurrent with the acquisition	-	-	5,033	5,033
Property, plant and equipment (Note 8)	482	6,471	14,161	21,114
Land lease rights (Note 9)	-	7,184	-	7,184
Promissory notes	-	3,928	-	3,928
Inventories and agricultural produce	441	2,034	180	2,655
Cash and cash equivalents	131	31	14	176
Fair value of accounts receivable	338	4,479	832	5,649
Accounts payable	(900)	(11,122)	(7,112)	(19,134)
Loans	(176)	(2,037)	-	(2,213)
Deferred tax liability	(28)	(336)	(2,051)	(2,415)
Fair value of 100% of net assets	288	10,632	11,057	21,977
Less recognised non-controlling interest	(141)	(536)	(3,087)	(3,764)
Plus goodwill	923	-	-	923
Less gain on bargain purchase	-	(526)	(75)	(601)
Total purchase consideration	1,070	9,570	7,895	18,535
Less: unpaid amount	-	(5,271)	-	(5,271)
Cash and cash equivalents acquired	(131)	(31)	(14)	(176)
Outflow of cash on acquisition	939	4,268	7,881	13,088

* Effective interest applies to all assets and liabilities acquired, except for the associates.

The gross contractual amounts receivable of Agrotech, Agroplaza and Pererobnyk were USD 338 thousand, USD 4,479 thousand and USD 1,134 thousand, respectively. Estimated contractual cash flows not expected to be collected were USD 302 thousand.

During 2012 the Group has also acquired a 50% share in UEP Ukrainian Energy Partners Ltd (Cyprus) and a 50% share in Abbondanza SA (Switzerland) for cash consideration of USD 26 thousand. These newly created companies will be engaged in trading agricultural products in the European Union. These companies did not operate during 2012 and did not have any material assets or liabilities.

In 2011 the Group entered into a joint operation arrangement with Dobrobut (Ukraine) which has the right to use 24 thousand hectares (2011: 9 thousand hectares) of land in the Dnipropetrovsk and Crimea regions of Ukraine. Under this arrangement the Group has the right to cultivate the land of Dobrobut and to harvest the crops from this land in exchange for a fee of USD 60 per hectare payable starting from 1 January 2015.

5. Business Acquisitions (continued)

During 2011 the Group significantly extended its land bank, mainly in the Dnepropetrovsk region, through the acquisition of a 100% share in Unirem Agro Plus LLC, Askoninteks LLC, Agro Golden LLC, Agro LLC, SPE Promvok LLC, Dniproagrostandard LLC, Dniproagroprogress LLC, Meat plant Dnipro LLC, Kovbasna Liga LLC, Agrofirma Vesna LLC, Vidrodzhennya LLC, Dnipro LLC and a 50% share in Parisifia Ltd (Cyprus), which owns 100% share in Agrottrade LLC, Factor D LLC and Rantye LLC. Control over Parisifia Ltd was obtained through an agreement transferring the power to govern the financial and operating activities of the entity. During 2011 a representative office of KSG Agro S.A. was opened in Warsaw (Poland). All the companies acquired in 2011 perform agricultural activities. Goodwill recognised in 2012 and 2011 is not deductible for tax purposes. In 2011, the Group reported provisional amounts for the fair values assigned to the identifiable assets, liabilities and contingent liabilities of companies acquired during the period July to December 2011. In 2012 the Group completed its accounting for these acquisitions and recognized land lease rights of USD 7,088 thousand as at the date of acquisition and at the same time reduced the amounts provisionally recognized as goodwill and property, plant and equipment by USD 3,588 thousand and USD 3,500 thousand, respectively.

Comparative information presented as at 31 December 2011 before the initial accounting for the combinations were completed was presented as if the final purchase accounting had been completed at the acquisition date. As a result, retained earnings as at 31 December 2011 decreased by USD 963 thousand compared to the amount previously reported as result of the recording of amortization on the Group's land lease rights, net of deferred tax charge in the amount of USD 179 thousand.

The Group has finalized the purchase price allocation in 2012 and comparative balances in these financial statements have been amended accordingly. Effect of completion of acquisition accounting was as follows:

<i>In thousands of US dollars</i>	Preliminary value reported	Effect of changes in purchase price allocation	Final amount
Property, plant and equipment	53,982	(3,319)	50,663
Intangible assets	52	20,472	20,524
Goodwill	17,936	(17,936)	-
Retained earnings	(35,595)	784	(34,811)
Non-controlling interest	(18,345)	43	(18,302)
Currency translation reserve	139	(43)	96

KSG Agro S.A.
Notes to the Consolidated Financial Statements
5. Business Acquisitions (continued)

The following table summarises the fair values of the net assets acquired in 2011 at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. The fair values of all other assets and liabilities were determined by management.

<i>In thousands of US dollars</i>	Dnipro	Agro Golden	Unirem Agro	Agrofirm Vesna	Agro, Vidrodzhennya	Dniro-agrostandart	Dniro-agroprogress	SPE Promvok; Meat plant Dnipro; Kovbasna liga	Unirem Agro Plus	Parisifia Ltd: Agrottrade; Factor D; Rantye	Total
Date of acquisition	01/07/2011	01/01/2011	01/01/2011	01/07/2011	01/04/2011	01/07/2011	01/07/2011	01/07/2011	01/01/2011	01/10/2011	
Property, plant and equipment (Note 8)	-	42	500	847	5,318	239	48	1,332	691	32,473	41,490
Non-current biological assets	-	-	-	-	-	-	-	-	-	1,491	1,491
Land lease rights (Note 9)	-	144	-	984	3,500	1,559	78	-	823	-	7,088
Current biological assets	-	-	-	712	1,515	884	192	-	513	-	3,816
Inventories and agricultural produce	-	-	-	-	-	-	-	-	-	2,591	2,591
Cash and cash equivalents	-	-	-	-	8	46	3	14	1	166	238
Fair value of accounts receivable	1	25	100	46	947	81	-	2,915	40	1,446	5,601
Other current assets	21	34	-	-	511	-	-	294	-	1,572	2,432
Accounts payable	-	(11)	-	(468)	(1,887)	(953)	(271)	(5,549)	(210)	(3,497)	(12,846)
Loans	-	-	-	(126)	-	-	-	-	-	-	(126)
Deferred tax liability	-	-	-	-	(754)	-	-	(88)	-	-	(842)
Fair value of net assets	22	234	600	1,995	9,158	1,856	50	(1,082)	1,858	36,242	50,933
Proportionate share attributable to non-controlling interest	-	-	-	-	-	-	-	-	-	(18,121)	(18,121)
Fair value of the Group's share of net assets acquired	22	234	600	1,995	9,158	1,856	50	(1,082)	1,858	18,121	32,812
Goodwill	58	665	1,037	741	-	-	-	6,262	-	-	8,763
Gain on acquisition	-	-	-	-	(3,154)	-	-	-	-	(13,107)	(16,261)
Fair value of consideration paid	80	899	1,637	2,736	6,004	1,856	50	5,180	1,858	5,014	25,314
Less: cash and cash equivalents of the subsidiaries acquired	-	-	-	-	(8)	(46)	(3)	(14)	(1)	(166)	(238)
Outflow of cash on acquisition	80	899	1,637	2,736	5,996	1,810	47	5,166	1,857	4,848	25,076

The total gross contractual amounts receivable was USD 5,601 thousand and the Group expected to collect the whole amount.

Finalization of the purchase price allocation described above did not have any impact on the statement of financial position as at 1 January 2011 therefore it is not presented in these consolidated financial statements.

6. Non-current Assets Held for Sale

In May 2012, together with the acquisition of 50% interest in PrJSC Pererobnyk, the Group paid USD 5,033 thousand to acquire a non-controlling interest in three bread factories, namely 48% interest in PJSC Krivorizhskiy Hlibokombinat #1, 46% interest in PJSC KrivorizhHlib and 31% interest in PJSC Zhovtovodskiy hlibokombinat. The purchase of interest in bread factories was done exclusively with the view to its subsequent sale. In November 2012, when permission for the acquisition from Anti-Monopoly Committee of Ukraine was obtained, the Group classified investments in bread factories as assets held for sale.

The Group measures these assets held for sale at initial recognition at cost of purchase being their fair value. The Group does not expect any significant costs to sell these investments. The Group plans to sell the shares by the end of 2013.

7. New Accounting Pronouncements

There are no new standards, amendments to standards or interpretations that are effective for the first time for the financial periods beginning on or after 1 January 2012 that had any significant effect on the Group's consolidated financial statements.

The following new standards, amendments to standards, and interpretations which are relevant to the Group's consolidated financial statements have been issued, but are not yet effective, and have not been early adopted by the Group:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 32 "Financial Instruments: Presentation" on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- Annual Improvements 2011 (effective for annual periods beginning on or after 1 January 2013).
- IFRS 9 "Financial Instruments" (not yet endorsed by the European Union (EU)).
- IFRS 10 "Consolidated Financial Statements" (endorsed by EU with 1 January 2014 effective date).
- IFRS 11 "Joint Arrangements" (endorsed by EU with 1 January 2014 effective date).
- IFRS 12 "Disclosures of Interests in Other Entities" (endorsed by EU with 1 January 2014 effective date).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 "Separate Financial Statements" (endorsed by EU with 1 January 2014 effective date).
- IAS 28 "Associates and Joint Ventures" (endorsed by EU with 1 January 2014 effective date).
- Amendment to IFRS 10, 12 and IAS 27 "Consolidation of investment entities" (not yet endorsed by EU).

Management is currently assessing the impact of these new standards.

8. Property, Plant and Equipment

Movement of property, plant and equipment for the year ended 31 December 2012 and 2011 was as follows:

<i>In thousands of US dollars</i>	Buildings	Agricultural equipment	Vehicles and office equipment	Construction in progress	Total
At 1 January 2011					
Cost	358	5,737	417	178	6,690
Accumulated depreciation	(106)	(1,444)	(127)	-	(1,677)
Carrying amount as at 1 January 2011	252	4,293	290	178	5,013
Additions	194	2,201	670	2,422	5,487
Disposals	(108)	(393)	(40)	-	(541)
Depreciation charge	(25)	(771)	(85)	-	(881)
Business combinations (Note 5)	33,193	6,121	2,176	-	41,490
Exchange differences	60	(33)	68	-	95
Carrying amount as at 31 December 2011	33,566	11,418	3,079	2,600	50,663
At 31 December 2011					
Cost	33,697	13,633	3,290	2,600	53,220
Accumulated depreciation	(131)	(2,215)	(211)	-	(2,557)
Carrying amount as at 31 December 2011	33,566	11,418	3,079	2,600	50,663
Additions	2,370	5,020	98	3,309	10,797
Transfers	2,028	-	-	(2,028)	-
Disposals	(85)	(121)	-	-	(206)
Depreciation charge	(2,392)	(2,544)	(943)	-	(5,879)
Business combinations (Note 5)	11,825	7,338	1,951	-	21,114
Carrying amount as at 31 December 2012	47,312	21,111	4,185	3,881	76,489
At 31 December 2012					
Cost	49,828	25,860	5,339	3,881	84,908
Accumulated depreciation	(2,516)	(4,749)	(1,154)	-	(8,419)
Carrying amount as at 31 December 2012	47,312	21,111	4,185	3,881	76,489

During 2012 the Group capitalised USD 155 thousand of borrowing costs (2011: nil) on the construction of a pig-breeding complex (Note 22). Borrowing costs that are directly attributable to the construction were capitalised at the effective rate of 18%.

Included in agricultural equipment are assets held under finance leases with a carrying value of UAH 5,690 thousand (2011: UAH 2,254 thousand) (Note 16).

9. Intangible Assets

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Goodwill	15,265	14,347
Land lease rights	12,268	6,125
Other	4	52
Total intangible assets	27,537	20,524

9. Intangible Assets (continued)

The following table represents movements in the goodwill:

<i>In thousands of US dollars</i>	2012	2011
Carrying amount as at 1 January	14,347	5,586
Goodwill arising on acquisition of subsidiaries (Note 5)	923	8,763
Translation differences	(5)	(2)
Carrying amount as at 31 December	15,265	14,347

Goodwill is allocated to cash-generating units ("CGUs") which represent the lowest level within the Group at which goodwill is monitored by management. Goodwill is allocated to the following CGUs:

<i>In thousands of US dollars</i>	Note	31 December 2012	31 December 2011
Kovbasna Liga		6,261	6,262
Soyuz-3		5,583	5,584
Unirem Agro		1,036	1,037
Agrotehnologiya	5	923	-
Agrofirm Vesna		740	741
Agro Golden		664	665
Dnipro		58	58
Total goodwill		15,265	14,347

As at both 31 December 2012 and 2011 no impairment of goodwill was identified. The recoverable amount has been determined based on a fair value less costs to sell calculations.

Movements in the carrying amount of land lease rights were as follows:

<i>In thousands of US dollars</i>	2012	2011
At 1 January		
Cost	7,088	-
Accumulated amortisation	(963)	-
Carrying amount as at 1 January	6,125	-
Acquisition of business combinations (Note 5)	7,184	7,088
Additions	63	-
Amortization charge	(1,104)	(963)
At 31 December		
Cost	14,335	7,088
Accumulated amortisation	(2,067)	(963)
Carrying amount as at 31 December	12,268	6,125

10. Inventories and Agricultural Produce

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Agricultural produce	10,225	6,302
Work in progress	5,017	4,349
Agricultural stock	2,488	3,281
Goods for resale	804	-
Spare parts	243	50
Fuel	412	260
Other	1,165	558
Total inventories and agricultural produce	20,354	14,800

Agricultural produce consists mainly of sunflower, wheat and corn (31 December 2011: wheat and sunflower).

11. Current Biological Assets

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Crops in the field	36,900	11,692
Livestock husbandry	1,982	1,671
Total current biological assets	38,882	13,363

The balances of crops in the field were as follows:

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Coleseed (rape)	17,601	676
Wheat	15,528	9,151
Barley	3,771	1,865
Total crops in the field	36,900	11,692

The total area of agricultural land used by the Group is approximately 90 thousand hectares, including approximately 44 thousand hectares under winter crops as at 31 December 2012.

Movements in crops in the field during the period consist of:

<i>In thousands of US dollars</i>	2012	2011
Carrying amount as at 1 January	11,692	7,452
Costs incurred during the period, including spring crops	35,795	23,141
Increase resulting from business acquisitions (Note 5)	-	3,816
Change in fair value less expected costs to sell	21,731	14,375
Harvested during the period	(32,303)	(33,249)
Exchange difference	(15)	(27)
Carrying amount as at 31 December	36,900	11,692

Gain on initial recognition at fair value and net change in fair value of biological assets was as follows:

<i>In thousands of US dollars</i>	2012	2011
Crops in the field	21,731	14,375
Livestock husbandry	87	529
Dairy cows	298	(70)
Total gain on initial recognition at fair value and net change in fair value of biological assets	22,116	14,834

Costs incurred during the period on crops in the field were as follows:

<i>In thousands of US dollars</i>	2012	2011
Raw materials	18,972	11,096
Land lease expenses	5,058	1,844
Staff costs	3,085	1,248
Depreciation and amortisation	2,585	1,030
FAT	355	213
Other	5,740	3,894
Total costs incurred during the period on crops in the field	35,795	19,325

12. Cash and Cash Equivalents and Term Deposits

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Cash in bank	710	1,119
Cash on hand	1	3
Total cash and cash equivalents	711	1,122
Term deposits – non-current	3,107	-
Term deposits – current	5,747	4,380
Total deposits	8,854	4,380

Cash and cash equivalents and term deposits were denominated in the following currencies:

<i>In thousands of US dollars</i>	31 December 2012		31 December 2011	
	Cash and cash equivalents	Term deposits	Cash and cash equivalents	Term deposits
UAH	455	6,282	369	4,380
EUR	3	1,977	26	-
USD	198	595	525	-
Other	55	-	202	-
Total	711	8,854	1,122	4,380

The credit quality of cash and cash equivalents and term deposits may be summarised based on Moody's ratings of the institutions where they are held or who issued them, as follows:

<i>In thousands of US dollars</i>	31 December 2012		31 December 2011	
	Cash and cash equivalents	Term deposits	Cash and cash equivalents	Term deposits
<i>Neither past due nor impaired</i>				
- A rated	237	-	733	-
- Baa rated	3	-	10	-
- B rated	159	3,902	236	4,380
- Caa rated	221	-	-	-
- Unrated	91	4,952	143	-
Total	711	8,854	1,122	4,380

13. Trade and Other Accounts Receivable

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Trade accounts receivable	12,825	11,666
Less: provision for trade accounts receivable	(118)	(220)
Loans issued	2,336	227
Other financial receivables	2,016	218
Less: provision for other financial receivables	(529)	-
Total financial trade and other receivables	16,530	11,891
Advances issued	3,401	2,692
Less: provision for advances issued	(178)	(480)
Loans to employees	83	38
Total trade and other accounts receivable	19,836	14,141

As at 31 December 2012, 91% of financial receivables were denominated in UAH (31 December 2011: 98%).

The fair value of each class of trade and other receivables as at 31 December 2012 and 2011 approximates their carrying amount as of these dates.

13. Trade and Other Accounts Receivable (continued)

Movements in the impairment provision for trade and other receivables were as follows:

<i>In thousands of US dollars</i>	Trade receivables	Other financial receivables	Advances issued
Provision for impairment at 31 December 2010	1,492	-	262
Provision for impairment during the year (Note 21)	273	-	218
Write-off of receivables against respective provision	(1,545)	-	-
Provision for impairment at 31 December 2011	220	-	480
Provision for / (reversal of) impairment during the year (Note 21)	196	549	(302)
Write-off of receivables against respective provision	(298)	(20)	-
Provision for impairment at 31 December 2012	118	529	178

Analysis by credit quality of financial receivables is as follows:

<i>In thousands of US dollars</i>	Trade receivables	31 December 2012 Loans issued	Other financial receivables	Trade receivables	31 December 2011 Loans issued	Other financial receivables
<i>Neither past due nor impaired</i>						
- Related parties	1,144	2,255	133	-	-	-
Total neither past due nor impaired	1,144	2,255	133	-	-	-
<i>Total overdue</i>						
- less than 90 days overdue	4,079	-	-	10,271	227	-
- 91 to 180 days overdue	1,257	-	-	481	-	-
- 181 to 360 days overdue	2,193	-	69	694	-	218
- over 360 days overdue	4,152	81	1,814	220	-	-
Total overdue	11,681	81	1,883	11,666	227	218
Less: provision for impairment	(118)	-	(529)	(220)	-	-
Total trade and other receivables	12,707	2,336	1,487	11,446	227	218

Related parties are represented by the private companies controlled by the majority shareholder of the Group. The Group believes that financial receivables from related parties are of a higher credit quality than the rest of the receivables as the Group is able to influence terms of repayment.

Overdue accounts receivable are mainly presented by the amounts due from the entities under common control (refer to Note 25) and customers with whom the Group has net liability position. Thus, management believes that all accounts receivable are recoverable in full amounts, unless respective provision for impairment was recognised. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security. Subsequently to the year end the Group received substantial part of outstanding accounts receivable and for the remaining part renegotiated new payment schedules.

14. Share Capital and Share Premium

<i>In thousands of US dollars, except number of shares</i>	Number of shares	Ordinary shares	Share premium	Total
At 1 January 2011	3,100,000	43	-	43
Conversion of shares – 8 March 2011	1,179,699	-	-	-
Share issue - 8 March 2011	5,720,301	57	-	57
Share issue – 13 April 2011	4,925,500	49	36,821	36,870
At 31 December 2011 and 2012	14,925,500	149	36,821	36,970

At the date of incorporation the Company's share capital amounted to EUR 31 thousand and was divided into 3,100,000 ordinary shares with a nominal value of EUR 0.01 each.

14. Share Capital and Share Premium (continued)

On 8 March 2011, an extraordinary meeting of the shareholders decided to adopt the USD as the Company's accounting and presentation currency and to convert all accounts in the books of the Company from EUR to USD. As a result of this conversion the total number of shares increased to 4,279,699. The shareholders also decided to increase the share capital by the amount USD 57 thousand through the issue of 5,720,301 new shares with a nominal value of USD 0.01.

On 13 April 2011 the Board of Directors approved an increase of the share capital from USD 100 thousand to USD 149 thousand through the issuance of 4,925,500 new shares with a nominal value of USD 0.01.

15. Put Option and Share Purchase Warrants

In April 2012 the Company entered into an agreement (the "Agreement") with GEM Global Yield Fund Limited ("GEM") whereby the Company acquired a three year put option requiring GEM to acquire up to Polish Zloty ("PLN") 75,000 thousand (USD 22,400 thousand) of the Company's ordinary shares (the "Put Option"). The Company can, at any time, put to GEM to subscribe for up to 10 times the previous 15 days' average trading volume in the Company's shares. GEM must then subscribe for from 50 percent to 200 percent of the number of shares put by the Company. The issues price for shares subscribed for under the Put Option will be the 20 day average trading price of the Company's shares following the put. Shares subscribed for under the put will initially be loaned to GEM by ICD Investments S.A, the Company's parent company. The Company will have up to a year from the date of each subscription to issue shares to ICD to replace the loaned shares.

During 2012 GEM accepted subscriptions for 94,500 ordinary shares and made a prepayment of USD 432 thousand. The Company recorded this prepayment as a reserve in equity.

In exchange for the Put Option the Company committed to pay a fee of PLN 1,500 thousand (USD 448 thousand) and committed to issue warrants for GEM to acquire 1,500,000 of the Company's ordinary shares and a promissory note to GEM in respect of the fee. The promissory note is payable as a percentage of the proceeds from shares subscribed for under the Put Option, but in any case not later than by the second anniversary of the Agreement. In case of late payment of the fee, the overdue amount bears interest at Barclays Bank PLC's base rate plus four percent. The warrants, which in accordance with the Agreement were issued in July 2012, allow GEM to acquire 750,000 ordinary shares of the Company at a price of PLN 35 and 750,000 ordinary shares at PLN 40, each for a period of three years.

The fee was charged to profit and loss in 2012 as a financing cost. As the warrants are denominated in other than the Company's functional currency they are considered a derivative liability and are marked-to-market though profit or loss at each balance sheet date until they are exercised or expire. The fair value of the warrants at the date of inception amounted to USD 680 thousand and decreased to USD 389 thousand as at 31 December 2012.

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

	31 December 2012	26 April 2012
Current stock price, USD	3.64	5.39
Risk-free interest rate, %	3.11	4.58
Volatility, %	55.15	38.75

The share purchase warrant belongs to level 2 (i.e. other techniques for which all input 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 techniques.

16. Loans and Borrowings

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Long-term		
Financial lease liabilities	1,455	482
Bank loans	8,459	4,719
Total long-term loans and borrowings	9,914	5,201
Current		
Financial lease liabilities	2,021	885
Bank loans	42,578	13,149
Other borrowings	4,110	4,111
Total current loans and borrowings	48,709	18,145

As at 31 December, the Group's loans and borrowings were denominated in the following currencies:

<i>In thousands of US dollars</i>	2012	2011
Borrowings denominated in: - UAH	37,922	17,657
- USD	15,219	5,689
- EUR	5,482	-
Total loans and borrowings	58,623	23,346

As at 31 December, the Group's loans and borrowings maturity and re-pricing were as follows:

<i>In thousands of US dollars</i>	2012	Maturity 2011	Interest re-pricing 2012	Interest re-pricing 2011
Loans and borrowings due:				
- within 1 year	48,709	18,145	48,709	18,145
- between 1 and 5 years	9,914	5,201	9,914	5,201
Total borrowings	58,623	23,346	58,623	23,346

The carrying value of the Groups' assets pledged as collateral for the Group's bank loans is as follows:

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Property, plant and equipment	34,680	3,652
Receivables	12,503	-
Term deposit	7,603	4,380
Inventory	7,553	-
Deposits pledged for related parties loans (Note 25)	1,251	-
Biological assets	679	499
Total carrying amount of collateral	64,269	8,531

As at 31 December 2012 a related party pledged as collateral real estate of contractual value of USD 2,100 thousand for respective liabilities of the Group to the amount of USD 12,668 thousand.

The Group was not in compliance with certain loan covenants with respect to a loan of USD 10,978 thousand as at 31 December 2012. Consequently, non-current part of the loan of USD 4,722 thousand, which contractually mature in 2013 to 2016, was classified as maturing within one year.

Leased assets with the carrying amount of USD 5,690 thousand (31 December 2011: USD 2,254 thousand) act as a collateral for the Group's obligations under the finance lease agreements. The Group has delayed payments in the amount of USD 517 thousand on these leases as at 31 December 2012 and therefore, according to the lease agreements, the lessor can require the immediate return of leased assets with the carrying amount of USD 2,852 thousand. Management is negotiating new schedule and terms of payments. Management assesses that provision should not be recognised as it is not probable that the Group incurs any losses because of the payment delay.

16. Loans and Borrowings (continued)

As at 31 December 2012 and 2011, obligations under financial lease liabilities were:

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Long-term	1,455	482
Short-term	2,021	885
Total finance lease liabilities	3,476	1,367
Total future minimum lease payments	3,863	1,594
Less: interest expenses	(387)	(227)
Discounted value of future minimum lease payments	3,476	1,367

As at 31 December 2012, future minimum lease payments and their discounted value under financial lease agreements that are not subject to early termination and concluded for a term exceeding one year are as follows:

<i>In thousands of US dollars</i>	2013	2014	2015	Total
Future minimum lease payments	2,132	1,223	508	3,863
Less: interest expenses	(111)	(179)	(97)	(387)
Discounted value of future minimum lease payments	2,021	1,044	411	3,476

As at 31 December 2011, future minimum lease payments and their discounted value under financial lease agreements that are not subject to early termination and concluded for a term exceeding one year are as follows:

<i>In thousands of US dollars</i>	2012	2013	2014	Total
Future minimum lease payments	955	572	67	1,594
Less: interest expenses	(70)	(137)	(20)	(227)
Discounted value of future minimum lease payments	885	435	47	1,367

As at 31 December, minimum lease payments were as follows:

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Amounts payable under financial lease agreements:		
During 1 year	2,021	885
Over 1 year but no more than 5 years	1,455	482
Total lease payments	3,476	1,367

17. Trade and Other Accounts Payable

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Trade payables	9,559	5,060
Unpaid consideration on acquisition of Agroplaza (Note 5)	5,271	-
Payables for own promissory notes	2,573	-
Financial assistance received	1,248	-
Land lease payables	1,170	330
Promissory notes issued to GEM	89	-
Other accounts payable	3,404	521
Total financial trade and other payables	23,314	5,911
Prepayments received	11,135	845
Wages and salaries accrued	288	151
Total trade and other payables	34,737	6,907

In 2012 the Group acquired the promissory notes of one of its subsidiaries for consideration of USD 4,282 thousand of which USD 2,573 thousand remained unpaid as at 31 December 2012.

18. Revenue

<i>In thousands of US dollars</i>	2012	2011
Sale of agricultural produce and processed food	35,727	33,772
Rendering of services	1,495	893
Total revenue	37,222	34,665

19. Cost of Sales

<i>In thousands of US dollars</i>	2012	2011
Cost of agricultural produce and processed food	38,572	35,312
Cost of rendered services	1,179	280
Total cost of sales	39,751	35,592

20. Selling, General and Administrative Expenses

<i>In thousands of US dollars</i>	2012	2011
Informational, expert and consulting services	1,506	991
Wages and salaries	1,485	1,300
Transport services	717	1,286
Crops storage services	495	675
Depreciation	329	106
Bank services	297	97
Certification	261	-
Fuel	254	127
Other	353	143
Total selling, general and administrative expenses	5,697	4,725

21. Other Operating Expenses

<i>In thousands of US dollars</i>	2012	2011
Other operating expenses		
Impairment of VAT receivable	773	-
Write-off of damaged goods	489	-
Impairment of trade and other receivables (Note 13)	443	491
Other	352	130
Total other operating expenses	2,057	621

22. Finance Income and Expenses

<i>In thousands of US dollars</i>	2012	2011
Finance income		
Interest income	594	548
Foreign exchange gain	355	1,191
Gain on initial recognition of long-term financial liabilities	128	-
Unwinding of discount on long-term accounts receivable	40	-
Total finance income	1,117	1,739
Finance expenses		
Interest expense on bank loans	(5,356)	(2,366)
Amortisation of loan commission	(832)	-
Loss on restructuring of accounts receivable	(342)	-
Loss on initial recognition of long-term promissory note	(312)	-
Interest on finance leases	(171)	(516)
Expense on promissory note to GEM	(150)	-
Unwinding of discount on long-term financial liabilities	(353)	-
Finance expenses	(7,516)	(2,882)
Less: amounts capitalised on qualifying assets (Note 8)	155	-
Total finance expenses	(7,361)	(2,882)

23. Income Tax

Income tax expense comprises the following:

<i>In thousands of US dollars</i>	2012	2011
Current tax expense	(154)	(37)
Deferred tax benefit	202	277
Income tax benefit	48	240

Reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of US dollars</i>	2012	2011
Profit before tax	11,612	27,312
- Profit attributable to FAT payers	16,575	27,340
- Loss attributable to Ukrainian subsidiaries	(1,931)	(30)
- Loss attributable to other Group companies	(3,032)	2
Income tax expense related to Ukrainian subsidiaries	(405)	(7)
Income tax expense related to other Group companies	(303)	-
- non-taxable income	-	(233)
- non-deductible expense	(48)	-
- change in unrecognised deferred tax asset	708	-
Income tax benefit	(48)	(240)

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2012, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 25% during January-March 2011 and 23% starting from 1 April 2011). In 2012, the tax rate for Cyprus operations was 10% (2011: 10%).

On 2 December 2010, a new Tax Code was adopted in Ukraine effective from 1 January 2011 under which corporate income tax rates are scheduled to decrease to 19% in 2013 to 16% in 2014 and thereafter. Deferred tax assets and liabilities are measured at the income tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates prescribed by the new Tax Code.

As at 31 December 2012, the Group did not recognise a deferred tax asset of USD 708 thousand (31 December 2011: nil) which primarily arises from tax losses carried forward. These losses were generated in jurisdictions in which management does not believe the Group is likely to be profitable in the future. There is no expiry date for the tax losses carried forward.

23. Income Tax (continued)

	31 December 2011	Credited/ (charged) to income statement	Business combinations	31 December 2012
<i>In thousands of US dollars</i>				
Tax effect of deductible temporary differences				
Accounts receivable	-	138	57	195
Promissory notes received	-	44	-	44
Gross deferred tax asset	-	182	57	239
Tax effect of taxable temporary differences				
Property, plant and equipment	(565)	379	(2,215)	(2,401)
Land lease rights	-	27	(257)	(230)
Current biological assets	-	(374)	-	(374)
Accounts payable	-	(12)	-	(12)
Gross deferred tax liability	(565)	20	(2,472)	(3,017)
Recognised deferred tax asset/(liability)	(565)	202	(2,415)	(2,778)

	31 December 2010	Credited to income statement	Business combinations	31 December 2011
<i>In thousands of US dollars</i>				
Tax effect of taxable temporary differences				
Land lease rights	-	179	(179)	-
Property, plant and equipment	-	98	(663)	(565)
Recognised deferred tax liability	-	277	(842)	(565)

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

24. Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO reviews internal management reports on at least quarterly basis. The operations in each of the Group's reporting segments are:

- *Crop production.* Crop production is the core business of the Group. It is generally focused on production of sunflower, wheat, barley, coleseed (rape), soybeans and other crops, such as corn, triticale, pea, and buckwheat. The main factors affecting the crop production segment are climatic conditions, land quality, plant nutrition and moisture levels in the arable land.
- *Food Processing.* Established relationships with retail chains provide the Group with opportunities to sell groceries and meat products. Currently the Group produces flour, sunflower oil, packaged crops, macaroni and meat products such as sausages and meat delicacies and supplies to retail chains.
- *Other operations.* This operating segment includes fruit and vegetable production, cultivation and the sale of farm animals (pigs and cattle), pellet production and the rendering of services to third parties. While this segment does not currently meet the threshold requiring separate segment disclosure, management believes it useful to distinguish this segment in its reporting.

24. Operating Segments (continued)

Performance is measured based on segment profit or loss, as included in the internal management reports that are reviewed by the Group's CEO. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of the Group's segments relative to other entities that operate within these industries.

Group's assets and liabilities are not monitored by operating segments.

Substantially all non-current assets relate to subsidiaries located in Ukraine.

Revenues of approximately USD 14,974 thousand (2011: USD 13,866 thousand) are derived from three external customers (2011: three). These revenues are attributable to crop production segment.

Information about operating segments for 2012 is as follows:

<i>In thousands of US dollars</i>	Crop production	Food Processing	Other operations	Total
Revenue	22,568	12,499	7,796	42,863
<i>including:</i>				
- sales of goods	22,568	12,499	6,301	41,368
- rendering of services	-	-	1,495	1,495
Inter-segment transactions	(2,532)	(72)	(3,037)	(5,641)
Revenue from external customers	20,036	12,427	4,759	37,222
Change in fair value of biological assets				
less estimated point-of-sale costs	21,731	298	87	22,116
Cost of sales	(23,940)	(12,628)	(3,183)	(39,751)
Segment profit	17,827	97	1,663	19,587
Government grant received				5,735
Gain on acquisition of subsidiaries				601
Other operating income				76
Selling, general and administrative expenses				(5,697)
Other operating expenses				(2,057)
Operating profit				18,245
Finance income				1,117
Finance expenses				(7,361)
Loss on share purchase warrant				(389)
Profit before tax				11,612
Income tax benefit				48
Profit for the period				11,660
Other segment information:				
Depreciation and amortisation	3,518	1,768	1,697	6,983
Non-current assets held for sale	-	5,033	-	5,033
Capital expenditure	4,340	5,745	712	10,797

24. Operating Segments (continued)

Information about operating segments for 2011 is as follows:

<i>In thousands of US dollars</i>	Crop production	Food Processing	Other operations	Total
Revenue	25,111	8,220	4,406	37,737
<i>including:</i>				
- sales of goods	25,111	8,220	3,513	36,844
- rendering of services	-	-	893	893
Inter-segment transactions	(1,528)	-	(1,544)	(3,072)
Revenue from external customers	23,583	8,220	2,862	34,665
Change in fair value of biological assets				
less estimated point-of-sale costs	11,973	2,180	681	14,834
Cost of sales	(26,527)	(6,567)	(2,498)	(35,592)
Segment profit	9,029	3,833	1,045	13,907
Government grant received				1,983
Gain on acquisition of subsidiaries				16,261
Other operating income				1,470
Selling, general and administrative expenses				(4,725)
Other operating expenses				(621)
Operating profit				28,275
Finance income				1,739
Finance expenses				(2,882)
Profit before tax				27,132
Income tax benefit				240
Profit for the period				27,372
Other segment information:				
Depreciation and amortisation	1,562	209	73	1,844
Capital expenditure	2,171	2,338	976	5,486

All land lease rights relate to the crop production segment. All long-term biological assets relate to the food processing segment.

Breakdown of revenue by geographical segments is based on the domicile of the customers and is as follows:

<i>In thousands of US dollars</i>	2012	2011
Ukraine	34,371	34,569
Europe	2,328	96
Asia	523	-
Total revenue	37,222	34,665

25. Related Parties

Significant related party balances outstanding at the reporting dates are:

<i>In thousands of US dollars</i>	31 December 2012		31 December 2011	
	Parent	Entities under common control	Parent	Entities under common control
Assets				
Trade accounts receivable	22	3,828	-	2,288
Other financial receivables	-	117	-	-
Advances issued	-	643	-	-
Loans issued	-	2,255	-	-
Liabilities				
Trade and other accounts payable	9	635	-	852
Prepayments received	-	510	-	-
Loans	128	-	322	-
Interest payable	5	25	9	25

25. Related Parties (continued)

Loans issued to entities under common control do not bear interest and are payable in 2013.

Revenue and expense transactions with related parties during 2012 and 2011 were as follows:

	2012		2011	
<i>In thousands of US dollars</i>	Parent	Entities under common control	Parent	Entities under common control
Food processing sales	-	5,044	-	4,720
Sales of agricultural produce	-	3,038	-	-
Purchases	4	1,675	-	1,174
Interest expenses	5	25	9	25

Purchases from related parties comprised of the following:

	2012		2011	
<i>In thousands of US dollars</i>	Parent	Entities under common control	Parent	Entities under common control
Purchase of goods	-	917	-	1,133
Purchase of services	4	758	-	41
Total	4	1,675	-	1,174

As at 31 December 2012, the Group has pledged term deposits in the amount of USD 1,251 thousand as collateral for liabilities of a related party (31 December 2011: nil).

Transactions with key management personnel. Remuneration of key management personnel for 2012 comprised short-term benefits totalling USD 333 thousand (2011: USD 886 thousand). In 2012 the Group considered members of Board of Directors as key management personnel whereas in 2011 both members of Board of Directors and management board were designated as key management personnel.

During 2012 the Group issued USD 76 thousand of non interest-bearing loans to key management personnel which were fully repaid before 31 December 2012.

In 2012 the ultimate controlling party has provided collateral for the Group's loan of USD 8,593 thousand.

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, and consist of five members of the Board of Directors. As a result of changes in the structure of corporate governance, members of management board are no longer considered as key management personnel.

26. Contingencies, Commitments and Operating Risks

Tax legislation. The Group operates primarily through its business units located in Ukraine. Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of local, regional and national authorities, and other governmental bodies. Instances of inconsistent opinions are not unusual.

During 2012 tax authorities challenged application of special VAT regime in respect of products grown on the land plots for which lease agreements are not duly registered with the state authorities, as well as on the land plots used based on the joint operation agreement. The risk of payment of respective VAT liability and respective penalties for late payment is assessed by management as possible and estimated amount of exposure is USD 521 thousand.

There are significant trading transactions within the Group entities and with related parties. Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and certain domestic transactions, most typically among related parties. The Group's historical trading relationships within the Group as well as with other related parties could fall within these transfer pricing rules. Even among parties that are not related prices may still be subject to the transfer pricing rules. If the tax authorities establish failure to comply with these rules they may demand transfer pricing adjustments. If substantial transfer pricing adjustments were upheld by the relevant Ukrainian authorities or courts, the Group's financial results could be adversely affected.

26. Contingencies, Commitments and Operating Risks (continued)

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Operating lease commitments. The Group leases agricultural land under non-cancellable lease agreements in its normal course of business. The leases typically run for an initial period of between five and forty nine years, with an option to renew the lease after that date. Payments for occupied land are calculated on the basis of land value determined annually by licensed appraisers. Lease payments expensed in 2012 were USD 4,258 thousand (2011: USD 1,844 thousand). The Group has a preferred right to prolong the lease agreements, hence if the Group decide to exercises this option the annual lease payments will approximate the current year lease expenses.

27. Financial Risk Management

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

Credit risk concentration. The Group is exposed to the concentration of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports with exposures to counterparties with the balances in excess of 1% of net assets.

At 31 December 2012, the Group had 8 counterparties (31 December 2011: 8 counterparties) with aggregated receivable balances above USD 430 thousand each. The total aggregate amount of these balances was USD 11,331 thousand (31 December 2011: USD 7,609 thousand) or 65% of the gross amount of trade and other receivables (31 December 2011: 63%).

As at 31 December 2012, the Group held 94% (31 December 2011: 97%) of its cash and term deposit balances with 5 banks (31 December 2011: 2).

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

The Group does not have significant interest-bearing financial assets. Loans and borrowings issued at variable interest rates expose the Group to the interest rate risk. Loans and borrowings issued at fixed rates expose the Group to the fair value risk.

The sensitivities to market risks disclosed below are based on a change in one factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Interest rate risk. Risk of changes in interest rate is generally related to interest-bearing loans. Loans issued at variable rates expose the Group to cash flow interest rate risk. Loans issued at fixed rates expose the Group to fair value interest rate risk. The Group is currently developing its policy on structure of fixed and variable rates loan portfolio. The Group's management analyses market interest rates to minimize interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. At 31 December 2012, if interest rates had been 200 basis points higher with all other variables held constant, post-tax profit for the year would have been USD 63 thousand lower (2011: no borrowings at variable rates).

Currency risk. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group has outstanding borrowings denominated in US dollars.

27. Financial Risk Management (continued)

Because of this exposure, if the US dollar were to strengthen or weaken by 10 percent against the UAH, it would decrease or increase the Company's profit before tax by USD 1,368 thousand, respectively (31 December 2011: USD 516 thousand).

Because of this exposure, if the euro were to strengthen or weaken by 10 percent against the UAH, it would decrease or increase the Company's profit before tax by USD 352 thousand, respectively (31 December 2011: increase or decrease by USD 3 thousand).

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group management who monitors monthly rolling forecasts of the Group's cash flows.

The Group seeks to maintain a stable funding base primarily consisting of borrowings and trade and other payables. The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the statement of financial position is based on discounted cash flows.

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

<i>In thousands of US dollars</i>	Less than 1 year	From 1 year to 2 years	From 2 years to 5 years	Total
Liabilities				
Loans and borrowings	53,085	4,682	6,863	64,630
Trade and other payables	23,390	-	-	23,390
Promissory notes issued	424	434	202	1,060
Total	76,899	5,116	7,065	89,080

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

<i>In thousands of US dollars</i>	Less than 1 year	From 1 year to 2 years	From 2 years to 5 years	Total
Liabilities				
Loans and borrowings	18,144	5,840	-	23,984
Trade and other payables	5,911	-	-	5,911
Promissory notes issues	313	-	1,000	1,000
Total	24,368	5,840	1,000	31,208

The Group primary manages business risks and does not have formalised policies and procedures for managing financial risks.

28. Capital Risk Management

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, capital expenditures and 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 and flexibility relating to Group's access to capital markets.

<i>In thousands of US dollars</i>	31 December 2012	31 December 2011
Total amount of borrowings	58,623	23,346
Less cash and cash equivalents	(711)	(1,122)
Net debt	57,912	22,224
Total capital	106,120	89,987
Debt to capital ratio	55%	25%

The Group is currently developing its capital management policy. Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy.

29. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

Fair value estimation. As at 31 December 2012 and 2011 the Group did not have financial assets carried at fair value.

Financial assets carried at amortized cost. Carrying amounts of trade and other financial receivables approximate their fair value.

Financial liabilities carried at amortized cost. Carrying amounts trade and other payables, financial lease liabilities, promissory notes issued, bank and other borrowings approximate their fair values as at 31 December 2012 and 2011. As at 31 December 2012, fair value of bank loans comprised USD 51,656 thousand (31 December 2011: 17,868 thousand).

Liabilities carried at fair value through profit or loss. The fair value of share purchase warrant was determined using the Black-Scholes model (Note 15). Management applies judgement in categorising financial instruments using the fair value hierarchy. To determine the fair value of share purchase warrant the Group used valuation technique with inputs observable in markets, which is the Level 2 measurement.

30. Events after the Reporting Period

In 2013, the Group has refinanced the loans which existed as at 31 December 2012 in the amount of USD 8,955 thousand and attracted new loans in the amount of USD 9,943 thousand.