KSG Agro S.A.

Management report on 2013 achievements and developments

Chairman's statement

Dear investors and partners,

Now we are pleased to inform you about KSG Agro achievements and developments of in 2013 financial year.

First, I would like to emphasize that our strategy strategic goal remains the same – to create leading vertically integrated and diversified agricultural holding in Ukraine, while providing value to all our shareholders and maintaining sustainable development that takes into account interests of all categories of stakeholders, including society as a whole.

In this context, we have performed the following successful steps:

- *In 2013, we have harvested almost twice as much as we did in the 2012 season;*
- *Pig farm project is going on successfully. First stage of reconstruction is completed. Business performance is better than planned;*
- *Pilot project on implementation of 1,1 KHa drop irrigation system was successfully realized.*

Besides the achievements and moving on, in 2013 we faced many challenges related mainly to worldwide reduction of crop and oilseeds prices, which adversely affected our financial result.

The political crisis in Ukraine, which began in the 4th quarter of 2013 and continued in 2014 significantly complicated doing business in Ukraine and possibility of projects financing.

Annexation of Crimea by Russia in the 1st quarter of 2014 and the ongoing war in eastern Ukraine created new, dynamically changing conditions for the company, new challenges and risks.

Anyhow, the industry and market opportunities are still wide, attractive and promising, which makes us strongly believe that despite negative factors, KSG Agro Group will be generating healthy cash flow and margins, and investments and developments that we made will pay off and generate positive results, which helps us feel confident about our future.

Chairman of the board,
Sergiy Kasianov

Management report

1. Strategy implementation in 2013

In 2013 the Company and its subsidiaries (hereinafter «the Group» or «KSG Agro» or «the Company») continued to implement its development strategy.

As of 31 December 2013, KSG Agro is an agricultural holding with total controlled land bank of approximately 96 thousand hectares.

The Group is primarily engaged in production of grains such as sunflower, wheat, barley, winter coleseed (rape), vegetables production and produces groceries such as flour and oil via processing from wheat and sunflower seeds. Besides, Company performs animals breeding for meat and milk production.

- In 2013, first stage of reconstruction of Pig farm was completed. Number of sows at pig breeding complex reached planned capacity of 4.3 thousand and first farrow of piglets appeared in October 2013.



- In 2013, the Group successfully realized pilot project on implementation of 1.1 KHa drop irrigation system and 100 Ha rain irrigarion system



- With the purpose of optimization of land bank, in October 2013, Group sold 100% of shares in LLC “AGRO DNISTER", agricultural entity which has 1.6 thousand hectares of arable land under lease in Khmelnitsky region of Ukraine and acquired 100% of shares in LLC “SFG BULAH", agricultural entity which has around 2 thousand hectares of arable land under lease in Dnepropetrovsk region. The acquisition will allow the Company to enlarge its land bank in Dnepropetrovsk region, which is target region for the Group.
- In December 2013, the Subsidiary of the Company finalized deals on sale of and sold shares in 3 bread factories, as a non core assets held for sale according to the list below:
  1. 31% of share capital in PAT “Zheltovodskiy Hlebokombinat".

2. 48.45 % of share capital in PAT “Krivorozhskiy Hlebocombinat # 1".

3. 45.96 % of share capital in PAT “KrivorozhHleb".

2. Corporate governance

The Board of Directors (the "Board") observes the majority of rules of Warsaw Stock Exchange corporate governance rules included in the ”Code of Best Practice for WSE Listed Companies” to the form and extent determined by the Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated 21 November 2012. 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 each hold executive role (Directors A), and two directors are non executive ones (Directors B)

The Board nominates at least three members to Audit Committee, which performs a review and evaluation, at least annually, of its performance, members’ performance, and the internal audit department performance, including reviewing the compliance to 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

Articles of Association and national laws and regulation govern the operation of the shareholders meetings and their key powers, description of their rights.

Transfer of shares

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

Changes in the Board of Directors in 2013

The Extraordinary General Meeting (EGM) of the Shareholders of the Company, held on 2 December 2013, approved the resignation of Mr. Tomzsz Jankowski as Class A Director and appointment of Mr. Oleksandr Perov as Class A Director, both effective as of the date of the Meeting.

3. Internal controls system

The Company’s management is responsible for establishing and maintaining adequate controls over financial reporting process for KSG Agro S.A., which includes the appropriate level of Board of Directors’ involvement.

KSG Agro S.A. maintains an effective internal control structure. It consists, in particular, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. An important element of the control environment is an ongoing internal audit program. KSG Agro S.A. system also contains monitoring mechanisms, and actions taken to correct deficiencies if they identified.

To assure the effective administration of internal controls, KSG Agro S.A. carefully selects employees, develop and disseminate oral and written policies and procedures, provide appropriate communication channels and foster an environment conducive to the effective functioning of controls.

We believe that it is essential for the Company to conduct its business affairs in accordance with the highest ethical standards, as set forth in KSG Agro S.A.

The Company’s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Ukrainian generaly adopted accounting principles and transformation to International Financial Reporting Standards as adopted by European Union;
- that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company;

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

In order to ensure, that established controls over financial reporting system worked effectively during 2013, the Audit Committee reviewed a summary of the work performed by internal audit department and evaluated internal control as sufficient, since existing information system is able to identify and manage risk of misstatement in financial data once occurred, including override of controls and fraud.

4. Financial and operational results

Information about main crops harvested in year 2013 and comparative information is as follows:

Crop in thousands tons	2013	2012
Sunflower	41.4	42.0
Winter wheat	64.1	42.6
Winter & Spring Barley	17.5	9.9
Corn	30.6	5.2
Winter & Spring coleseed (rape)	31.1	4.0
Other crops *	4.3	-
Total **	**189.0**	**103.6**

* Other crops include: sorgum 1.6 kT, flax 0.6 kT and sugar beet 2.2 kT

** Moreover it was harvested over 20 kT of corn silo and over 2 kT of vegetables and fruits

The following table sets forth the Company's results of operations for the years ended 31 December 2013 and 2012 derived from the Consolidated Financial Statements:

(US$ in thousands)	31 December 2013	31 December 2012	Changes in %
Revenue	**58,184**	**37,222**	**56.3%**
Net change in fair value of biological assets andagricultural produce, net	16,001	22,116	(27.6)%
Cost of Sales	(68,489)	(39,751)	74.2%
Gross profit	**4,955**	**19,587**	(74.7)%
Gain on acquisition of subsidiaries	605	601	0.7%
Government grant received	3,807	5,735	(33.6)%
Selling, general and administrative expenses	(8,409)	(5,697)	47.6%
Other operating expenses	(7,302)	(2,057)	255.0%
Operating profit	**(6,263)**	**18,245**	**(134.3)%**

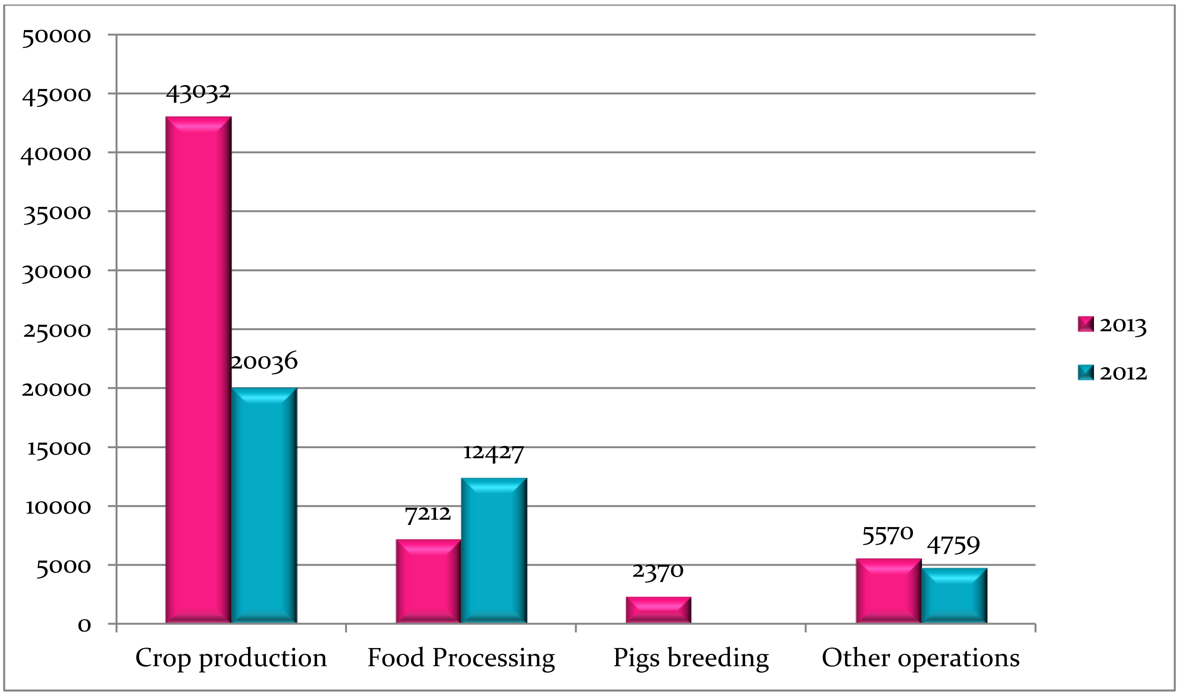
Finance income	2,468	1,117	120.9%
Financial expenses	(15,355)	(7,361)	108.3%
Gain/(Loss) on share purchase warrant	131	(389)	(133.7)%
Loss on impairment of goodwill	(6,261)	-	
Loss on associates disposal	(3,929)	-	
Profit before tax	**(29,189)**	**11,612**	**(351.4)%**
Income tax benefit	587	48	1122.9%
Profit for the year	**(28,602)**	**11,660**	**(345.3)%**
EBITDA *	**2,569**	**25,228**	**(89.8)%**
Normalized EBITDA **	**1,964**	**24,628**	**(92.0)%**

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

*** Normalized (adjusted) EBITDA is calculated as EBITDA decreased by gain on acquisition of subsidiaries.*

Revenue

The following chart sets forth the Company's revenue in thousands USD by segments for the years indicated:



The Company's revenue from sales of finished products increased year-on-year by 56.6% (while cost of sales increased by 74.2%) primarily because of more harvested and sold products when prices declined.

The most significant portion of the Company's revenue comes from selling sunflower seed and rape seeds. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

	2013	**2012**	**Change,%**
Sunflower			
Sales, USD mln	14.5	11.6	25%
Sales, thousands tones	45.0	24.9	81%
Average price, USD/tone	322	467	(31)%
Wheat			
Sales, USD mln	8.9	6.4	39%
Sales, thousands tones	54.6	25.7	112%
Average price, USD/tone	162	249	(35)%
Rape seeds			
Sales, USD mln	15.2	1.7	794%
Sales, thousands tones	29.6	3.4	770%
Average price, USD/tone	515	499	3%
Corn			
Sales, USD mln	3.2	0.1	3100%
Sales, thousands tones	21.9	0.6	3550%
Average price, USD/tone	148	208	(29)%

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

Income from changes in fair value and on initial recognition of biological assets and agricultural produce, decreased by 27.6% from USD 22.1 million for year ended 31 December 2012 to 16.0 million for the year ended 31 December 2013. The decrease for the year ended 31 December 2013 was mainly due to the revaluation of crops in the field, since more conservative price of the crops, yields and increased discount ratio. Besides, it is necessary to remind, sowed area is approximately same, comparing to prior period year-end (45 thousand Ha).

Current biological assets (crops)	31.12.2013 Area, ha	Amount kUSD	USD/ ha	31.12.2012 Area, ha	Amount kUSD	USD /ha
Wheat	17 610	10,866	617	23,507	15,528	661
Barley	7 572	2,990	395	6,093	3,771	619
Rapeseed	19 771	17,640	892	14,813	17,601	1188
Total current biological assets	**44,953**	**32,923**		**44,413**	**38,882**	

Cost of sales

The Company's cost of sales increased by 74.2% to USD 69.2 million for the year ended 31 December 2013 from USD 39.8 million for the year ended 31 December 2012 mainly due to increased revenue by 56.3%.

Gross profit

The Company's gross profit decreased from USD 19.6 million for the year ended 31 December 2012 to USD 5.0 million for the year ended 31 December 2013, a 74.7% decrease.

Selling, general and administrative expenses

Increased sales and selling at CPT basis resulted in rise of Selling, general and administrative expenses by 47.6%. Selling, general and administrative expenses increased from USD 5.7 million for the year ended 31 December 2012 to USD 8.4 million for the year ended 31 December 2013, reflecting an increase in the transportation and crop storage services expenses due to increase a quantity of sold rape seeds on CPT port basis.

Other operating expenses

The Company's other operating expenses increased 3.5 times to USD 7.3 million for the year ended 31 December 2013 from USD 2.1 million for the year ended 31 December 2012.

Financial expenses, net

The Company's net financial expenses increased 2.0 times to USD 12.9 million for the year ended 31 December 2013 from USD 6.2 million for the year ended 31 December 2012.

Income tax expenses

The Company had income tax benefit of USD 587 thousand for the year ended 31 December 2013 compared to an income tax benefit of USD 48 thousand for the year ended 31 December 2011, due to deferred tax implication.

Income tax expense comprises the following:

In thousands of US dollars	**2013**	**2012**
Current tax expense	(64)	(154)
Deferred tax benefit	651	202
Income tax benefit	**587**	**48**

Cash flows

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

(in USD thousands)	**2013**	**2012**
Net cash flow from operating activities	(1,157)	(6,798)
Net cash flow from investing activities	(23,153)	(25,370)
Net cash flow from financing activities	23,402	31,757
Net cash flow for the year	**(908)**	**(411)**

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 fifty thousand two hundred United States Dollars (USD 150,200.00) represented by fifteen million twenty thousand (15,020,000) 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 bought back thirty-two thousand one hundred and seventy-two (32,172) own shares, representing 0.21% of share capital, that are accounted for as treasury shares.

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 seven hundred and five thousand five hundred (9,705,500) shares, representing 64.62% of the issued share capital of the Company.
- Generalli Otwarty Fundusz Emerytalny holds one million four hundred ninety-two thousand seven hundred six (1,492,706) shares, representing 9.94% of the issued share capital of the Company.
- ING Towarzystwo Funduszy Inwestycyjnych holds six hundred ninety-eight thousand thirty (698,030) shares, representing 4.65% 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. Subsequent events

From 31 Dec 2013 till report publishing date, the company experienced the following significant events in its activity:

- The EGM of the Shareholders of the Company, held on 30 June 2014, approved the resignation of Mr. Oleksandr Perov as Class A Director and appointment of Mr. Andrii Mudriievskyi as Class A Director, both effective as of 23 May 2014. The Meeting also approved the resignation of Mrs. Gwenaelle Bernadette Andree Dominique Cousin and Mr. Jakob Mudde as Class B Directors, effective as of 23 May 2014, and appointment of Mr. Xavier Soulard and Mr. Eric Tazzieri as Class B Directors, effective as of 26 May 2014.
- The abovementioned EGM also ratified the transfer of the registered office of the Company from 46-A, avenue J.F. Kennedy, L-1855 Luxembourg to 24, rue Astrid, L-1143 Luxemborg, effective 26 May 2014.
- On 9 May 2014, the management of Board of Warsaw Stock Exchange (WSE) resolved to suspend trading in shares of KSG Agro S.A. due to unavailability of the annual report for the year ended 31 December 2013 of the company to the public.
- On 8 August 2014, the Board of WSE decided to suspend trading in shares of the company KSG Agro SA to the end of the trading day following the date the Company will publish an annual report for the year 2013.
- The management of the Company expects that the Warsaw Stock Exchange will resume trading in shares of KSG Agro S.A. after the publication of the audited annual report for the year 2013. The management of the Company

published unaudited financial statements of the Group for the year 2013 on 23 June 2014.

- Pig farm project is going on successfully. First stage of reconstruction is completed. Business performance is better than planned.
- From 1 January 2014, the Ukrainian Hryvnia devaluated by more than 50% compared to USD. The Group has assets and liabilities denominated in USD and EUR, which when translated at the current spot rates would lead to a net forex loss.
- In March 2014, the Parliament of Ukraine adopted changes to the tax legislation in accordance to which corporate income tax rate is established at level of 18% of taxable incomes without further stepdowngrading to 17% and 16% in 2015 and 2016, respectively. These changes become effective from 1 April 2014.
- The Group is currently in negotiations with the banks to restructure its indebtness. The negotiations are not yet over at the date of the approval of the report and no agreements have been signed so far. The goal of restructuring is to reduce financial leverage to the level, which can be serviced by the business operations of the Group.
- In 2013, the Group had refinanced the loans, which existed as of 31 December 2013 for USD 8,955 thousand and attracted new loans in the amount of USD 9,943 thousand.
- On 18 June 2014, the Board of Directors took decision and disposed of 100% shares in LLC “Pivdenne" in the amount of UAH 1 thousand (about USD 0.1 thousand).
- Because of the Russian Federation’s annexation of the Crimea, KSG Agro, which has about 30% of its crop production business in Crimea, has faced new challenges and risks.
  - By July 24, we have harvested about 10 thousand hectares of early crops. We have harvested about 2 thousand tons of winter barley, about 7 thousand tons of winter wheat, about 3 thousand tons of winter rapeseed.
  - From June 13 to July 20, one of the Crimean divisions of KSG Agro experienced obstacles in operation. However, as of July 24 harvesting continued.
  - Crimean authorities introduced certification of agricultural products according to the Russian Federation’s legislation. KSG Agro enterprises are capable of fulfilling these procedures.
  - At present, KSG Agro enterprises are preparing documents for registration in the Crimea.
  - KSG Agro Board appointed and sent on a mission to the Crimea its deputy COO to organize production processes and control every KSG Agro company in the Crimea. We have also sent our KSG Agro Commercial Director to the Crimea to run sales of grown products.
  - In July 2014, some 160 tons of rapeseed material grown in Crimea have been delivered from the Crimean enterprises to KSG Agro companies located on the mainland Ukraine. The Crimean authorities have not issued any official authorizations or official bans related to taking out products from the Crimea.

- KSG Agro Group Management is now in the process of making decision to recognize the assets in the Crimea as deemed for sale.

7. 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 by providing subsidies, including partially reimbursing interest paid on credit facilities with Ukrainian commercial banks and costs for electric power supply used for irrigation of lands, subsidies for producing seeds and planting new gardens. The aggregate amount of the above-mentioned compensations and subsidies is determined annually in the state budget. The right to reimburse interest rate paid is granted to agricultural companies based on a tender procedure, while other subsidies are paid upon application of the producer.

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.

KSG Agro S.A.

Consolidated Financial Statements

31 December 2013

Contents

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 2013 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 2013, 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 2013 and for the year then ended were approved on 22 August 2014.

S.P. Kasianov (Chairman of the Board)	S.V. Mazin (Chief Executive Officer)	O.V. Kalinichenko (Chief Financial Officer)

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AUDIT

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To the Shareholders of
KSG AGRO S.A.
24, Rue Astrid
L – 1143 LUXEMBOURG

Independent auditor's (Réviseur d'Entreprises Agréé) report on the consolidated financial statements as at December 31, 2013

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of KSG AGRO S.A. and its subsidiaries (the «Group» hereinafter), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of directors' responsibility for the consolidated financial statements

The 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.

Independent auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing 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 independent auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 Group's internal control.

Independent auditor's responsibility (continued)

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 except as discussed in the following paragraphs.

Basis for Qualified Opinion

The Group incurred a net loss of KUSD 28,602 during the year ended December 31, 2013 and, as of that date, the Group's current liabilities exceeded its current assets by KUSD 23,562. As a result, these loans are repayable on demand and have been classified in current liabilities (see also Note 32 "Events after the reporting period"). As reported in the published unaudited interim condensed consolidated financial statements as at March 31, 2014, net assets attributable to owner of the Group decreased further from KUSD 50,135 to KUSD 16,549 what is, according to Board of directors, mainly due to the devaluation of UAH against USD and EUR. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. The Board of directors did not provide the auditors with reliable information on the assumptions underlying the 2014 budget used to ascertain the going basis principle. The going concern assumption may be valid if debt restructuring agreements are negotiated and signed and the 2014 budget is met, as explained in Note 3 "Summary of significant accounting policies". Therefore, we are unable to assess if it is appropriate to prepare the financial statement assuming the Group will continue as a going basis.

The Group did not grant access to the auditors to documents supporting the balances and transactions of the subsidiary KSG Agro Polska. This company is in the process of liquidation. The Board of directors of the Group is of the opinion that the company is not material to the Group. Therefore, we are unable to assess the completeness of all existing or potential contributive balances, transactions and off balances sheet commitments of this company in the consolidated financial statements.

During the year, one of the affiliates of the Group, KSG Agricultural and Industrial Holding Limited, acted as the intermediary to facilitate the transactions for the purchase of equipment and livestock supplied to its subsidiaries. From these transactions, the subsidiary realized a loss amounting to KUSD 1,626. Such transactions may be challenged by the Cyprus tax authorities and in such case a potential tax liability may arise as a result of the application of Cyprus tax legislation and relevant circulars. The Company did not recognize in its financial statements any provision for such liability.

BAKER TILLY
LUXEMBOURG
AUDIT

Qualified Opinion

In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2013, its operating results and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

As explained in Note 32 "Events after the reporting period", the Group has significant assets located in the Crimea region that has been annexed by the Russian Federation early in 2014. Those assets are still operational and are still under control of the Group according to group management. The group management is currently in the process of making decisions to recognize the assets as deemed for sale.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of directors, is consistent with the consolidated financial statements.

The accompanying 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.

Howald, August 22, 2014

BAKER TILLY Luxembourg Audit S.à r.l.
Cabinet de révision agréé

Olivier BIREN
Managing Partner

KSG Agro S.A.

Consolidated Statement of Financial Position

In thousands of US dollars	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	8	90,327	76,489
Intangible assets	9	19,856	27,537
Long-term biological assets	11	22,772	1,856
Promissory notes receivable		819	352
Term deposits	12	14,245	3,107
Total non-current assets		**148,019**	**109,341**
Current assets			
Current biological assets	11	32,923	38,882
Inventories and agricultural produce	10	12,981	20,354
Trade and other accounts receivable	13	31,874	19,836
Taxes recoverable and prepaid	14	6,076	3,746
Income tax prepaid		130	116
Term deposits	12	5,132	5,747
Cash and cash equivalents	12	131	711
		89,247	**89,392**
Non-current assets held for sale	6	-	5,033
Total current assets		**89,247**	**94,425**
TOTAL ASSETS		**237,266**	**203,766**
EQUITY			
Share capital	15	150	149
Share premium	15	37,366	36,821
Prepayment for future share issue	16	-	432
Treasury shares	15	(112)	-
Retained earnings		11,352	42,919
Currency translation reserve		(35)	181
Equity attributable to the owners of the Company		**48,721**	**80,502**
Non-controlling interests		**28,757**	**25,618**
TOTAL EQUITY		**77,478**	**106,120**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	43,588	9,914
Promissory notes issued	19	1,264	413
Deferred tax liability	25	2,127	2,778
Total non-current liabilities		**46,979**	**13,105**
Current liabilities			
Loans and borrowings	17	59,804	48,709
Trade and other accounts payable	18	51,257	34,737
Share purchase warrant	16	258	389
Promissory notes issued	19	910	424
Income tax payable		580	282
Total current liabilities		**112,809**	**84,541**
TOTAL LIABILITIES		**159,788**	**97,646**
TOTAL LIABILITIES AND EQUITY		**237,266**	**203,766**

Approved for issue and signed on behalf of the Board of Directors on 22 August 2014.

S.P. Kasianov
(Chairman of the Board)

S.V. Mazin
(Chief Executive Officer)

O.V. Kalinichenko
(Chief Financial Officer)

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

KSG Agro S.A.

Consolidated Income Statement

In thousands of US dollars	**Note**	**2013**	**2012**
Revenue	20	58,184	37,222
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs	11	16,001	22,116
Cost of sales	21	(69,230)	(39,751)
Gross profit		**4,955**	**19,587**
Gain on acquisition/(disposal) of subsidiaries	5	605	601
Other operating income		81	76
Government grant received	14	3,807	5,735
Selling, general and administrative expenses	22	(8,409)	(5,697)
Other operating expenses	23	(7,302)	(2,057)
Operating (loss)/profit		**(6,263)**	**18,245**
Finance income	24	2,468	1,117
Finance expenses other than those related to share purchase warrant	24	(15,335)	(7,361)
Loss on impairment of goodwill	9	(6,261)	-
Loss on associates' disposal	6	(3,929)	-
Gain/(Loss) on share purchase warrant	16	131	(389)
(Loss)/Profit before tax		**(29,189)**	**11,612**
Income tax benefit	25	587	48
(Loss)/Profit for the year		**(28,602)**	**11,660**
(Loss)/Profit attributable to:			
Owners of the Company		(31,567)	8,108
Non-controlling interest		2,965	3,552
(Loss)/Profit for the year		**(28,602)**	**11,660**
Earnings per share			
Weighted-average number of common shares outstanding		15,020,000	14,925,500
Basic earnings per share, USD		(2.01)	0.54
Diluted earnings per share, USD		(2.01)	0.54

Consolidated Statement of Comprehensive Income

In thousands of US dollars	**2013**	**2012**
(Loss)/Profit for the year	**(28,602)**	**11,660**
Other comprehensive income, net of income tax		
Currency translation differences	(234)	277
Total comprehensive income for the year	**(28,836)**	**11,937**
Total comprehensive income attributable to		
Owners of the Company	(31,783)	8,385
Non-controlling interests	2,947	3,552
Total comprehensive income for the year	**(28,836)**	**11,937**

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

KSG Agro S.A.
Consolidated Statement of Cash Flows

In thousands of US dollars	Note	2013	2012
Cash flows from operating activities			
(Loss)/Profit before tax		**(29,189)**	11,612
Adjustments for:			
Depreciation and amortization	8, 9	8,831	6,983
Impairment of trade and other accounts receivable	23	2,141	443
Impairment of VAT receivable	23	1,094	773
Provision for inventory	23	1,912	489
Unrealised gain on biological assets and agricultural produce		(16,001)	(16,146)
Exchange differences			334
Losses less gains on share purchase warrant	16	(131)	389
Loss on disposal of property, plant and equipment		650	-
Finance expenses other than share purchase warrant	24	10,779	7,361
Finance income	24	(2,161)	(1,117)
Gain on acquisition of subsidiaries	5	4,032	(601)
Goodwill impairment		6,261	-
Unwinding of discount		380	-
Provision of Interest expense and penalties		1,419	-
Amortization of financial instruments		925	-
Operating cash flows before working capital changes		**(9,058)**	**10,520**
Change in trade and other accounts receivable		(16,254)	(4,428)
Change in current biological assets		27,379	(5,397)
Change in inventories and agricultural produce		(19,740)	(3,752)
Change in trade and other accounts payable		26,045	2,374
Cash used in operations		**8,372**	**(683)**
Interest paid		(8,835)	(6,007)
Income tax paid		(694)	(108)
Cash used in operating activities		**(1,157)**	**(6,798)**
Cash flow from investment activities			
Acquisition of property, plant and equipment		(11,916)	(8,234)
Proceeds from disposal of property, plant and equipment		1,481	206
Purchase of intangible assets		-	(63)
Acquisition of promissory notes, other then own		-	(352)
Disposal of subsidiaries/(assets held for sale), net of cash disposed		696	-
Acquisition of subsidiaries, net of cash acquired		(501)	(13,088)
Interest received		2,161	635
Term deposit placed		(10,523)	(4,474)
Settlement of prior year business combination liability		(5,655)	-
Disposal of assets held for sale		1,104	-
Net cash used in investment activities		**(23,153)**	**(25,370)**
Cash flow from financing activities			
Proceeds from bank loans and other borrowings		88,419	44,538
Repayment of bank loans		(62,808)	(11,833)
Contributions to share capital		1	432
Reorganisation of interests		-	-
Promissory note settlement		(143)	-
Repayment of financial lease liabilities		(2,067)	(1,380)
Net cash received from financing activities		**23,402**	**31,757**
Net (decrease)/increase in cash and cash equivalents		(908)	(411)
Cash and cash equivalents at the beginning of the year		711	1,122
Effect of exchange rate differences on cash and cash equivalents		328	-
Cash and cash equivalents at the end of the year		**131**	**711**

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

In thousands of US dollars	Note	Share capital	Share premium	Treassury shares	Prepayment for future share issue	Currency translation reserve	Retained earnings	Total attributable to owners of the Company	Non-controlling interest	Total equity
		Attributable to owners of the Company								
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 loss		-	-	-	-	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	15	-	-	-	432	-	-	432	-	432
Balance as at 31 December 2012		**149**	**36,821**	**-**	**432**	**181**	**42,919**	**80,502**	**25,618**	**106,120**
Loss for the year		-	-	-	-	-	(31,567)	(31,567)	2,965	(28,602)
Other comprehensive income		-	-	-	-	(216)	-	(216)	(18)	**(234)**
Total comprehensive income for the year		-	-	-	-	(216)	(31,567)	(31,783)	2,947	**(28,836)**
Business combinations	5	-	-		-	-	-	-	192	**192**
Shares buy-back		-	112	(112)		-	-	-	-	**-**
Issue of share capital	15	1	433	-	(432)	-	-	2	-	**2**
Balance as at 31 December 2013		**150**	**37,366**	**(112)**	**-**	**(35)**	**11,352**	**48,721**	**28,757**	**77,478**

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 2012 the Company's name was changed to KSG Agro S.A.

The registered office of the Company is at 24, rue Astrid, L-1143 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 average number of employees of the Group during 2013 was 1 449 employees (2012: 1 061 employees).

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

The primary subsidiaries and principal activities of the companies forming the Group and the Parent's effective ownership interest as at 31 December 2013 and 2012 were as follows:

			Effective ownership ratio, %	
Operating entity	**Principal activity**	**Country of registration**	**31 December 2013**	**31 December 2012**
KSG Agro S.A.	Holding company	Luxembourg	Parent	Parent
KSG Agricultural and Industrial Holding LTD	Subholding company	Cyprus	100%	100%
KSG Agro Polska	Trade of agricultural products	Poland	100%	100%
KSG Agro Representative office	Representing activities	Poland	100%	100%
KSG Energy Group LTD	Trade of pellets	Cyprus	50%	50%
Parisifia LTD	Intermediate holding company	Cyprus	50%	50%
Abbondansa SA	Trade of agricultural products	Switzerland	50%	50%
Enterprise №2 of Ukrainian agricultural and industrial holding LLC	Agricultural production	Ukraine	100%	100%
Scorpio Agro LLC	Agricultural production	Ukraine	100%	100%
Souz-3 LLC	Agricultural production	Ukraine	100%	100%
Goncharovo Agricultural LLC	Agricultural production	Ukraine	100%	100%
Agro-Trade House Dniprovsky LLC	Agricultural production	Ukraine	100%	100%
Dnipro LLC	Agricultural production	Ukraine	100%	100%
KSG Trade House LTD	Trade of agricultural products	Ukraine	100%	100%
Agro-Dnester LLC	Agricultural production	Ukraine	-	100%
Trade House of the Ukrainian Agroindustrial Holding LLC	Agricultural production	Ukraine	100%	100%
Pivdenne Agricultural LLC	Agricultural production	Ukraine	100%	100%
Unirem Agro Plus LLC	Agricultural production	Ukraine	100%	100%
Askoninteks LLC	Agricultural production	Ukraine	100%	100%
Agro Golden LLC	Agricultural production	Ukraine	100%	100%
Agro LLC	Lessor of equipment	Ukraine	100%	100%
SPE Promvok LLC	Lessor of equipment	Ukraine	100%	100%
Dniproagrostandard LLC	Agricultural production	Ukraine	100%	100%
Dniproagroprogress LLC	Agricultural production	Ukraine	100%	100%
Meat plant Dnipro LLC	Manufacture	Ukraine	100%	100%
Hlebna Liga LLC	Trader	Ukraine	100%	100%
Agrofirm Vesna LLC	Agricultural production	Ukraine	100%	100%
Vidrodzhennya LLC	Agricultural production	Ukraine	100%	100%
Agrotrade LLC	Agricultural production	Ukraine	50%	50%
Factor D LLC	Agricultural production	Ukraine	50%	50%
Rantye LLC	Agricultural production	Ukraine	50%	50%

1. Background (continued)

			Effective ownership ratio, %	
Operating entity	**Principal activity**	**Country of registration**	**31 December 2013**	**31 December 2012**
Agrotechnologiya LLC	Oil processing	Ukraine	51%	51%
PrJSC Pererobnyk	Flour and animals' feed producing	Ukraine	25%	25%
Agroplaza LLC	Intermediate holding company	Ukraine	49,95%	49,95%
Stepove LLC	Agricultural production	Ukraine	49,93%	49,93%
Dzherelo LLC	Agricultural production	Ukraine	49,95%	49,95%
Kolosyste LLC	Agricultural production	Ukraine	49,95%	49,95%
Hlebodar LLC	Agricultural production	Ukraine	49,95%	49,95%
Ukrzernoprom - Prudy LLC	Agricultural production	Ukraine	50,00%	49,95%
Ukrzernoprom - Uyutne LLC	Agricultural production	Ukraine	50,00%	49,95%
Ukrzernoprom - Kirovske LLC	Agricultural production	Ukraine	50,00%	49,95%
Ukrzernoprom - Yelizavetove LLC	Agricultural production	Ukraine	50,00%	49,95%
World Food LLC	Trade of agricultural products	Ukraine	-	50%
SFG Bulah LLC	Agricultural production	Ukraine	100%	-

These consolidated financial statements are presented in thousand 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 issued by the International Accounting Standards Board (“IASB”) and 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.

Going concern assumption. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business.

The ability of the Company to continue as a going concern depends wholly on success of negotiations with the Ukrainian banks to restructure the Group’s indebtness, as explained in Note 32, Loan portfolio restructing and on the realization of the 2014 budget. This budget plans for sales volumes of 165,471 tonnes of crops (mainly: winter wheat, winter barley, winter rape and sunflower), sales of 89,981 of piglets, rendering of flour milling services with annual capacity of 147,840 tonnes and sales of lucerne amounting to 7,200 tonnes (Key assumptions: 30% from budgeted revenue will be received from export operations, increase in sales volume due to development of pig breeding segment, food processing (mainly, flour processing) and other operation segments (mainly, lucerne processing)).

3. Summary of Significant Accounting Policies (continued)

The main assumptions used for the budget have been estimated by the management of the Group, based on their knowledge of their local market at a date near the approval of the consolidated financial statements.

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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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:

	Useful lives in years
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.

3. Summary of Significant Accounting Policies (continued)

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 2013, 22 Ukrainian subsidiaries of the Group elected to pay FAT (31 December 2012: 13). The rest of the Group's entities are subject to regular income tax.

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 and other long-term 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 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, litter of piglets, 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.

3. Summary of Significant Accounting Policies (continued)

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 and long-term crops are classified as non-current and livestock husbandry and winter crops 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.

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.

3. Summary of Significant Accounting Policies (continued)

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

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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

The exchange rates used for translating foreign currency balances were:

	2013	**2012**
USD/UAH as of 31 December	7.9930	7.9930
USD/UAH average for the year	7.9930	7.9910
EUR/UAH as of 31 December	11.0415	10.5372
EUR/UAH average for the year	10.6116	10.2683

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.

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. The key assumptions used to determine the fair value of biological assets presented in Note 11.

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 2012: an increase or decrease in the fair value of agricultural produce of USD 531 thousand).

Goodwill. Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carring value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carring amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future periods.

Useful lives. Management estimates are necessary to identify the useful lives of property, plant and equipment. Management uses its expertise and judgment in reassessing the remaining useful lives of major items at each reporting date.

Subsidiaries. The Group consolidates the result of Parisifia Trading Ltd (Cyprus), KSG Energy Group Ltd (Cyprus) and Abondanza S.A. (Switzerland) 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, 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.

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

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

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

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

• Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

• Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

• Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

5. Business Acquisitions

During 2013 the Group acquired control over SFG Bulah LLC and disposed control over two subsidiaries: Agro-Dnestr LLC and World Food LLC.

In thousands of US dollars	**SFG Bulah LLC**	**Agro-Dnestr LLC**	**World Food LLC**	**Total**
Voting right acquired (+)/dispoised (-) (Note 4)	100.00%	(99.90%)	(99.00%)	
Effective interest attributable to the owners of the Company	100.00%	(99.90%)	(49.50%)	
Land lease rights (Note 9)	475	-	-	475
Biological assets (Crops in the field)	-	201	-	201
Inventories and agricultural produce	604	282	46	932
Cash and cash equivalents	-	3	3	6
Fair value of accounts receivable	545	133	578	1,256
Accounts payable	(1,020)	(867)	(959)	(2,846)
Fair value of 100% of net assets	**604**	**(248)**	**(332)**	**24**
Less recognised/plus derecognised non-controlling interest	-	-	192	192
Plus goodwill	-	-	188	188
Less gain on bargain purchase/sale	(103)	(470)	(32)	(605)
Total purchase consideration	**501**	**(718)**	**16**	(201)
Less: unpaid amount	-	-	-	-
Cash and cash equivalents acquired	-	3	3	6
Outflow (+) /inflow (-) of cash on acquisition/disposal	**501**	**(715)**	**19**	**(195)**

In 2013, a 100 % - owned subsidiary of the Group acquired control over SFG Bulah LLC, a company incorporated in Ukraine, through acquisition of 100% of its corporate rights for cash consideration of USD 501 thousand. The Group consolidated SFG Bulah LLC starting from 31 October 2013. The Group acquired this entity to expand its crop production business and increase its land bank.

In September/October 2013 the Board of Directors of the Group announced its decision to dispose subsidiaries Agro Dnestr LLC and World Food LLC. The businesses of these entities have been operating in the field of crop production and trade operations in Ukraine respectively. Gain realized on disposal of Agro Dnestr LLC and World Food LLC in the amount of USD 470 and 32 thousand respectively was recognized in these consolidated financial statements in "Other operating income/expenses".

5. Business Acquisitions (continued)

Business acqusitions occurred during 2012 were as follows.

Agrotechnologiya LLC
In May 2012, the Group acquired control over Agrotechnologiya 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).

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, Uyutne 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, Uyutne 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)

In thousands of US dollars	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 acquistion	-	-	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 aquired, 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 hectars (2011: 9 thousand hectars) 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. During 2013 Group continued joint operations with Dobrobut relating to crop production.

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 Zhovtovodskyi 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.

During 2013 the Group sold 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 Zhovtovodskyi hlibokombinat for USD 1,103 thousand, thus loss on this transaction amounting to USD 3,929 thousand was recognized in the income statement.

7. New Accounting Pronouncements

The following standards and amendments became effective as of 1 January 2013:

- IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 13 Fair Value Measurement and disclousure

Improvements to IFRSs 2009-2011 Cycle:

- IAS 1 – Presentation of items of Other Comprehensive Income (Amendments to IAS 1)
- IFRS 1 – Borrowing Costs
- IAS 16 – Classification of servicing equipment
- IAS 32 – Tax effects of distributions to holders of equity instruments

New IFRS standarts and interpretations applicable from 2014 onward:

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2013. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

Standards and Interpretations adopted by the EU:

- IAS 27 “Separate Financial Statements” (revised 2011) – Investment entities (effective for annual periods beginning on or after 1 January 2014)
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2014)
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2014)
- IAS 32 (Amendments) “Financial instruments: Presentation”– Application guidance on the offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014)
- IAS 36 (Amendments) “Recoverable amounts disclosures for non-financial assets (effective for annual periods beginning on or after 1 January 2014)
- IFRS 7 (Amendments) “Financial instruments: Disclosures” – Disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015)
- IFRS 9 “Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition”1 (effective for annual periods beginning on or after 1 January 2015)

8. Property, Plant and Equipment

Movement of property, plant and equipment for the year ended 31 December 2013 and 2012 was as follows:

In thousands of US dollars	**Buildings**	**Agricultural equipment**	**Vehicles and office equipment**	**Construction in progress**	**Total**
At 1 January 2012					
Cost	33,697	13,633	3,290	2,600	53,220
Accumulated depreciation	(131)	(2,215)	(211)	-	(2,557)
Carrying amount as at 1 January 2012	**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**
Additions	903	4,627	3,058	14,506	23,094
Disposals	(284)	(871)	(976)	-	(2,131)
Depreciation charge	(2,894)	(3,085)	(1,146)	-	(7,125)
Carrying amount as at 31 December 2013	**45,037**	**21,782**	**5,121**	**18,387**	**90,327**
At 31 December 2013					
Cost	51,089	30,427	7,808	18,387	107,711
Accumulated depreciation	(6,052)	(8,645)	(2,687)	-	(17,384)
Carrying amount as at 31 December 2013	**45,037**	**21,782**	**5,121**	**18,387**	**90,327**

During 2013 the Group capitalised borrowing costs in amount of USD 841 thousand (2012: USD 155 thousand) on the construction of a pig-breeding complex (Note 24) using average rate of 18% (2012: 18%).

Included in agricultural equipment are assets held under finance leases with a carrying value of USD 8,082 thousand (2012: UAH 5,690 thousand) (Note 17).

For amount of property, plant and equipment pledged to secure bank loans refer to Note 17.

9. Intangible Assets

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Goodwill	8,816	15,265
Land lease rights	11,037	12,268
Other	3	4
Total intangible assets	**19,856**	**27,537**

9. Intangible Assets (continued)

The following table represents movements in the goodwill:

In thousands of US dollars	2013	2012
Carrying amount as at 1 January	**15,265**	**14,347**
Goodwill impairment	(6,261)	-
Goodwill arising on acquisition/(diposal) of subsidiaries (Note 5)	(188)	923
Translation differences	-	(5)
Carrying amount as at 31 December	**8,816**	**15,265**

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:

In thousands of US dollars	Note	31 December 2013	31 December 2012
Kovbasna Liga		-	6,261
Soyuz-3		5,583	5,583
Unirem Agro		1,036	1,036
Agrotehnologiya	5	923	923
Other		1,274	1,462
Total goodwill		**8,816**	**15,265**

The Group performed its annual impairment test in December 2013. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

Kovbasna Liga CGU. The recoverable amount of this CGU as at 31 December 2013 has been determined based on value in use calculation using cash flow projection from financial budgets approved by Management covering 5 years period. The pre-tax discount rate applied to cash flow projections is 27.68 %. It was concluded that value in use is lower than carrying amount of goodwill relating to Kovbasna Liga CGU. As a result of this analysis, Management has recognized an impairment charge of USD 6,261 thousand against this goodwill as at 31 December 2013.

Crop production CGUs (Soyuz-3, Unirem Agro, Agrotehnologiya, Other). The recoverable amount of these CGUs as at 31 December 2013 has been determined based on value in use calculation using cash flow projection from financial budgets approved by Management covering 5 years period. The pre-tax discount rate applied to cash flow projections is 27.68 %. Other significant assumptions include crop yields and crop prices. Crop yields were derived based on average yields of the Group achieved in the five years preceeding the budgeted period. For the purpose of impairment testing, the Group conservatively did not budget for any increase in yields. Crop prices were based on actual prices for the year preceding the budgeted year adjusted based on the commodity price forecasts. The resulting value in use provides for significant headroom; therefore, management believes that no reasonable change in the assumption would cause the carrying value of the CGU to materially exceed its value-in-use.

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

In thousands of US dollars	2013	2012
At 1 January		
Cost	14,335	7,088
Accumulated amortisation	(2,067)	(963)
Carrying amount as at 1 January	**12,268**	**6,125**
Acquisition of business combinations (Note 0)	475	7,184
Additions	-	63
Amortization charge	(1,706)	(1,104)
At 31 December		
Cost	14,810	14,335
Accumulated amortisation	(3,773)	(2,067)
Carrying amount as at 31 December	**11,037**	**12,268**

10. Inventories and Agricultural Produce

In thousands of US dollars	31 December 2013	31 December 2012
Agricultural produce	4,629	10,225
Work in progress	2,555	5,017
Building materials	844	285
Agricultural stock	2,873	2,488
Goods for resale	655	804
Spare parts	207	243
Fuel	459	412
Other	759	880
Total inventories and agricultural produce	**12,981**	**20,354**

Agricultural produce consists mainly of sunflower, wheat and corn (31 December 2012: wheat and sunflower).

11. Biological Assets

	2013		2012	
	Units	**Amount**	**Units**	**Amount**
Non-current biological assets (livestock)				
Cattle	622	931	622	1,758
Pigs	4 169	15,332	-	-
	Area, ha	**Amount**	**Area, ha**	**Amount**
Non-current biological assets (crops)				
Lucerne	1 977	6,281	-	-
Other perennial grasses	-	228	-	98
Total non-current biological assets		**22,772**		**1,856**

	2013		2012	
Current biological assets (livestock)	**Units**	**Amount**	**Units**	**Amount**
Cattle	837	396	913	447
Pigs	20 054	1,012	9,619	1,488
Other	180	19	618	47
Current biological assets (crops)	**Area, ha**	**Amount**	**Area, ha**	**Amount**
Wheat	17 610	10,866	23,507	15,528
Barley	7 572	2,990	6,093	3,771
Rapeseed	19 771	17,640	14,813	17,601
Total current biological assets		**32,923**		**38,882**
Total biological assets		**55,695**		**40,738**

Significant quantity of Danish breed pigs (recorded as non-current biological assets) was purchased in April 2013 in order to produce piglets of given breed and to sell them in live weight.

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 2013.

11. Biological Assets (continued)

The following table represents the changes during the years 31 December in the carrying amounts of non-current and current biological assets:

In thousands of US dollars	Crops	Livestock	Total
Carrying amount as at 1 January 2012	**11,869**	**3,034**	**14,903**
Investments into future crops and livestock	35,795	4,815	40,610
Sales	(79)	(4,494)	(4,573)
Gain arising from changes in fair value attributable to physical changes and changes in market prices	21,731	385	22,116
Harvested during the period	(32,303)	-	(32,303)
Exchange difference	(15)	-	(15)
Carrying amount as at 31 December 2012	**36,998**	**3,740**	**40,738**
Purchases	-	2,259	2,259
Investments into future crops and livestock	46,820	7,310	54,130
Change resulting from business acquisitions, net (Note 5)	75	-	75
Sales	-	(5,795)	(5,795)
Gain arising from changes in fair value attributable to physical changes and changes in market prices	5,827	10,174	16,001
Harvested during the period	(51,713)	-	(51,713)
Carrying amount as at 31 December 2013	**38,007**	**17,688**	**55,695**

Costs incurred during the period ended 31 December 2013 on crops in the field and livestock were as follows:

In thousands of US dollars	Crops	Livestock	Total
Raw materials	21,859	4,104	25,963
Land lease expenses	6,162	-	6,162
Staff costs	2,394	890	3,284
Depreciation and amortisation	6,266	1,668	7,934
FAT	439	22	461
Other	9,700	626	10,326
Total costs incurred during the period on crops in the field	**46,820**	**7,310**	**54,130**

Costs incurred during the period ended 31 December 2012 on crops in the field and livestock were as follows:

In thousands of US dollars	Crops	Livestock	Total
Raw materials	18,972	2,953	21,925
Land lease expenses	5,058	-	5,058
Staff costs	3,085	546	3,631
Depreciation and amortisation	2,585	903	3,488
FAT	355	-	355
Other	5,740	413	6,153
Total costs incurred during the period on crops in the field	**35,795**	**4,815**	**40,610**

11. Biological Assets (continued)

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

In thousands of US dollars	**2013**	**2012**
Crops in the field	24,301	1,197
Agricultural produce at the date of harvesting	(24,754)	20,534
Lucerne	6,281	-
Sows	11,112	-
Livestock husbandry	63	87
Dairy cows	(1,002)	298
Total gain on initial recognition at fair value and net change in fair value of biological assets	**16,001**	**22,116**

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

Description	**Fair value as at 31 December 2013**	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**
Crops in the field - Winter wheat	10 866	Discounted cash flows	Crop yield - tons per ha	2,89
			Crops price, USD	292 per tonne
			Discount rate	26.64%
Crops in the field - Winter barley	2 990	Discounted cash flows	Crop yield - tons per ha	2,68
			Crops price, USD	224 per tonne
			Discount rate	26.64%
Crops in the field - Winter rapeseed	17 640	Discounted cash flows	Crop yield - tons per ha	1,85
			Crops price, USD	652 per tonne
			Discount rate	26,64%
Lucerne	6 281	Discounted cash flows	Lucerne green mass yield - tons per ha	10
			Price, USD	339 per tonne
			Discount rate	26.64%
Cattle	931	Discounted cash flows	Milk yield - kg per cow	4 011 per year
			Milk price, USD	581 per tonne
			Discount rate	20.20%
Sows and repair pigs	15 332	Discounted cash flows	Piglets production, heads (average)	99 080 per year
			Price, USD	2 085 - 4 187 per tonne
			Discount rate	26.64%

Agricultural produce harvested during 2013 and 2012 was presented as follows:

Crop harvested	**2013 in tones**	**2012 in tones**
Spring barley	3 141	6 469
Winter barley	14 334	3 423
Rapeseed	31 138	3 978
Winter wheat	64 097	42 563
Sunflower	41 441	42 006
Corn	30 563	5 168
Total	**184 714**	**103 608**

For amount of biological assets pledged to secure bank loans refer to Note 17.

11. Biological Assets (continued)

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

In thousands of US dollars	**Effect on fair value of biological assets**
10 % increase in price for milk	498
10 % decrease in price for milk	(498)
10 % increase in price for meat	5 331
10 % decrease in price for meat	(5 331)
10 % increase in milk yield	498
10 % decrease in milk yield	(498)
10 % increase in prices for crops	5 350
10 % decrease in prices for crops	(5 350)
10 % increase in yield for crops	5 025
10 % decrease in yield for crops	(5 025)
10 % increase in production costs until harvest	(1 241)
10 % decrease in production costs until harvest	1 241
5 % increase in discount rate	(833)
5 % decrease in discount rate	868

12. Cash and Cash Equivalents and Term Deposits

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Cash in bank	131	710
Cash on hand	-	1
Total cash and cash equivalents	**131**	**711**
Term deposits – non-current	14,245	3,107
Term deposits – current	5,132	5,747
Total deposits	**19,377**	**8,854**

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

In thousands of US dollars	**31 December 2013**		**31 December 2012**	
	Cash and cash equivalents	**Term deposits**	**Cash and cash equivalents**	**Term deposits**
UAH	93	10,351	455	6,282
EUR	12	-	3	1,977
USD	26	9,026	198	595
Other	-	-	55	-
Total	**131**	**19,377**	**711**	**8,854**

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:

In thousands of US dollars	**31 December 2013**		**31 December 2012**	
	Cash and cash equivalents	**Term deposits**	**Cash and cash equivalents**	**Term deposits**
Neither past due nor impaired				
- A rated	7	-	237	-
- Baa rated	4	-	3	-
- B rated	-	-	159	3,902
- Caa rated	95	-	221	-
- Unrated	25	19,377	91	4,952
Total	**131**	**19,377**	**711**	**8,854**

For amount of deposits pledged to secure bank loans refer to Note 17.

13. Trade and Other Accounts Receivable

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Trade accounts receivable	19,410	12,825
Less: provision for trade accounts receivable	(1,940)	(118)
Loans issued	10,230	2,336
Other financial receivables	2,034	2,016
Less: provision for other financial receivables	(793)	(529)
Total financial trade and other receivables	28,941	16,530
Advances issued	3,112	3,401
Less: provision for advances issued	(233)	(178)
Loans to employees	54	83
Total trade and other accounts receivable	**31,874**	**19,836**

As at 31 December 2013 99% of financial receivables were denominated in UAH (31 December 2012: 91%).

Loans issued represent interest – free loans and are repayable within twelve months.

13. Trade and Other Accounts Receivable (continued)

The fair value of each class of trade and other receivables as at 31 December 2013 and 2012 approximates their carrying amount as of these dates.

For amount of receivables pledged to secure bank loans refer to Note 17.

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

In thousands of US dollars	**Trade receivables**	**Other financial receivables**	**Advances issued**
Provision for impairment at 31 December 2011	**220**	**-**	**480**
Provision for impairment during the year (Note 23)	196	549	(302)
Write-off of receivables against respective provision	(298)	(20)	-
Provision for impairment at 31 December 2012	**118**	**529**	**178**
Provision for / (reversal of) impairment during the year (Note 23)	1,822	264	55
Write-off of receivables against respective provision	-	-	-
Provision for impairment at 31 December 2013	**1,940**	**793**	**233**

Analysis by credit quality of financial receivables is as follows:

	31 December 2013			**31 December 2012**		
In thousands of US dollars	**Trade receivables**	**Loans issued**	**Other financial receivables**	**Trade receivables**	**Loans issued**	**Other financial receivables**
Neither past due nor impaired						
- Related parties	592	8,404	-	1,144	2,255	133
Total neither past due nor impaired	**592**	**8,404**	**-**	**1,144**	**2,255**	**133**
Total overdue						
- less than 90 days overdue	10,953	62	335	4,079	-	-
- 91 to 180 days overdue	1,384	-	-	1,257	-	-
- 181 to 360 days overdue	4,118	1,170	-	2,193		69
- over 360 days overdue	2,363	594	1,699	4,152	81	1,814
Total overdue	**18,818**	**1,826**	**2,034**	**11,681**	**81**	**1,883**
Less: provision for impairment	(1,940)	-	(793)	(118)	-	(529)
Total trade and other receivables	**17,470**	**10,230**	**1,241**	**12,707**	**2,336**	**1,487**

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. Taxes recoverable and prepaid, government grants received

In thousands of US dollars	**31 December 2013**	**31 December 2012**
VAT recoverable (1)	6,016	3,630
Other taxes receivable	60	116
Total taxes recoverable and prepaid	**6,076**	**3,746**

(1) As at 31 December 2013 the balance of VAT recoverable was accumulated on continuing capital expenditures and increased investments in working capital.

As at 31 December 2013 based on the VAT refund regulations, the Group's management confirmed that VAT recoverable amounting to USD 1 824 thousand will be refunded by government authorities in cash form. The remaining amount of VAT recoverable will be set off against future VAT liabilities in accordance with Ukrainian tax legislation.

(2) The Ukrainian legislation provides for a number of different grants and tax benefits for companies involved in agricultural operations. The below mentioned grants and similar privileges are established by Verkhovna Rada (the Parliament) of Ukraine, as well as by the Ministry of Agrarian Policy of Ukraine, the Ministry of Finance of Ukraine, the State Committee of Water Industry, the customs authorities and local district administrations.

Government grants recognised by the Group as income during the years ended 31 December 2013 and 2012 were presented by VAT refunds amounting to USD 3 807 thousand and USD 5 735 thousand respectively.

15. Share Capital and Share Premium

In thousands of US dollars, except number of shares	**Number of shares**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2012	3,100,000	43	-	43
Conversion of shares – 8 March 2012	1,179,699	-	-	-
Share issue - 8 March 2012	5,720,301	57	-	57
Share issue – 13 April 2012	4,925,500	49	36,821	36,870
At 31 December 2012	**14,925,500**	**149**	**36,821**	**36,970**
Share issue	94,500	1	433	434
At 31 December 2013	**15,020,000**	**150**	**37,254**	**37,404**

On 11 July 2013, the Board of Directors resolved to increase the share capital from USD 149,255.00 to USD 150,200.00 by issuance 94 500 new shares with nominal value of USD 0.01 each.

16. 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.

16. Put Option and Share Purchase Warrants (continued)

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 2013 as a financing income (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 258 thousand as at 31 December 2013.

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

	31 December 2013	31 December 2012
Current stock price, USD	3.61	3.64
Risk-free interest rate, %	2.45	3.11
Volatility, %	47.40	55.15

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.

17. Loans and Borrowings

In thousands of US dollars	31 December 2013	31 December 2012
Long-term		
Financial lease liabilities	3,185	1,455
Bank loans	40,403	8,459
Total long-term loans and borrowings	**43,588**	**9,914**
Current		
Financial lease liabilities	3,747	2,021
Bank loans	50,528	42,578
Other borrowings	5,529	4,110
Total current loans and borrowings	**59,804**	**48,709**

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

In thousands of US dollars		2013	2012
Borrowings denominated in:	- UAH	49,033	37,922
	- USD	37,308	15,219
	- EUR	17,051	5,482
Total loans and borrowings		**103,392**	**58,623**

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

	Maturity		Interest re-pricing	
In thousands of US dollars	2013	2012	2013	2012
Loans and borrowings due:				
- within 1 year	59,804	48,709	62,293	48,709
- between 1 and 5 years	43,588	9,914	40,299	9,914
Total borrowings	**103,392**	**58,623**	**102,592**	**58,623**

17. Loans and Borrowings (continued)

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

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Property, plant and equipment	40,918	34,680
Receivables (Property rights under agreements on agricultural produce selling)	4,686	12,503
Term deposit	19,377	7,603
Inventory	1,393	7,553
Deposits pledged for related parties loans (Note 27)	-	1,251
Biological assets	32,975	679
Total carrying amount of collateral	**99,349**	**64,269**

As at 31 December 2013 a related party pledged as collateral real estate of contractual value of USD 6 783 thousand for respective liabilities of the Group to the amount of USD 6 756 thousand (2012: contractual value of USD 2,100 thousand for respective liabilities of the Group to the amount USD 12,668 thousand)

The Group was not in compliance with certain loan covenants with respect to a loan of USD 1,360 thousand as at 31 December 2013 (2012: USD 10,978 thousand) . Consequently, non-current loan amounting to USD 1,360 thousand, which contractually matures in 2016, was classified as maturing within one year (2012: USD 4,722 thousand).

Leased assets with the carrying amount of USD 8,082 thousand (31 December 2012: USD 5,690 thousand) are presented as a collateral for the Group's obligations under the finance lease agreements. The Group has delayed payments in the amount of USD 1 824 thousand on these leases as at 31 December 2013 and therefore, according to the lease agreements, the lessor can require the immediate return of leased assets with the carrying amount of USD 8,082 thousand (2012: USD 2,852 thousand). Management is negotiating on 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.

As at 31 December 2013 and 2012, obligations under financial lease liabilities were:

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Long-term	3,185	1,455
Short-term	3,747	2,021
Total finance lease liabilities	**6,932**	**3,476**
Total future minimum lease payments	8,241	3,863
Less: interest expenses	(1,309)	(387)
Discounted value of future minimum lease payments	**6,932**	**3,476**

As at 31 December 2013, 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:

In thousands of US dollars	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Future minimum lease payments	4,321	1,604	1,194	1,001	121	8,241
Less: interest expenses	(574)	(370)	(241)	(117)	(7)	(1,309)
Discounted value of future minimum lease payments	**3,747**	**1,234**	**953**	**884**	**114**	**6,932**

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:

In thousands of US dollars	**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**

17. Loans and Borrowings (continued)

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

In thousands of US dollars	31 December 2013	31 December 2012
Amounts payable under financial lease agreements:		
During 1 year	3,747	2,021
Over 1 year but no more than 5 years	3,185	1,455
Total lease payments	**6,932**	**3,476**

18. Trade and Other Accounts Payable

In thousands of US dollars	31 December 2013	31 December 2012
Trade payables	23,986	9,559
Unpaid consideration on acquisition of Agroplaza (Note 5)	-	5,271
Payables for own promissory notes	2,552	2,573
Financial assistance received	1,705	1,248
Land lease payables	3,116	1,170
Promissory notes issued to GEM	496	89
Other accounts payable	2,560	3,404
Total financial trade and other payables	**34,415**	**23,314**
Prepayments received	15,885	11,135
Wages and salaries accrued	957	288
Total trade and other payables	**51,257**	**34,737**

Prepayments received and accounts payable are interest – free and settled in the normal course of business.

19. Promissory notes issued

In thousands of US dollars	31 December 2013	31 December 2012
Long-term promissory notes issued	1,264	413
Current promissory notes issued	910	423
Total promissory notes issued	**2,174**	**836**

Promissory notes issued as at 31 December 2013 mainly were presented by long-term notes amounted to USD 485 thousand issued by Rantye LLC on 29 September 2006 with maturity in 2015 and long-term and current notes amounted to USD 1,481 thousand issued by KSG Agricultural and Industrial Holding Ltd on 08 April 2013, 27 May 2013 and 15 July 2013 with maturity in April-May-July 2016 respectively. These long-term promissory notes are recorded under amortized cost using effective interest rate at 2,44%.

20. Revenue

In thousands of US dollars	2013	2012
Sale of agricultural produce and processed food	57,155	35,727
Rendering of services	1,029	1,495
Total revenue	**58,184**	**37,222**

21. Cost of Sales

In thousands of US dollars	2013	2012
Cost of agricultural produce and processed food	66,923	38,572
Cost of rendered services	2,307	1,179
Total cost of sales	**69,230**	**39,751**

22. Selling, General and Administrative Expenses

In thousands of US dollars	2013	2012
Informational, expert and consulting services	1,717	1,506
Wages and salaries	1,613	1,485
Transport services	1,761	717
Crops storage services	820	495
Depreciation	593	329
Bank services	467	297
Certification	446	261
Fuel and other materials	334	254
Other	658	353
Total selling, general and administrative expenses	**8,409**	**5,697**

23. Other Operating Expenses

In thousands of US dollars	2013	2012
Other operating expenses		
Loss on PPE disposal	650	-
VAT written off	1,094	773
Write down of inventories	1,912	489
Impairment of trade and other receivables (Note 13)	2,141	443
Other	1,505	352
Total other operating expenses	**7,302**	**2,057**

24. Finance Income and Expenses

In thousands of US dollars	2013	2012
Finance income		
Interest income	2,361	594
Foreign exchange gain	-	355
Gain on initial recognition of long-term financial liabilities	-	128
Unwinding of discount on long-term accounts receivable	107	40
Total finance income	**2,468**	**1,117**
Finance expenses		
Interest expense on bank loans	(10,772)	(5,356)
Interest expense and penalties on bank loan according to court decision	(1,419)	-
Amortisation of loan commission	(372)	(832)
Loss on restructuring of accounts receivable	-	(342)
Loss on initial recognition of long-term promissory note	(925)	(312)
Interest on finance leases	(1,249)	(171)
Foreign exchange loss	(1,324)	-
Expense on promissory note to GEM	-	(150)
Unwinding of discount on long-term financial liabilities	(115)	(353)
Finance expenses	**(16,176)**	**(7,516)**
Less: amounts capitalised on qualifying assets (Note 8)	841	155
Total finance expenses	**(15,335)**	**(7,361)**

25. Income Tax

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates.The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code.

The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognised in the income statement within item cost of sales.

During the year ended 31 December 2013, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a rate of 19% (for the year ended 31 December 2012: 21%).

The Tax Code of Ukraine is introducing gradual decreases in income tax rates from 23% effective 1 April 2011, 21% effective 1 January 2012, 19% effective 1 January 2013, 18% effective 1 January 2014 as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities as of 31 December 2013 and 2012 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

Income tax expense comprises the following:

In thousands of US dollars	**2013**	**2012**
Current tax expense	(64)	(154)
Deferred tax benefit	651	202
Income tax benefit	**587**	**48**

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

In thousands of US dollars	**2013**	**2012**
Loss before tax	**(29,189)**	**11,612**
- (Loss) / Profit attributable to FAT payers	(17,263)	16,575
- Loss attributable to Ukrainian subsidiaries	(10,526)	(1,931)
- Loss attributable to other Group companies	(1,400)	(3,032)
Income tax (benefit) / expense related to Ukrainian subsidiaries	(2,000)	(405)
Income tax expense related to other Group companies	(5)	(303)
• non-deductable expense	1,319	(48)
• change in unrecognised deferred tax asset	703	708
• change related to tax payer status change (from CPT to FAT)	(604)	-
Income tax benefit	**(587)**	**(48)**

In thousands of US dollars	**31 December 2012**	**Credited/ (charged) to income statement**	**Business combinations**	**31 December 2013**
Tax effect of deductible temporary differences				
Accounts receivable	195	(136)	-	59
Promissory notes received	44	(6)	-	38
Gross deferred tax asset	**239**	**(142)**	**-**	**97**
Tax effect of taxable temporary differences				
Property, plant and equipment	(2,401)	177	-	(2,224)
Land lease rights	(230)	230	-	-
Current biological assets	(374)	374	-	-
Accounts payable	(12)	12	-	-
Gross deferred tax liability	**(3,017)**	**793**	**-**	(2,224)
Recognised deferred tax asset/(liability)	**(2,778)**	**651**	**-**	(2,127)

25. Income Tax (continued)

In thousands of US dollars	**31 December 2011**	**Credited/ (charged) to income statement**	**Business combinations**	**31 December 2012**
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)**

26. Operating Segments

The Group has four 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 delicates and supplies to retail chains.

- *Pigs' breeding.* A segment which deals with pigs breeding and sale of respective livestock. Basic assets for sale in this segment are pigs in live weight.

- *Other operations.* This operating segment includes fruit and vegetable production, cultivation and the sale of farm animals (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.

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.

Items which are not disclosured separately in segment income and expenses are as follows: Government grant received, Gain/(loss) on acquisition/(disposal) of subsidiaries/assets held for sale, Other operating income, Selling, general and administrative expenses, Other operating expenses, Finance income, Finance expenses, Loss on share purchase warrant and Income tax benefit.

Revenues of approximately USD 25,170 thousand (2012: USD 14,974 thousand) are derived from three external customers (2012: three). These revenues are attributable to crop production segment.

26. Operating Segments (continued)

Information about operating segments for 2013 is as follows:

In thousands of US dollars	**Crop production**	**Food Processing**	**Pigs breeding**	**Other operations**	**Total**
Revenue	46,533	7,362	5,687	10,084	69,666
including:					
- sales of goods	46,533	7,362	5,687	9,070	68,652
- rendering of services	-	-	-	1,014	1,014
Inter-segment transactions	(3,501)	(150)	(3,317)	(4,514)	(11,482)
Revenue from external customers	**43,032**	**7,212**	**2,370**	**5,570**	**58,184**
Change in fair value of biological assets less estimated point-of-sale costs	(1,459)	(372)	12,551	5,281	16,001
Cost of sales	(51,032)	(7,855)	(3,652)	(6,691)	(69,230)
Segment profit	**(9,459)**	**(1,015)**	**11,269**	**4,160**	**4,955**
Government grant received					3,807
Gain/(loss) on acquisition/(disposal) of subsidiaries/assets held for sale					605
Other operating income					81
Selling, general and administrative expenses					(8,409)
Other operating expenses					(7,302)
Operating profit					**(6,263)**
Finance income					2,468
Finance expenses					(15,335)
Loss on impairment of goodwill					(6,261)
Loss on associates' disposal					(3,929)
Gain/(Loss) on share purchase warrant					131
Profit before tax					**(29,189)**
Income tax benefit					587
Profit for the period					**(28,602)**
Other segment information:					
Depreciation and amortisation	4,888	1,500	1,699	744	8,831
Capital expenditure	6,680	2,981	13,261	172	23,094

26. Operating Segments (continued)

Information about operating segments for 2012 is as follows:

In thousands of US dollars	Crop production	Food Processing	Other operations	Total
Revenue	22,568	12,499	7,796	42,863
including:				
- 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

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:

In thousands of US dollars	2013	2012
Ukraine	41,984	34,371
Europe	16,200	2,328
Asia	-	523
Total revenue	**58,184**	**37,222**

27. Related Parties

Significant related party balances outstanding at the reporting dates are:

In thousands of US dollars	31 December 2013 Parent	31 December 2013 Entities under common control	31 December 2012 Parent	31 December 2012 Entities under common control
Assets				
Trade accounts receivable	-	2,347	22	3,828
Other financial receivables	-	-	-	117
Advances issued	-	-	-	643
Loans issued	-	8,404	-	2,255
Liabilities				
Trade and other accounts payable	-	1,794	9	635
Prepayments received	-	4,929	-	510
Loans	10,170	6,327	128	-
Interest payable	-	354	5	25

Loans issued to entities under common control do not bear interest and are payable in 2014.

Revenue and expense transactions with related parties during 2013 and 2012 were as follows:

In thousands of US dollars	2013 Parent	2013 Entities under common control	2012 Parent	2012 Entities under common control
Food processing sales	-	2,501	-	5,044
Sales of agricultural produce	-	1,387	-	3,038
Unwinding of discount on long-term accounts receivable	-	107	-	-
Purchases	-	63	4	1,675
Interest expenses	-	482	5	25
Capitalized interest costs (Note 8)	-	841	-	155

Purchases from related parties comprised of the following:

In thousands of US dollars	2013 Parent	2013 Entities under common control	2012 Parent	2012 Entities under common control
Purchase of goods	-	63	-	917
Purchase of services	-	-	4	758
Total	**-**	**63**	**4**	**1,675**

As at 31 December 2013, the Group has not pledged term deposits as collateral for liabilities of a related party (31 December 2012: USD 1,251 thousand).

Transactions with key management personnel. Remuneration of key management personnel for 2013 comprised short-term benefits totalling USD 544 thousand (2012: USD 333 thousand). In 2013 the Group considered members of Board of Directors as key management personnel whereas in 2012 both members of Board of Directors and management board were designated as key management personnel.

During 2013 the Group issued USD 76 thousand of interest-free loans to key management personnel which were fully repaid before 31 December 2013.

In 2013 the ultimate controlling party and other third parties provided collateral for the Group’s loan of USD 26,232 thousand and USD 20, 778 thousand respectively (2012: 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.

28. Contingencies, Commitments and Operating Risks

Political crisis. In November 2013, the Ukrainian Government declined to sign the association agreement with the European Union, which resulted in protests and signs of political unrest. In January-March 2014, the political unrest escalated and resulted in the President and majority of Government officials being dismissed by the Parliament. The Parliament has initiated certain political reforms, has appointed a transitional Government and is forming a set of anti-crisis measures. On 21 March 2014 Ukraine signed a political association with the European Union.

Furthermore, from January to August 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 50%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

In April 2014 after the annexation of Crimea, an autonomous region of Ukraine, by the Russian Federation political instability expanded over East regions of Ukraine. Government buildings and administrative authorities were taken over in Donetsk and Luhansk regions.

As of 31 December 2013 and for the year then ended, the Group's assets located in the Crimea region amounted to 7% of the Group's total assets generating in average 6% of sales per annum.

As of the date of this report, operation of the Group's facilities throughout Ukraine, including those in Crimea and East region of Ukraine, continued to operate normally through the period from January till August 2014 as it described in Note 32.

On April 14, 2014, acting President of Ukraine, Head of the Supreme Council of Ukraine, Oleksandr Turchynov, signed a decree "On urgent measures to tackle the terrorist threat and keep the territorial integrity of Ukraine". According to this decree, anti-terrorist operation was launched in Donetsk and Lugansk regions.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative develop ents, including the political unrest, could adversely affect the Company's results and financial position in a manner not currently determinable.

Taxation. In December 2010 the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later (such as, Section III dealing with corporate income tax, which came into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for the agricultural industry from 1 January 2018, the Tax Code also changed various other taxation rules.

Starting from 1 September 2013, new detailed transfer pricing rules were introduced into the Ukrainian legislation. These rules introduce additional reporting and documentation requirements to certain types of transactions (including, but not limited to, transactions with related parties). The new legislation allows the tax authorities to impose additional tax liabilities in respect of these transactions if they consider the transactions to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Legal proceedings. During the reporting period and at the date of these consolidated financial statements were authorized for issue a number of Group's subsidiaries were involved in litigations with tax authorities with the total exposure of USD 1 035 thousand. The litigations are related to the results of the tax authorities' audits.

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. Management believes that the Group has complied with all regulations and paid or accrued all taxes that are applicable. In the ordinary course of business, the Group is subject to various legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of the Group's operations. Where the risk of outflow of resources is probable, the Group has accrued liabilities based on management's best estimate.

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 2013 were USD 5,584 thousand (2012: USD 4,258 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.

28. Contingencies, Commitments and Operating Risks (continued)

Guarantees. In 2013 the Group companies have provided property rights as collateral for the third parties obligations amounting to USD 3,492 thousand.

29. Risk management policies

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 2013, the Group had 8 counterparties (31 December 2012: 8 counterparties) with aggregated receivable balances above USD 430 thousand each. The total aggregate amount of these balances was USD 14,300 thousand (31 December 2012: USD 11,331 thousand) or 47% of the gross amount of trade and other receivables (31 December 2012: 65%). In year 2013 approximately 35% of revenue is derived from these 8 debtors.

As at 31 December 2013, the Group held 97% (31 December 2012: 94%) of its cash and term deposit balances with 2 banks (31 December 2012: 5).

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 2013, if Libor rate had been 5% higher with all other variables held constant, post-tax profit for the year would have been USD 81 thousand lower (2012: USD 63 thousand).

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.

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 2,137 thousand, respectively (31 December 2012: USD 1,368 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 1,725 thousand, respectively (31 December 2012: increase or decrease by USD 352 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.

29. Financial Risk Management (continued)

The table below shows liabilities at 31 December 2013 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 2013 is follows:

In thousands of US dollars	**Less than 1 year**	**From 1 year to 2 years**	**From 2 years to 5 years**	**Total**
Liabilities				
Loans and borrowings	59,804	18,313	25,275	103,392
Trade and other payables	35,372	-	-	35,372
Promissory notes issued	1,264	910	-	2,174
Total	**96,440**	**19,223**	**25,275**	**140,938**

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

In thousands of US dollars	**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 issues	424	434	202	1,060
Total	**76,899**	**5,116**	**7,065**	**89,080**

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

Crop production risk. Crop production sales to external customers, the principal business segment of the Group, accounted for 74% of revenue from sales to external customers for the year ended 31 December 2013 (2012: 54%). The Group's ability to produce agricultural commodities in a timely manner and in sufficient quantities may be affected by adverse or unexpected growing conditions and deviations from the typical weather patterns, including among others, drought, flood, unexpected or heavy frost and hurricanes, and major climate-related disasters in the areas of Ukraine where the Group sources or grows its agricultural commodities. Climate directly impacts crop yield and its cost of harvesting.

The availability and price of agricultural commodities can also be affected by factors such as crop disease, which can result in crop failures and reduced yields from harvests. Diminished supply of agricultural commodities due to weather-related factors or crop disease could adversely affect the Group's profitability by increasing the cost of raw materials and limit its ability to procure, transport, store, process, and sell agricultural commodities in an efficient manner, which could materially and adversely affect the Group's business, results of operations and financial condition.

Livestock diseases risk. The Group’s agro-industrial business also is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of diseases, which are highly contagious and destructive to susceptible livestock for its pig breeding operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group’s management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

30. 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.

30. Capital Risk Management (continued)

In thousands of US dollars	**31 December 2013**	**31 December 2012**
Total amount of borrowings	103,392	58,623
Less cash and cash equivalents	(131)	(711)
Net debt	103,261	57,912
Total capital	77,478	106,120
Debt to capital ratio	**133%**	**55%**

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.

31. 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 2013 and 2012 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 of trade and other payables, financial lease liabilities, promissory notes issued, bank and other borrowings approximate their fair values as at 31 December 2013 and 2012. As at 31 December 2013, fair value of bank loans comprised USD 76,724 thousand (31 December 2012: 51,656 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 16). 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.

32. Events after the Reporting Period

1. Political system in Ukraine is characterized by significant uncertainty as a result of numerous protests against the authorities at the end of 2013 and street violence that erupted in January. In late January 2014 the President of Ukraine accepted the resignation of the Prime Minister of Ukraine. The government of the Russian Federation has suspended funding of the Government of Ukraine, and international rating agencies downgraded government bonds of Ukraine to pre-default level. In order to stabilize the political situation, which has worsened, the Parliament of Ukraine voted for the return of the Constitution of 2004, which provides for a more equal distribution of power between the President and the Verkhovna Rada of Ukraine, and terminated the President's powers due to his withdrawal. On February 26th a newly formed coalition majority in the Verkhovna Rada appointed a new Prime Minister and the Government of Ukraine. After 2013 Ukrainian hryvnia depreciated sharply against major world currencies, and now the hryvnia against the U.S. dollar decreased by approximately 30% compared with the exchange rate as at 31 December 2013. The new Government immediately initiated a dialogue with the International Monetary Fund to raise funds and avoid the likelihood of default.

The Government of Ukraine has introduced a number of restrictions on foreign exchange transactions aimed at stabilizing the exchange rate of the national currency, the Ukrainian hryvnia. Inflation for the year was close to zero, as the National Bank of Ukraine has reduced the volume of money in circulation. The national foreign exchange reserves declined to three months import level as at the end of the year due to a decrease in revenues from exports of goods and agricultural products, the need for a planned debt repayment, primarily to the International Monetary Fund, and payments for current and past natural gas supplies.

In late February, the Russian troops occupied the Crimea region. On March 1, 2014 the Parliament of the Russian Federation unanimously approved the introduction of the Russian armed forces on the territory of Ukraine. On March 16, 2014 a referendum was held in Crimea as to its secession from Ukraine, which resulted in local authorities declaring Crimea an autonomous republic of the Russian Federation. On March 17th the Russian Federation and Crimea signed the agreement on the accession of the Crimean territory to Russia. The results of the referendum and the accession of Crimea to Russia were recognized only by such countries as Russia, Mongolia, Armenia, Syria, Venezuela, Kazakhstan and North Korea.

32. Events after the Reporting Period (continued)

In accordance with the Federal Constitutional Law dated 21.03.2014 № 6- ФКЗ "On admission of the Republic of Crimea to the Russian Federation, and the formation within the Russian Federation of new subjects – the Republic of Crimea and Sevastopol city of federal significance" "the law of the Russian Federation on taxes and fees is applicable on the territory of the Republic of Crimea and Sevastopol city of federal significance starting from 1 January 2015. » Russian legislation will be applied to businesses that have been re-registered in the Russian Federation or are newly registered.

Different legal status of Crimea from the perspective of Ukraine and the Russian Federation and, as a consequence, mutual non-recognition by both parties of the legal order on its territory leads to an uncertainty of recognition of the legal status of an economic entity.

Currently the Company uses the "Regulation on the application of legislation on taxes and duties on the territory of the Republic of Crimea in the transition period", according to which payment of all taxes and fees is made based on the requirements of Ukrainian legislation and the payment is made to the local budgets of the Republic of Crimea.
After the introduction of Russian ruble as the functional currency on the territory of the Republic of Crimea since 1 June 2014 all calculations and accounting records of the Company have been restated based on the official exchange rate of hryvnia to ruble as established by the Bank of Russia.

Political situation deteriorated also in other regions of Ukraine, particularly, in the east of the country, which led to a military confrontation between the armed forces of Ukraine and Eastern self-proclaimed republics. The armed forces of Ukraine were brought into full alert, and some military units were relocated to the eastern border of Ukraine for conducting anti-terrorist operations. Currently anti-terrorist operation in the east is still ongoing and is characterized by numerous losses on both sides, including the civilians.

On May 25th the President of Ukraine was elected. The newly elected president has supported the European course of the country, resulted in signing the Economic part of the Association Agreement between Ukraine and the EU on June 27th , which followed after signing the political part of the Agreement in March. Currently Agreement is in the process of ratification by Ukraine and the EU member states.

On July 24th some political parties withdrew from the parliamentary majority coalition, launching a constitutional mechanism that would allow the dissolution of parliament and calling for early elections.

Further developments are largely dependent on the political and economic course of the new President, actions of the Ukrainian parliament and the Government and their further measures to stabilize the situation in Ukraine.

The final impact and consequences of political and economic crisis are extremely difficult to predict, but they could adversely affect the Group’s results and financial position in a manner not currently determinable.

2. Because of the Russian Federation’s annexation of the Crimea, KSG Agro, which has about 30% of its crop production business in Crimea, has faced new challenges and risks.

- By July 24, we have harvested about 10 thousand hectares of early crops - 2 thousand tons of winter barley, about 7 thousand tons of winter wheat, about 3 thousand tons of winter rapeseed.

- From June 13 to July 20, one of the Crimean divisions of KSG Agro experienced obstacles in operation. However, as of July 24 harvesting continued.

- Crimean authorities introduced certification of agricultural products according to the Russian Federation’s legislation. KSG Agro enterprises are capable of fulfilling these procedures.

- At present, KSG Agro enterprises are preparing documents for registration in the Crimea. Currently these entities use the "Regulation on the application of legislation on taxes and duties on the territory of the Republic of Crimea in the transition period", according to which payment of all taxes and fees is made based on the requirements of Ukrainian legislation and the payment is made to the local budgets of the Republic of Crimea.

  After the introduction of Russian ruble as the functional currency on the territory of the Republic of Crimea since 1 June 2014 all calculations and accounting records of entities located in Crimea have been restated based on the official exchange rate of hryvnia to ruble as established by the Bank of Russia.

- KSG Agro Board appointed and sent on a mission to the Crimea its deputy COO to organize production processes and control every KSG Agro company in the Crimea. We have also sent our KSG Agro Commercial Director to the Crimea to run sales of grown products.

32. Events after the Reporting Period (continued)

- In July 2014, some 160 tons of rapeseed material grown in Crimea have been delivered from the Crimean enterprises to KSG Agro companies located on the mainland Ukraine. The Crimean authorities have not issued any official authorizations or official bans related to taking out products from the Crimea.

- KSG Agro Group Management is now in the process of making decision to recognize the assets in the Crimea as deemed for sale.

As explained in Note 28, the Group's assets located in the Crimea region amounted to 7% of the Group's total assets generating in average 6% of sales per annum. In addition land plots located in Crimea region approximately equaled to 41% of Group's land bank as at 31 December 2013.

3. We draw your attention that the Group, as explained in Note 3 Going concern assumption, is currently in negotiations with the Ukrainian banks to restructure its indebtness. The negotiations are not yet over at the date of the approval of the report and no agreements have been signed so far. The goal of restructuring is to reduce financial leverage to the level, which can be serviced by the business operations of the Group. The Management of the Group expects reducing the overall debt level by up to USD 24,171 thousand and rescheduling of the principal repayments for the period of 3 years. Going concern of the Group is at risk and depends wholly on success of the negotiations.

4. Due to Ukrainian currency devaluation in the first quarter 2014, the Group incurred foreign exchange losses amounting to USD 5,863 thousand and currency translation reserve was decreased by USD 26,549 as at 31 March 2014.

5. In March 2014, the Parliament of Ukraine adopted changes to the tax legislation in accordance to which corporate income tax rate is established at level of 18% of taxable incomes without further stepdowngrading to 17% and 16% in 2015 and 2016,respectively. These changes become effective from the 1 April 2014.

6. On 18 June 2014 the Board of Directors took decision and disposed 100% of shares in LLC "Pivdenne" in the amount of USD 0.125 thousand.

7. In 2014 the Group companies have provided collateral for the third parties obligations amounting to USD 3,350 thousand.

8. After 31 December 2013 Group was in breach with repayment of finance lease obligations due to Raiffeisen Leasing Aval LLC. Based on negotiations held in 2014 Group and leasing company reached agreement on revised schedule of payments which provides full repayment of obligations amounting to USD 313 thousand till the end of October 2014, in other case PPE with net book value of USD 329 thouand at 31 December 2013 under this finance leasing should be returned to leasing company on demand.

9. At the date of these consolidated financial statements were authorized for issue the Group was obliged to repay accounts payable amounting to USD 1 985 thousand (including fines and penalties) based on court decisions made in 2014. As at 31 December 2013 all these payables were recorded within current liabilities in these consolidated financial statements.

10. In 2014, the Group had refinanced the loans, which existed as of 31 December 2013 for USD 29, 504 thousand and attracted new loans in the amount of USD 24,806 thousand.

11. On 9 May 2014, the management of Board of Warsaw Stock Exchange (WSE) resolved to suspend trading in shares of KSG Agro S.A. due to unavailability of the annual report for the year ended 31 December 2013 of the company to the public. On 8 August 2014, the Board of WSE decided to suspend trading in shares of the company KSG Agro SA to the end of the trading day following the date the Group will publish an annual report for the year 2013. The management of the Group expects that the Warsaw Stock Exchange will resume trading in shares of KSG Agro S.A. after the publication of the audited annual report for the year 2013. The management of the Group published unaudited financial statements of the Group for the year 2013 on 23 June 2014.

The Extraordinary General Meeting (EGM) of the Shareholders of the Holding Company of the Group, held on 30 June 2014, approved the resignation of Mr. Oleksandr Perov as Class A Director and appointment of Mr. Andrii Mudriievskyi as Class A Director, both effective as of 23 May 2014. The Meeting also approved the resignation of Mrs. Gwenaelle Bernadette Andree Dominique Cousin and Mr. Jakob Mudde as Class B Directors, effective as of 23 May 2014, and appointment of Mr. Xavier Soulard and Mr. Eric Tazzieri as Class B Directors, effective as of 26 May 2014.

The abovementioned EGM also ratified the transfer of the registered office of the Company from 46-A, avenue J.F. Kennedy, L-1855 Luxembourg to 24, rue Astrid, L-1143 Luxembourg, effective 26 May 2014.