

**Industrial Milk Company S.A. and its subsidiaries**  
**Condensed consolidated interim financial statements**  
**For the three months ended 31 March 2017**

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## Management statement

This statement is provided to confirm that, to the best of our knowledge, the condensed consolidated interim financial statements for the three months ended 31 March 2017, and the comparable information, have been prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union and give a true, fair and clear view of Group's assets, financial standing and net results, and that the directors' report on the operations truly reflects the development, achievements and position of the Group, including a description of the key risk factors and threats.

On behalf of the Management:

Chief Executive Officer                      ALEX LISSITSA                      signed

Chief Financial Officer                      DMYTRO MARTYNIUK                      signed

Consolidated management report

1. Operational and Financial Results
2. Selected Financial Data

1. Operational and Financial Results

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

		For the three months ended		
	Notes	31 March 2017	31 March 2016	Change in %
<b>CONTINUING OPERATIONS</b>				
Revenue	6	36 986	26 780	38%
Gain from changes in fair value of biological assets and agricultural produce, net	7	3 178	3 312	-4%
Cost of sales	8	(36 879)	(23 820)	55%
<b>GROSS PROFIT</b>		<b>3 285</b>	<b>6 272</b>	<b>-48%</b>
Administrative expenses	9	(1 939)	(1 232)	57%
Selling and distribution expenses	10	(3 214)	(1 891)	70%
Other operating income	11	362	596	-39%
Other operating expenses	12	(879)	(763)	15%
Write-offs of property, plant and equipment		(730)	(282)	159%
<b>OPERATING (LOSS)/PROFIT</b>		<b>(3 115)</b>	<b>2 700</b>	<b>-215%</b>
Financial expenses, net	15	(1 783)	(3 030)	-41%
Effect of additional return		(1 019)	(863)	18%
Foreign currency exchange (loss)/gain, net	16	238	(5 207)	-105%
<b>LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>(5 679)</b>	<b>(6 400)</b>	<b>-11%</b>
Income tax expenses	17	(2)	393	-101%
<b>NET LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>(5 681)</b>	<b>(6 007)</b>	<b>-5%</b>
<b>Non-recurring items:</b>				
Financial expenses, net		1 783	3 030	
Loss on unwinding of discount of additional return on financial liability		1 019	863	
Foreign currency exchange (loss)/gain, net		(238)	5 207	
Income tax expenses		2	(393)	
Depreciation and amortization		2 209	2 832	
Write-offs of property, plant and equipment		730	282	
<b>Normalised EBITDA</b>		<b>(176)</b>	<b>5 814</b>	<b>-103%</b>
Depreciation and amortization		(2 209)	(2 832)	
<b>Normalised EBIT</b>		<b>(2 385)</b>	<b>2 982</b>	<b>-180%</b>
Financial expenses, net		(1 783)	(3 030)	
Income tax expenses		(2)	393	
<b>Normalised Net profit</b>		<b>(4 170)</b>	<b>345</b>	<b>-1309%</b>

\* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to Note 5

## Revenue

The Company's revenue from sales of finished products increased by 38% in 2017 in comparison with previous period.

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

(in thousand USD)

	For the three months ended		Change in %
	31 March 2017	31 March 2016	
Corn	34 696	25 352	37%
Sunflower	-	34	-100%
Soy beans	826	-	100%
Milk	446	892	-50%
Cattle	169	260	-35%
Potatoes	326	153	113%
Other	386	76	408%
	<b>36 849</b>	<b>26 767</b>	<b>38%</b>

The most significant portion of the Company's revenue comes from selling corn, which represented 94% and 95% of total revenue of three-month period ended 31 March 2017 and 2016, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

(in thousand USD)

	For the three months ended	
	31 March 2017	31 March 2016
<b>Corn</b>		
Sales of produced corn ( <i>in tonnes</i> )	223 008	168 482
Realization price (U.S. \$ per ton)	156	150
Revenue from produced corn ( <i>U.S. \$ in thousands</i> )	34 696	25 352
<b>Soy beans</b>		
Sales of produced soy beans ( <i>in tonnes</i> )	2 202	-
Realization price (U.S. \$ per ton)	375	-
Revenue from produced soy beans ( <i>U.S. \$ in thousands</i> )	826	-
<b>Sunflower</b>		
Sales of produced sunflower ( <i>in tonnes</i> )	-	100
Realization price (U.S. \$ per ton)	-	341
Revenue from produced sunflower ( <i>U.S. \$ in thousands</i> )	-	34
<b>Potatoes</b>		
Sales of produced potatoes ( <i>in tonnes</i> )	5 498	1 958
Realization price (U.S. \$ per ton)	59	78
Revenue from produced potatoes ( <i>U.S. \$ in thousands</i> )	326	153
<b>Other (produced only)</b>		
Total sales volume ( <i>in tonnes</i> )	4 341	781
Total revenues ( <i>U.S. \$ in thousands</i> )	386	76
<b>Total sales volume</b> ( <i>in tonnes</i> )	<b>235 050</b>	<b>171 321</b>
<b>Total revenue from sale of crops</b> ( <i>U.S. \$ in thousands</i> )	<b>36 234</b>	<b>25 615</b>

Revenue relating to sales of corn increased by 37% to USD 34,7 million in three-month period ended 31 March 2017 from USD 25,4 million in three-month period ended 31 March 2016, due to an increase in sales volume (tons) in 2017.

Revenue relating to sales of soy beans increased by 100% to USD 0,8 million in three-month period ended 31 March 2017 from nil in three-month period ended 31 March 2016, due to an increase in sales volume (tons) in 2017.

Revenue relating to sales of cattle decreased by 35% to USD 0,2 million in three-month period ended 31 March 2017 from USD 0,3 million in three-month period ended 31 March 2016, due to an decrease in sales volume (tons) in 2017.

Revenue relating to sales of milk decreased by 50% to USD 0,4 million in three-month period ended 31 March 2017 from USD 0,9 million in three-month period ended 31 March 2016, due to an decrease in sales volume (tons) as a result of increase in cattle sales in 2016.

### Cost of sales

The Company's cost of sales increased by 55% to USD 36,9 million in three-month period ended 31 March 2017 from USD 23,8 million in three-month period ended 31 March 2016. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

(in thousand USD)

	For the three months ended		Change in %
	31 March 2017	31 March 2016	
Raw materials	(18 517)	(6 901)	168%
Rent	(3 082)	(2 643)	17%
Depreciation and amortization	(1 851)	(2 388)	-23%
Fuel and energy supply	(1 834)	(519)	253%
Change in inventories and work-in-progress	(9 705)	(10 195)	-5%
Wages and salaries of operating personnel and related charges	(1 292)	(817)	58%
Third parties' services	(320)	(193)	66%
Taxes and other statutory charges	(102)	(84)	22%
Repairs and maintenance	(167)	(71)	136%
Other expenses	(9)	(9)	-5%
	<b>(36 879)</b>	<b>(23 820)</b>	<b>55%</b>

Increase in cost of sales mainly consists of increase in raw materials - by 168% to USD 18,5 million for the three-month period ended 31 March 2017 from USD 6,9 million for the three-month period ended 31 March 2016. This was due to an increase in the amount of disposal of revaluation of agriculture produce and biological assets as a part of cost of sales (from USD 4 078 thousand to USD 15 882 thousand).

### Gross profit

The Company's gross profit decreased to USD 3,3 million for the three-month period ended 31 March 2017 from USD 6,3 million for the three-month period ended 31 March 2016, an 48% year-on-year decrease. In relative terms, the total cost of sales went up 55% year-on-year.

### Administrative expenses

Administrative expenses increased year-on-year to USD 1,9 million for the three-month period ended 31 March 2017 from USD 1,2 million for the three-month period ended 31 March 2016, reflecting an increase in wages and salaries of administrative personnel and related charges to USD 1,3 million from USD 0,8 million.

### Selling and distribution expenses

Selling and distribution expenses increased year-on-year to USD 3,2 million for the three-month period ended 31 March 2017 from USD 1,9 million for the three-month period ended 31 March 2016, reflecting an increase in the volume of realization in 2017.

### Other operating income

The Company's other operating income decreased by 39% to USD 0,4 million for the three-month period ended 31 March 2017 from USD 0,6 million for the three-month period ended 31 March 2016 due to decrease in other operating income.

### Other operating expenses

Other operating expenses increased by 15% to USD 0,9 million for the three-month period ended 31 March 2017 from USD 0,8 million for the three-month period ended 31 March 2016 reflecting an increase in other operating expenses.

### Financial expenses, net

The Company's financial expenses, net decreased by 41% to USD 1,8 million for the three-month period ended 31 March 2017 from USD 3,0 million for the three-month period ended 31 March 2016. This decrease was related to the repayment of loans and borrowings in 2016.

### Foreign currency exchange loss, net

Foreign currency exchange loss, net decreased to USD 0,3 million for the three-month period ended 31 March 2017 of foreign currency exchange gain from USD 5,2 million for the three-month period ended 31 March 2016 of the same losses. This increase reflected the strengthening of UAH in 2017 in comparison with 2016 – 8,5% of devaluation as at 31 March 2016 in comparison with 0,8% of revaluation as at 31 March 2017.

### Cash flows

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

(in thousand USD)

	For the three months ended	
	31 March 2017	31 March 2016
Net cash flows from operating activities	12 296	6 793
Net cash flows from investing activities	(1 464)	(397)
Net cash flows from financing activities	(71)	(9 051)
<b>Net increase in cash and cash equivalents</b>	<b>10 761</b>	<b>(2 655)</b>

#### *Net cash flow from operating activities*

The Company's net cash inflow from operating activities increased to USD 12,3 million for the three-month period ended 31 March 2017 from USD 6,8 million for the three-month period ended 31 March 2016. The increase in 2017 was primarily attributable to increase in sales.

#### *Net cash flow from investing activities*

The Company's net cash outflow from investing activities increased to USD 1,5 million for the three-month period ended 31 March 2017 compared to net cash outflow of USD 0,4 million for the three-month period ended 31 March 2016. The increase in 2017 was attributable to purchase of property, plant and equipment.

#### *Net cash flow from financing activities*

Net cash outflow from financing activities decreased to USD 0,1 million for the three-month period ended 31 March 2017 from USD 9,1 million for the three-month period ended 31 March 2016. The decrease in 2017 was primarily due changes of credit portfolio in the direction of long-term borrowings.



**2. Selected Financial Data**

(in thousand USD)

	<b>For the three months ended</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
I.	Revenue	36 986	26 780
II.	Operating profit/(loss)	(3 115)	6 272
III.	Profit/(loss) before income tax	(5 679)	(6 400)
IV.	Net profit/(loss)	(5 681)	(6 007)
V.	Net cash flow from operating activity	12 296	6 793
VI.	Net cash flow from investing activity	(1 464)	(397)
VII.	Net cash flow from financing activity	(71)	(9 051)
VIII.	Total net cash flow	10 761	(2 655)
IX.	Total assets	169 358	164 203
X.	Share capital	56	56
XI.	Total equity	60 234	41 341
XII.	Non-current liabilities	55 230	53 105
XIII.	Current liabilities	53 894	69 757
XIV.	Weighted average number of shares	31 300 000	31 300 000
XV.	Profit/(loss) per ordinary share (in USD)	(0,18)	(0,19)
XVI.	Book value per share (in USD)	1,94	1,35

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**

For the three months ended 31 March 2017

(in thousand USD, unless otherwise stated)

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited Restated*
<b>CONTINUING OPERATIONS</b>			
Revenue	6	36 986	26 780
Gain from changes in fair value of biological assets and agricultural produce, net	7	3 178	3 312
Cost of sales	8	(36 879)	(23 820)
<b>GROSS PROFIT</b>		<b>3 285</b>	<b>6 272</b>
Administrative expenses	9	(1 939)	(1 232)
Selling and distribution expenses	10	(3 214)	(1 891)
Other operating income	11	362	596
Other operating expenses	12	(879)	(763)
Write-offs of property, plant and equipment		(730)	(282)
<b>OPERATING (LOSS)/PROFIT</b>		<b>(3 115)</b>	<b>2 700</b>
Financial expenses, net	15	(1 783)	(3 030)
Effect of additional return		(1 019)	(863)
Foreign currency exchange (loss)/gain, net	16	238	(5 207)
<b>LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>(5 679)</b>	<b>(6 400)</b>
Income tax expenses	17	(2)	393
<b>NET LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>(5 681)</b>	<b>(6 007)</b>
Net profit/(loss) for the period attributable to:			
Owners of the parent company		(5 748)	(5 691)
Non-controlling interests		67	(316)
Weighted average number of shares			
		31 300 000	31 300 000
Basic profit per ordinary share (in USD)			
		(0,18)	(0,19)
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>			
<b>Items that may be reclassified to profit or loss</b>			
Effect of foreign currency translation		821	(7 604)
<b>Items that will no be reclassified to profit or loss</b>			
Deferred tax charged directly to revaluation reserve		37	66
<b>TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME</b>		<b>858</b>	<b>(7 538)</b>
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(4 823)</b>	<b>(13 545)</b>
Comprehensive income/(loss) attributable to:			
Owners of the parent company		(4 886)	(13 284)
Non-controlling interests		63	(261)

\* Certain amounts shown here do not correspond to the 2016 condensed consolidated interim financial statements and reflect adjustments made, refer to Note 5

signed

Alex Lissitsa  
Chief Executive Officer

signed

Dmytro Martyniuk  
Chief Financial Officer

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

(in thousand USD, unless otherwise stated)

	Note	31 March 2017	31 December 2016	31 March 2016	31 December 2015
		Unaudited	Audited	Unaudited Restated*	Audited Restated*
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	18	65 043	64 650	73 641	80 083
Intangible assets	19	3 839	4 061	4 912	5 750
Non-current biological assets	20	1 754	1 432	3 554	4 471
Deferred tax assets	21	-	-	13	14
Other non-current assets	22	607	1 817	169	434
<b>Total non-current assets</b>		<b>71 243</b>	<b>71 960</b>	<b>82 289</b>	<b>90 752</b>
<b>Current assets</b>					
Inventories	23	61 219	55 110	52 005	60 307
Current biological assets	24	10 488	18 202	12 741	8 823
Trade accounts receivable, net	25	162	276	482	966
Prepayments and other current assets, net	26	11 206	9 208	12 941	7 088
Prepayments for income tax		17	9	24	18
Cash and cash equivalents	28	15 023	4 180	3 721	6 673
<b>Total current assets</b>		<b>98 115</b>	<b>86 985</b>	<b>81 914</b>	<b>83 875</b>
<b>TOTAL ASSETS</b>		<b>169 358</b>	<b>158 945</b>	<b>164 203</b>	<b>174 627</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Equity attributable to the owners of parent company</b>					
Share capital	29	56	56	56	56
Share premium		24 387	24 387	24 387	24 387
Revaluation reserve		41 667	43 217	48 264	49 972
Retained earnings		122 664	126 825	94 018	97 935
Effect of foreign currency translation		(128 051)	(128 876)	(124 556)	(116 874)
<b>Total equity attributable to the owners of parent company</b>		<b>60 723</b>	<b>65 609</b>	<b>42 169</b>	<b>55 476</b>
Non-controlling interests		(489)	(552)	(827)	(566)
<b>Total equity</b>		<b>60 234</b>	<b>65 057</b>	<b>41 341</b>	<b>54 910</b>
<b>Non-current liabilities</b>					
Long-term loans and borrowings	31	52 753	55 185	50 320	46 060
Deferred tax liabilities	21	2 477	2 498	2 785	3 556
<b>Total non-current liabilities</b>		<b>55 230</b>	<b>57 683</b>	<b>53 105</b>	<b>49 616</b>
<b>Current liabilities</b>					
Current portion of long-term borrowings	31	13 286	9 846	26 134	31 493
Short-term loans and borrowings	32	18 478	18 547	20 478	26 776
Trade accounts payable	33	15 132	2 104	10 741	3 274
Other current liabilities and accrued expenses	34	6 998	5 708	12 404	8 558
<b>Total current liabilities</b>		<b>53 894</b>	<b>36 205</b>	<b>69 757</b>	<b>70 101</b>
<b>Total liabilities</b>		<b>109 124</b>	<b>93 888</b>	<b>122 862</b>	<b>119 717</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>169 358</b>	<b>158 945</b>	<b>164 203</b>	<b>174 627</b>

\* Certain amounts shown here do not correspond to the 2016 condensed consolidated interim financial statements and reflect adjustments made, refer to Note 5

signed

Alex Lissitsa  
Chief Executive Officer

signed

Dmytro Martyniuk  
Chief Financial Officer

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**

For the three months ended 31 March 2017

(in thousand USD, unless otherwise stated)

	Share capital	Share premium	Revaluation reserve	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interests	Total equity
<b>31 December 2015 (audited, restated*)</b>	<b>56</b>	<b>24 387</b>	<b>49 972</b>	<b>97 935</b>	<b>(116 874)</b>	<b>55 476</b>	<b>(566)</b>	<b>54 910</b>
Loss for the period	-	-	-	(5 691)	-	(5 691)	(316)	(6 007)
Amortization of revaluation reserve	-	-	(1 774)	1 774	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	66	-	-	66	-	66
Other comprehensive income/(loss)	-	-	-	-	(7 682)	(7 682)	55	(7 627)
<b>Total comprehensive profit/(loss) (restated*)</b>	<b>-</b>	<b>-</b>	<b>(1 708)</b>	<b>(3 917)</b>	<b>(7 682)</b>	<b>(13 307)</b>	<b>(261)</b>	<b>(13 568)</b>
<b>31 March 2016 (unaudited, restated*)</b>	<b>56</b>	<b>24 387</b>	<b>48 264</b>	<b>94 018</b>	<b>(124 556)</b>	<b>42 169</b>	<b>(827)</b>	<b>41 341</b>
<b>31 December 2016 (audited)</b>	<b>56</b>	<b>24 387</b>	<b>43 217</b>	<b>126 825</b>	<b>(128 876)</b>	<b>65 609</b>	<b>(552)</b>	<b>65 057</b>
Profit (loss) for the period	-	-	-	(5 748)	-	(5 748)	67	(5 681)
Amortization of revaluation reserve	-	-	(1 587)	1 587	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	37	-	-	37	-	37
Other comprehensive income/(loss)	-	-	-	-	825	825	(4)	821
<b>Total comprehensive profit/(loss)</b>	<b>-</b>	<b>-</b>	<b>(1 550)</b>	<b>(4 161)</b>	<b>825</b>	<b>(4 886)</b>	<b>63</b>	<b>(4 823)</b>
<b>31 March 2017 (unaudited)</b>	<b>56</b>	<b>24 387</b>	<b>41 667</b>	<b>122 664</b>	<b>(128 051)</b>	<b>60 723</b>	<b>(489)</b>	<b>60 234</b>

\* Certain amounts shown here do not correspond to the 2016 condensed consolidated interim financial statements and reflect adjustments made, refer to Note 5

\_\_\_\_\_ **signed**

Alex Lissitsa  
 Chief Executive Officer

\_\_\_\_\_ **signed**

Dmytro Martyniuk  
 Chief Financial Officer

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the three months ended 31 March 2017

(in thousand USD, unless otherwise stated)

	Note	For the three	For the three
		months ended 31 March 2017	months ended 31 March 2016
		Unaudited	Unaudited
			Restated*
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit/(loss) before tax from continuing operations		(5 679)	(6 400)
Adjusted to reconcile profit before tax with net cash used in operating activities:			
Gain from changes in fair value of biological assets and agricultural produce, net	7	(3 178)	(3 312)
Disposal of revaluation of biological assets and agricultural produce in the cost of sales, net	8	15 882	4 078
Depreciation and amortization	13	2 213	2 832
Interest expenses and other financial expenses	15	2 847	3 998
Foreign currency exchange loss/(gain), net		(234)	5 193
Write-offs of property, plant and equipment		730	282
Income from write-offs of accounts payable	11	(160)	(24)
Gain on recovery of assets previously written off	11	(165)	-
Loss on disposal of property, plant and equipment	12	70	172
Lost crops	12	73	69
Shortages and losses due to impairment of inventories	12	190	96
Interest income	15	(46)	(105)
Write-offs of VAT	12	8	-
Accruals for unused vacations		(55)	(70)
Allowance for doubtful accounts receivable	12	4	2
Gain on disposal of inventories	11	(10)	(13)
<b>Cash flows from operating activities before changes in working capital</b>		<b>12 490</b>	<b>6 798</b>
Changes in trade accounts receivable		109	390
Changes in prepayments and other current assets		(1 881)	(6 493)
Changes in inventories		(20 843)	(332)
Changes in current biological assets		9 923	(1 530)
Changes in trade accounts payable		13 036	7 937
Changes in other current liabilities and accrued expenses		693	2 323
<b>Cash flows from operations</b>		<b>13 527</b>	<b>9 093</b>
Interest paid		(1 217)	(2 271)
Income tax paid		(14)	(29)
<b>Net cash flows from operating activities</b>		<b>12 296</b>	<b>6 793</b>

\* Certain amounts shown here do not correspond to the 2016 condensed consolidated interim financial statements and reflect adjustments made, refer to Note 5

signed

Alex Lissitsa  
Chief Executive Officer

signed

Dmytro Martyniuk  
Chief Financial Officer

**CONSOLIDATED STATEMENT OF CASH FLOWS** (continued)  
For the three months ended 31 March 2017  
(in thousand USD, unless otherwise stated)

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
			Restated*
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(1 544)	(508)
Purchase of intangible assets		(21)	(15)
Proceeds from disposal of property, plant and equipment		99	126
<b>Net cash flows from investing activities</b>		<b>(1 464)</b>	<b>(397)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from long-term and short-term borrowings		581	(9 051)
Repayment of long-term and short-term borrowings		(652)	-
<b>Net cash flows from financing activities</b>		<b>(71)</b>	<b>(9 051)</b>
<b>NET CASH FLOWS</b>		<b>10 761</b>	<b>(2 655)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	28	<b>4 180</b>	<b>6 673</b>
Effect of translation into presentation currency		82	(300)
<b>Cash and cash equivalents as at the end of the period</b>	28	<b>15 023</b>	<b>3 721</b>

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\_\_\_\_\_  
**signed**

Alex Lissitsa  
Chief Executive Officer

\_\_\_\_\_  
**signed**

Dmytro Martyniuk  
Chief Financial Officer

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

**1. Description of formation and business.**

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

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

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

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

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

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

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

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

In August 2011 trading company Aristo Eurotrading was formed.

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

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

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

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

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

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

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

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

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

In May 2015 Plemzavod Noviy Trostyanets Ltd was joined to AgroKIM Ltd.

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

In October 2016 Zemelniy Kadaastroviy Centr PE and Agroprogress Holding Ltd left the Group. Bluerice Limited left the Group in December 2016.

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

Operating entity	Principal activity	Country of registration	Year established/ acquired	Cumulative ownership ratio, %	
				31 March 2017	31 March 2016
Industrial Milk Company S.A.	Holding company	Luxembourg	28.12.2010	100	100
Burat-Agro Ltd.	Agricultural and farming production	Ukraine	31.12.2007	100	100
Burat Ltd.	Grain elevator	Ukraine	31.12.2007	100	100
Chernihiv Industrial Milk Company Ltd.	Agricultural and farming production	Ukraine	31.12.2007	100	100
PJSC Poltava Kombilormoviy Zavod	Granting of PPE into finance lease	Ukraine	31.12.2007	87,56	87,56
PJSC Mlibor	Grain elevator	Ukraine	31.05.2008	72,85	72,85
Unigrain Holding Limited	Subholding company	Cyprus	02.06.2009	100	100
Zemelniy Kadastroviy Centr PE	Preparation of technical documentation concerning land issues	Ukraine	23.11.2010	-	100
Aristo Eurotrading Limited	Trading company	British Virgin Islands	30.08.2011	100	100
PJSC "Vyryvske HPP"	Grain elevator	Ukraine	28.12.2011	80,61	80,61
Ukragrosouz KSM Ltd	Agricultural production	Ukraine	29.03.2012	-	100
PAC Slobozhanschina Agro	Agricultural production	Ukraine	26.06.2012	100	100
Bluerice Limited	Subholding company	Cyprus	28.12.2012	-	100
Agroprogress Holding Ltd	Subholding company	Ukraine	28.12.2012	-	100
Agroprogress PE	Agricultural and farming production	Ukraine	28.12.2012	100	100
Bobrovitsky Hlebzavod Ltd	Bakery production	Ukraine	28.12.2012	100	100
PJSC "Bobrovitske HPP"	Grain elevator	Ukraine	28.12.2012	92,83	92,83
Nosovsky Saharny Zavod Ltd	Storage facilities	Ukraine	28.12.2012	100	100
Negoce Agricole S.a r.l.	Trading company	Luxembourg	19.11.2013	100	100
AgroKIM Ltd.	Agricultural and farming production, grain elevator	Ukraine	30.12.2013	100	100



## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

The Group controls 140,4 thousand ha (136,6 thousand ha under processing of high quality arable land). As at 31 March 2017 the Group operates in three segments: crop farming, dairy farming, elevators and warehouses.

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

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

### **2. Basis of preparation of the condensed consolidated interim financial statements**

#### **Statement of compliance**

These condensed consolidated interim 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 condensed consolidated interim financial statements are based on principal accounting policies and critical accounting estimates and judgments that are set out below. These accounting policies and assumptions have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

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

#### **Going concern**

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

#### **Basis of measurement**

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

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

#### **Use of estimates**

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

**Foreign currency translation**

***Functional and presentation currency***

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

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

***Foreign currency transactions and balances***

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

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

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

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

<b>Currency</b>	<b>31 March 2017</b>	<b>Average for the three months ended 31 March 2017</b>	<b>31 December 2016</b>	<b>31 March 2016</b>	<b>Average for the three months ended 31 March 2016</b>	<b>31 December 2015</b>
UAH/	26,976058	27,06106	27,190858	26,218056	25,65374	24,000667

***Translation into presentation currency***

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

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

**Principles of consolidation**

***Subsidiaries***

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

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

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

### 3. Summary of significant accounting policies

#### Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

Land is not depreciated.

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

### Intangible assets

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

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

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

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

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

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

### Impairment of property, plant and equipment and intangible assets

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

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

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

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

### Biological assets

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

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

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

- Biological assets of plant-breeding

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

- Biological assets of animal-breeding

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

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

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

**Agricultural produce**

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

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

**Inventories**

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

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

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

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

The cost of inventories is assigned by using FIFO method.

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

**Financial assets**

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

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

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

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

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

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

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

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

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

**Prepayments and other non-financial assets**

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

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

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

**Cash and cash equivalents**

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

**Financial liabilities**

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

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

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

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

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



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

**Leases**

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

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

**Government grants**

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

- **Government grants related to plant-breeding**  
Amount of such benefit is determined based on the number of hectares planted for the future harvest, taking into account the crop expected to be bred. The Group of companies recognizes this type of benefits upon the receipt of funds as other operating income in the statement of comprehensive income.
- **Government grants related to cattle-breeding**  
Agricultural producers of poultry and livestock are eligible for government grants, depending on quantity of meat in live weight delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.  
Agricultural producers of poultry and livestock are also eligible for government grants for each animal unit of poultry and livestock, including slaughter for own needs or transfer to slaughter. The Group recognizes these grants upon the receipt of funds due to the uncertainty in amounts and timeframes of receipt.
- **Government grants related to VAT**  
According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) received benefits regarding VAT payment on agricultural operations. Correspondingly above, in Y2016 one part of VAT amount is to be paid to the State budget and other part of VAT amount being transferred to the entity's special bank account and can be used to make payments relating to the agricultural activities. As a result of these operations tax amounts are recognized in the statements of comprehensive income as other operating income.  
Since 01 January 2017 there were no VAT preferences for farmers.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

### Taxation

- Income tax

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

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

- i. Current income tax

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

- ii. Deferred income tax

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

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

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

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

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

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

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

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

- Single tax 4<sup>th</sup> group (previously Fixed agricultural tax)

According to effective legislation, the Ukrainian consolidated companies of the Group involved in production, processing and sale of agricultural products may opt for paying fixed agricultural tax (FAT) in lieu of income tax, land tax and some other local taxes if the revenues from sale of their own agricultural products constitute not less than 75% of their total (gross) revenues. The FAT is assessed at 0,81% on the deemed value of the land plots owned or leased by the entity. As at 31 March 2017, 5 of the companies comprising the Group were elected to pay FAT (2016: 6).

- Value added tax (VAT)

VAT output equals to the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.

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

- Other taxes payable

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



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*(in thousand USD, unless otherwise stated)*

**Provisions**

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

**Contingent assets and liabilities**

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

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

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

**Share capital**

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

**Dividends**

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

**Earnings per share**

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

**Revenue recognition**

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

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

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

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**Income from the exchange of property certificates**

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

**Borrowing costs**

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

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

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

**4. Critical accounting estimates and judgments**

The preparation of the Group's condensed consolidated interim financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

**Fair value of property, plant and equipment**

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

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

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

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

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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**Useful lives of property, plant and equipment**

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

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

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

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

**Impairment of property, plant and equipment and intangible assets**

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

As at 31 March 2017 and 31 March 2016 impairment of property, plant and equipment and intangible assets was not identified (Note 18).

**Fair value of acquisition of subsidiaries**

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

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

**Fair value of biological assets**

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

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

The income from recognition of biological assets at fair value for the three months ended 31 March 2017 amounted to USD 2 577 thousand (USD 3 312 thousand for the three months ended 31 March 2016) (Note 7).

**Fair value of agricultural produce**

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

The income from recognition of agricultural produce at fair value for the three months ended 31 March 2017 amounted to USD 601 thousand (nil for the three months ended 31 March 2016) (Note 7).

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**Inventories**

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

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

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

For the three months ended 31 March 2017 shortages and losses due to impairment of inventories amounted to USD 190 thousand (USD 96 thousand for the three months ended 31 March 2016) (Note 12).

**Fair value of financial instruments**

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

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

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

**Fair value measurement**

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

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

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

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

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**Impairment of trade and other accounts receivable**

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

As at 31 March 2017 allowances for accounts receivable were recognized in the amount of USD 41 thousand (USD 38 thousand as at 31 March 2016) (Note 27).

**Impairment of other financial and non-financial assets**

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

As at 31 March 2017 allowances for other financial and non-financial assets were recognized in the amount of USD 8 thousand (USD 41 thousand as at 31 March 2016) (Note 27).

**Long-term VAT recoverable**

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

**Taxation**

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

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

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

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

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

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

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

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

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

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

**Legal proceedings**

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

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

**Operating environment**

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

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

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

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

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

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**New and amended standards and interpretations**

Standards and Interpretations in issue but not effective

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

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

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



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**5. Correction of previous periods errors**

During preparation of consolidated financial statements for the year ended 31 December 2016, the Group has revealed an error in the accounting treatment of the share purchase warrant (Note 30).

Comparative data for the year ended 31 December 2015 and for the three months ended 31 March 2016 were recalculated in order to correct the error and to preserve comparability of information. The results are reflected retrospectively as a previous period restatement. The results of reconciliation of the respective disclosure data are presented as follows.

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

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

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

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

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

As at 31 March 2016 and for the three months ended at that date:

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

	<b>Previously reported</b>	<b>Impact of changes</b>	<b>Restated</b>
Share purchase warrant	242	(242)	-
Long-term loans and borrowings	43 846	6 474	50 320
<b>Total</b>	<b>44 088</b>	<b>6 232</b>	<b>50 320</b>

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

	<b>Previously reported</b>	<b>Impact of changes</b>	<b>Restated</b>
Gain on reversal of share purchase warrant	232	(232)	-
Effect of additional return	-	(863)	(863)
<b>Total</b>	<b>232</b>	<b>(1 095)</b>	<b>(863)</b>



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6. Revenue

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Revenue from sales of finished products	a	36 849	26 767
Revenue from services rendered	b	137	13
		<b>36 986</b>	<b>26 780</b>

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

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
	Unaudited	Unaudited
Corn	34 696	25 352
Sunflower	-	34
Soy beans	826	-
Milk	446	892
Potatoes	326	153
Cattle	169	260
Other	386	76
	<b>36 849</b>	<b>26 767</b>

b) Revenue from services rendered was as follows:

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
	Unaudited	Unaudited
Transport	44	2
Storage	19	-
Processing	6	1
Other	68	10
	<b>137</b>	<b>13</b>

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

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Current biological assets	24	2 273	3 812
Agricultural produce	24	601	-
Non-current biological assets	20	304	(500)
		<b>3 178</b>	<b>3 312</b>

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**8. Cost of sales**

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Raw materials	a	(18 517)	(6 901)
Change in inventories and work-in-progress	b	(9 705)	(10 195)
Rent		(3 082)	(2 643)
Depreciation and amortization	13	(1 851)	(2 388)
Fuel and energy supply		(1 834)	(519)
Wages and salaries of operating personnel and related charges	14	(1 292)	(817)
Third parties' services		(320)	(193)
Repairs and maintenance		(167)	(71)
Taxes and other statutory charges		(102)	(84)
Other expenses		(9)	(9)
		<b>(36 879)</b>	<b>(23 820)</b>

a) Raw materials for the three months ended 31 March 2017 includes disposal of the gain recorded on initial recognition of realized agriculture produce and biological assets (both of current and non-current) in the amount of USD 15 882 thousand (USD 4 078 thousand for the three months ended 31 March 2016).

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

**9. Administrative expenses**

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Wages and salaries of administrative personnel and related charges	14	(1 283)	(781)
Professional services		(179)	(78)
Third parties' services		(80)	(68)
Repairs and maintenance		(73)	(22)
Bank services		(67)	(65)
Transport expenses		(53)	(42)
Depreciation and amortisation	13	(44)	(51)
Other expenses		(160)	(125)
		<b>(1 939)</b>	<b>(1 232)</b>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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10. Selling and distribution expenses

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Delivery costs		(3 028)	(1 463)
Depreciation	13	(83)	(65)
Wages and salaries of sales personnel and related charges	14	(44)	(45)
Other expenses		(59)	(318)
		<b>(3 214)</b>	<b>(1 891)</b>

11. Other operating income

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Income from write-offs of accounts payable		160	24
Gain on recovery of assets previously written off	a	165	-
Income from subsidized VAT	b	-	125
Gain on disposal of inventories		10	13
Other income		27	434
		<b>362</b>	<b>596</b>

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

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

In 2016 the VAT preferences have been partially preserved for farmers in 2016, allowing retaining a portion of VAT amounts as follows:

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

Since 01 January 2017 there were no VAT preferences for farmers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

12. Other operating expenses

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Depreciation	13	(227)	(323)
Shortages and losses due to impairment of inventories		(190)	(96)
Loss on disposal of property, plant and equipment		(70)	(172)
Lost crops		(73)	(69)
Write-offs of VAT		(8)	(2)
Wages and salaries of non-operating personnel and related charges	14	(20)	(21)
Allowance for doubtful accounts receivable	27	(4)	(2)
Other expenses		(287)	(78)
		<b>(879)</b>	<b>(763)</b>

13. Depreciation and amortisation

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
<b>Depreciation</b>			
Cost of sales	8	(1 576)	(2 027)
Other operating expenses	12	(227)	(51)
Selling and distribution expenses	10	(83)	(65)
Administrative expenses	9	(44)	(323)
Depreciation as a part of article "Lost crops"		(8)	(5)
		<b>(1 938)</b>	<b>(2 471)</b>
<b>Amortisation</b>			
Cost of sales	8	(275)	(361)
		<b>(275)</b>	<b>(361)</b>
		<b>(2 213)</b>	<b>(2 832)</b>

14. Wages and salaries expenses

		For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Wages and salaries		(2 244)	(1 391)
Related charges		(400)	(275)
		<b>(2 644)</b>	<b>(1 666)</b>
The average number of employees, persons		2 337	2 471
Remuneration of management		112	112

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
Operating personnel	8	(1 292)	(817)
Administrative personnel	9	(1 283)	(781)
Sales personnel	10	(44)	(45)
Non-operating personnel	12	(20)	(21)
As a part of article "Construction in progress"		(5)	(2)
		<b>(2 644)</b>	<b>(1 666)</b>

15. Financial expenses, net

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
	Unaudited	Unaudited
Interest income on bank deposits	46	105
Interest expenses on loans and borrowings	(1 809)	(2 912)
Bond interest expenses	-	(94)
Other expenses	(20)	(129)
	<b>(1 783)</b>	<b>(3 030)</b>

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

During the the three-month period ended 31 March 2017 the strengthening of Ukrainian Hryvnia depreciated took place - 8,5% of devaluation as at 31 March 2016 in comparison with 0,8% of revaluation as at 31 March 2017. As a result, during the three-month period ended 31 March 2017 the Group recognised net foreign exchange gain in the amount of USD 238 thousand (USD 5 207 thousand of loss for the three-month period ended 31 March 2016) in the condensed consolidated interim statement of comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

17. Income tax expenses

The corporate income tax rate for three-month period ended 31 March 2017 and 2016 was: 18% in Ukraine, 12,5% in Cyprus, 21% in Luxemburg.

The components of income tax expenses were as follows:

	<b>For the three months ended 31 March 2017</b>	<b>For the three months ended 31 March 2016</b>
	Unaudited	Unaudited
Current income tax	(6)	(22)
Deferred tax	4	415
<b>Income tax benefit (expenses) reported in the statement of comprehensive income</b>	<b>(2)</b>	<b>393</b>

**Consolidated statement of other comprehensive income**

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

Net gain on revaluation of property, plant and equipment	37	66
--	----	----

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

	<b>For the three months ended 31 March 2017</b>	<b>For the three months ended 31 March 2016</b>
	Unaudited	Unaudited
<b>01 January (audited)</b>	<b>(2 772)</b>	<b>(3 542)</b>
Income tax benefit (expenses) for the period recognized in profit or loss	(2)	415
Income tax benefit (expenses) for the period recognized in other comprehensive income	37	66
Effect of foreign currency translation	260	289
<b>31 March (unaudited)</b>	<b>(2 477)</b>	<b>(2 772)</b>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

18. Property, plant and equipment

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
<b>Initial cost</b>						
<b>31 December 2015 (audited)</b>	<b>47 463</b>	<b>30 949</b>	<b>14 600</b>	<b>760</b>	<b>325</b>	<b>94 097</b>
Additions	86	2 423	491	8	357	3 365
Disposals	(246)	(449)	(60)	(19)	-	(774)
Transfer	-	19	-	3	(22)	-
Effect from translation into presentation currency	(4 005)	(2 661)	(1 247)	(64)	(32)	(8 009)
<b>31 March 2016 (unaudited)</b>	<b>43 298</b>	<b>30 281</b>	<b>13 784</b>	<b>688</b>	<b>628</b>	<b>88 679</b>
<b>31 December 2016 (audited)</b>						
<b>31 December 2016 (audited)</b>	<b>41 424</b>	<b>28 623</b>	<b>13 568</b>	<b>610</b>	<b>668</b>	<b>84 893</b>
Additions	32	2 205	212	20	113	2 582
Disposals	(254)	(1 095)	(147)	(9)	-	(1 505)
Transfer	1	89	19	4	-	113
Effect from translation into presentation currency	327	243	115	5	5	695
<b>31 March 2017 (unaudited)</b>	<b>41 530</b>	<b>30 065</b>	<b>13 767</b>	<b>630</b>	<b>786</b>	<b>86 778</b>
<b>Accumulated depreciation</b>						
<b>31 December 2015 (audited)</b>	<b>(4 969)</b>	<b>(6 038)</b>	<b>(2 457)</b>	<b>(549)</b>	<b>-</b>	<b>(14 013)</b>
Depreciation for the period	(503)	(1 331)	(621)	(16)	-	(2 471)
Disposals	32	148	24	7	-	211
Effect from translation into presentation currency	430	536	220	49	-	1 235
<b>31 March 2016 (unaudited)</b>	<b>(5 010)</b>	<b>(6 685)</b>	<b>(2 834)</b>	<b>(509)</b>	<b>-</b>	<b>(15 038)</b>
<b>31 December 2016 (audited)</b>						
<b>31 December 2016 (audited)</b>	<b>(5 761)</b>	<b>(9 621)</b>	<b>(4 330)</b>	<b>(531)</b>	<b>-</b>	<b>(20 243)</b>
Depreciation for the period	(421)	(905)	(573)	(39)	-	(1 938)
Disposals	63	455	83	9	-	610
Effect from translation into presentation currency	(47)	(78)	(37)	(2)	-	(164)
<b>31 March 2017 (unaudited)</b>	<b>(6 166)</b>	<b>(10 149)</b>	<b>(4 857)</b>	<b>(563)</b>	<b>-</b>	<b>(21 735)</b>
<b>Net book value</b>						
<b>31 December 2015 (audited)</b>	<b>42 494</b>	<b>24 911</b>	<b>12 143</b>	<b>211</b>	<b>325</b>	<b>80 083</b>
<b>31 March 2016 (unaudited)</b>	<b>38 288</b>	<b>23 596</b>	<b>10 950</b>	<b>179</b>	<b>628</b>	<b>73 641</b>
<b>31 December 2016 (audited)</b>	<b>35 663</b>	<b>19 002</b>	<b>9 238</b>	<b>79</b>	<b>668</b>	<b>64 650</b>
<b>31 March 2017 (unaudited)</b>	<b>35 364</b>	<b>19 916</b>	<b>8 910</b>	<b>67</b>	<b>786</b>	<b>65 043</b>

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

As at 31 March 2017 and 31 March 2016 an impairment review was conducted by the management of the Group. Impairment test has been performed for the following Cash Generating Units: Crop farming, Dairy farming, Storage and processing. According to the results of the test impairment of PPE was not identified.

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

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

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*(in thousand USD, unless otherwise stated)*

**19. Intangible assets**

	Computer software	Property certificates	Land lease rights	Total
<b>Initial cost</b>				
<b>31 December 2015 (audited)</b>	18	113	10 743	10 874
Additions	-	16	-	16
Disposals	-	(13)	-	(13)
Effect from translation into presentation currency	(2)	(10)	(908)	(920)
<b>31 March 2016 (unaudited)</b>	16	106	9 835	9 957
<b>31 December 2016 (audited)</b>				
	17	383	9 482	9 882
Additions	-	21	-	21
Disposals	-	-	-	-
Effect from translation into presentation currency	-	3	76	79
<b>31 March 2017 (unaudited)</b>	17	407	9 558	9 982
<b>Accumulated amortisation</b>				
<b>31 December 2015 (audited)</b>	(13)	(1)	(5 111)	(5 125)
Amortisation for the period	-	-	(361)	(361)
Effect from translation into presentation currency	1	-	440	441
<b>31 March 2016 (unaudited)</b>	(12)	(1)	(5 032)	(5 045)
<b>31 December 2016 (audited)</b>				
	(12)	(1)	(5 807)	(5 820)
Amortisation for the period	-	-	(275)	(275)
Disposals	-	-	-	-
Effect from translation into presentation currency	(1)	-	(47)	(48)
<b>31 March 2017 (unaudited)</b>	(13)	(1)	(6 129)	(6 143)
<b>Net book value</b>				
<b>31 December 2015 (audited)</b>	5	112	5 632	5 750
<b>31 March 2016 (unaudited)</b>	4	105	4 803	4 912
<b>31 December 2016 (audited)</b>	5	382	3 675	4 062
<b>31 March 2017 (unaudited)</b>	4	406	3 429	3 839

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

20. Non-current biological assets

	<u>31 March 2017</u>	<u>31 March 2016</u>
	Unaudited	Unaudited
<b>Non-current biological assets - animal-breeding</b>		
Cattle	1 737	3 532
<b>Non-current biological assets - plant-breeding</b>		
Perennial grasses	17	22
<b>Total non-current biological assets</b>	<u><u>1 754</u></u>	<u><u>3 554</u></u>

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

	<u>31 March 2017</u>	<u>31 March 2016</u>
	Unaudited	Unaudited
<b>Cattle</b>		
Cattle, units	1 100	3 101
Live weight, kg	409 820	1 342 817
Book value	<b>1 737</b>	<b>3 532</b>

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

	<u>Cattle</u>
<b>31 December 2015 (audited)</b>	<u>4 426</u>
Transfer (from (to) current biological assets)	(172)
Change in fair value	(500)
Effect from translation into presentation currency	(222)
<b>31 March 2016 (unaudited)</b>	<u><u>3 532</u></u>
<b>31 December 2016 (audited)</b>	<u>1 407</u>
Transfer (from (to) current biological assets)	(1)
Change in fair value	304
Effect from translation into presentation currency	27
<b>31 March 2017 (unaudited)</b>	<u><u>1 737</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

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

	<u>31 March 2017</u>	<u>31 March 2016</u>
	Unaudited	Unaudited
<b>Perennial grasses</b>		
Area, ha	295	765
Book value	17	22

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

	<b>Perennial grasses</b>
<b>31 December 2015 (audited)</b>	<b>45</b>
Harvesting failure	(19)
Effect from translation into presentation currency	(4)
<b>31 March 2016 (unaudited)</b>	<b>22</b>
<b>31 December 2016 (audited)</b>	<b>25</b>
Harvesting failure	(1)
Effect from translation into presentation currency	(7)
<b>31 March 2017 (unaudited)</b>	<b>17</b>

21. Deferred tax assets and liabilities

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

Deferred tax assets

	<b>Provisions</b>	<b>Total</b>
<b>31 December 2015 (audited)</b>	<b>14</b>	<b>14</b>
Effect from translation into presentation currency	(1)	(1)
<b>31 March 2016 (unaudited)</b>	<b>13</b>	<b>13</b>
<b>31 December 2016 (audited)</b>	-	-
<b>31 March 2017 (unaudited)</b>	-	-

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

Deferred tax liabilities

	<b>Property, plant and equipment</b>
<b>31 December 2015 (audited)</b>	<b>(3 556)</b>
Considering loss	415
Considering equity	66
Effect of foreign currency translation	290
<b>31 March 2016 (unaudited)</b>	<b>(2 785)</b>
<b>31 December 2016 (audited)</b>	<b>(2 498)</b>
Considering loss	4
Considering equity	37
Effect of foreign currency translation	(20)
<b>31 March 2017 (unaudited)</b>	<b>(2 477)</b>

22. Other non-current assets

	<u>31 March 2017</u>	<u>31 March 2016</u>
	Unaudited	Unaudited
Prepayments and other non-financial assets:		
Prepayments for property, plant and equipment	607	169

23. Inventories

	Note	<u>31 March 2017</u>	<u>31 March 2016</u>
		Unaudited	Unaudited
Agricultural produce	a	25 022	23 279
Agricultural materials		21 662	12 096
Work-in-progress	b	12 906	15 290
Fuel		782	580
Spare parts		606	489
Raw materials		130	110
Finished goods		12	24
Other inventories		99	137
		<b>61 219</b>	<b>52 005</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	Unaudited	Unaudited
Corn	22 972	21 504
Soya	691	280
Silage	460	586
Potato	306	482
Hay	51	84
Wheat	16	17
Sunflower	1	-
Other	525	326
	<b>25 022</b>	<b>23 279</b>

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

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

**24. Current biological assets**

	<b>31 March 2017</b>	<b>31 March 2016</b>
	Unaudited	Unaudited
<b>Current biological assets of animal-breeding</b>		
Cattle	1 134	2 164
Pigs	-	-
Other	6	11
	<b>1 140</b>	<b>2 175</b>
<b>Current biological assets of plant-breeding</b>		
Wheat	9 230	10 473
Grasses	44	85
Other	74	8
<b>Total current biological assets of plant-breeding</b>	<b>9 348</b>	<b>10 566</b>
<b>Total current biological assets</b>	<b>10 488</b>	<b>12 741</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

	<u>31 March 2017</u>	<u>31 March 2016</u>
	Unaudited	Unaudited
<b>Cattle</b>		
Cattle, units	669	2 182
Live weight, kg	151 960	598 284
Book value	<b>1 134</b>	<b>2 164</b>
<b>Pigs</b>		
Pigs, units	-	2
Live weight, kg	-	226
Book value	-	-
<b>Other</b>		
Number of animals, units	59	66
Live weight, kg	8 489	11 662
Book value	<b>6</b>	<b>11</b>
<b>Total book value</b>	<b>1 140</b>	<b>2 175</b>

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

	<b>Cattle</b>	<b>Pigs</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2015 (audited)</b>	<b>2 843</b>	-	<b>12</b>	<b>2 855</b>
Capitalized expenses	269	1	-	270
Transfer (from (to) non-current biological assets)	172	-	-	172
Sale	(976)	-	-	(976)
Slaughter	(12)	-	-	(12)
Change in fair value	236	-	-	236
Effect from translation into presentation currency	(368)	(1)	(1)	(370)
<b>31 March 2016 (unaudited)</b>	<b>2 164</b>	-	<b>11</b>	<b>2 175</b>
<b>31 December 2016 (audited)</b>	<b>1 246</b>	-	<b>12</b>	<b>1 258</b>
Capitalized expenses	92	-	-	92
Transfer (from (to) non-current biological assets)	1	-	-	1
Sale	(217)	-	(2)	(219)
Slaughter	(22)	-	-	(22)
Change in fair value	269	-	(3)	266
Effect from translation into presentation currency	(235)	-	(1)	(236)
<b>31 March 2017 (unaudited)</b>	<b>1 134</b>	-	<b>6</b>	<b>1 140</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*(in thousand USD, unless otherwise stated)*

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

	<b>31 March 2017</b>	<b>31 March 2016</b>
	Unaudited	Unaudited
<b>Wheat</b>		
Area, ha	13 732	15 434
Book value	<b>9 230</b>	<b>10 473</b>
<b>Grasses</b>		
Area, ha	377	1 063
Book value	<b>44</b>	<b>85</b>
<b>Other</b>		
Area, ha	261	65
Book value	<b>74</b>	<b>8</b>
<b>Total book value</b>	<b>9 348</b>	<b>10 566</b>

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

	<b>Wheat</b>	<b>Grasses</b>	<b>Corn</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2015 (audited)</b>	<b>5 951</b>	<b>15</b>	-	<b>2</b>	<b>5 968</b>
Capitalized expenses	1 562	78	-	6	1 645
Harvest failure	-	(4)	-	-	(4)
Change in fair value	3 575	-	-	-	3 575
Effect from translation into presentation currency	(614)	(4)	-	(0)	(619)
<b>31 March 2016 (unaudited)</b>	<b>10 473</b>	<b>85</b>	-	<b>8</b>	<b>10 566</b>
	<b>Wheat</b>	<b>Grasses</b>	<b>Corn</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2016 (audited)</b>	<b>5 901</b>	<b>18</b>	<b>11 024</b>	-	<b>16 943</b>
Capitalized expenses	1 264	26	621	73	1 984
Revaluation at fair value at the date of harvest (harvesting 2016)	-	-	601	-	601
Harvesting	-	-	(12 299)	-	(12 299)
Harvest failure	-	-	-	-	-
Change in fair value	2 007	-	-	-	2 007
Effect from translation into presentation currency	58	-	53	1	112
<b>31 March 2017 (unaudited)</b>	<b>9 230</b>	<b>44</b>	-	<b>74</b>	<b>9 348</b>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy. There were no transfers between any levels during the three months ended 31 March 2017.

Description	Fair value as at 31 March 2017	Valuation technique	Unobservable inputs	Range of unobservable inputs
Crops in fields - wheat	9 230	Cash flows	Crops yield - tonnes per hectare	5,7
			Crops price	148 per ton
Cattle	2 870	Discounted cash flows	Milk yield - kg per cow	3820 -7950 per year
			Milk price	0,22 USD per liter
			Discount rate	23,20%

25. Trade accounts receivable, net

	Note	31 March 2017	31 March 2016
		Unaudited	Unaudited
Trade accounts receivable		203	520
Allowances for accounts receivable	27	(41)	(38)
		<b>162</b>	<b>482</b>

26. Prepayments and other current assets, net

	Note	31 March 2017	31 March 2016
		Unaudited	Unaudited
Prepayments and other non-financial assets:			
VAT for reimbursement		8 660	9 625
Advances to suppliers		2 058	2 904
Allowances for advances to suppliers	27	(1)	(8)
		<b>10 717</b>	<b>12 521</b>
Other financial assets:			
Non-bank accommodations interest free		262	209
Allowances for non-bank accommodations interest free	27	-	(11)
Other accounts receivable		234	244
Allowances for other accounts receivable	27	(7)	(22)
		<b>489</b>	<b>420</b>
		<b>11 206</b>	<b>12 941</b>

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27. Changes in allowances made

	Note	31 March 2017	31 March 2016
		Unaudited	Unaudited
Allowances for trade accounts receivable	25	(41)	(38)
Allowances for advances to suppliers	26	(1)	(8)
Allowances for other accounts receivable	26	(7)	(22)
Allowances for non-bank accommodations interest free	26	-	(11)
		<b>(49)</b>	<b>(79)</b>

The movements of the allowances were as follows:

	Note	For the three months ended 31 March 2017	For the three months ended 31 March 2016
		Unaudited	Unaudited
<b>As at the beginning of the period</b>		<b>(46)</b>	<b>(129)</b>
Accrual	12	(4)	(2)
Use of allowances		1	24
Return of allowances		-	18
Effect from translation into presentation currency		-	10
<b>As at the end of the period</b>		<b>(49)</b>	<b>(79)</b>

28. Cash and cash equivalents

	Currency	31 March 2017	31 March 2016
		Unaudited	Unaudited
Cash in bank and hand	USD	9 185	2 925
Cash in bank and hand	UAH	5 793	731
Cash in bank and hand	EUR	34	59
Cash in bank and hand	PLN	11	6
		<b>15 023</b>	<b>3 721</b>

There were no restrictions on the use of cash and cash equivalents during the three months ended 31 March 2017 and 2016.



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*(in thousand USD, unless otherwise stated)*

**29. Equity**

**Share capital**

Industrial Milk Company S.A. has one class of ordinary shares. The number of authorized, issued and fully paid shares as at 31 March 2017 is 31 300 000 (31 March 2016 – 31 300 000). All shares have equal voting rights. Par value of one share is USD 0,0018.

	31 March 2017		31 March 2016	
	%	Amount	%	Amount
AGROVALLEY LIMITED	68	38	68	38
NATIONALE-NEDERLANDEN Powszechnie Towarzystwo Emerytalne S.A. (previously ING PTE)	5	3	5	3
Other shareholders (each one less than 5% of the share capital)	27	15	27	15
	<b>100</b>	<b>56</b>	<b>100</b>	<b>56</b>

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

	For the three months ended 31 March 2017	For the three months ended 31 March 2016
number of authorized, issued and fully paid shares		
<b>As at the beginning of the period</b>	<b>31 300 000</b>	<b>31 300 000</b>
Changes for the period	-	-
<b>As at the end of the period</b>	<b>31 300 000</b>	<b>31 300 000</b>

**Share premium**

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

**Revaluation reserve**

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

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

**Effect of foreign currency translation**

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

**Dividend policy**

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

**Legal reserve**

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

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**30. Share purchase warrant**

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

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

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

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

**31. Long-term loans and borrowings**

	Currency	31 March 2017	31 March 2016
<b>Secured</b>			
Long-term bank loans	USD	63 101	68 538
Finance lease liabilities	UAH, USD	2 938	5 437
Bonds issued	UAH	-	2 479
<b>Total long-term loans including current portion</b>		<b>66 039</b>	<b>76 454</b>
Current portion of long-term bank loans	USD	(10 939)	(21 159)
Current portion of finance lease liabilities	UAH, USD	(2 347)	(2 496)
Current portion of bonds issued	UAH	-	(2 479)
<b>Total current portion</b>		<b>(13 286)</b>	<b>(26 134)</b>
<b>Total long-term loans and borrowings</b>		<b>52 753</b>	<b>50 320</b>

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Essential terms of credit contracts

Creditor	Year of maturity	Currency	Nominal interest rate	31 March 2017	
				Long-term liabilities	Including current portion
Non-resident bank	2018	USD	9,50%	88	88
Ukrainian bank	2018	USD	12,00%	342	342
Ukrainian bank	2018	USD	3M Libor+8,50%	20 000	10 000
Ukrainian bank	2019	USD	8,50%	96	51
Non-resident bank*	2020	USD	6M Libor+8,00%	40 320	-
Ukrainian bank	2021	USD	7,00%	2 255	458
				<b>63 101</b>	<b>10 939</b>

Creditor	Year of maturity	Currency	Nominal interest rate	31 March 2016	
				Long-term liabilities	Including current portion
Ukrainian bank	2016	USD	13,50%	8 000	8 000
Ukrainian bank	2016	USD	1Y Libor+10,00%	803	803
Ukrainian bank	2016	USD	1Y Libor+10,00%	358	358
Ukrainian bank	2016	USD	11,00%	4 500	4 500
Ukrainian bank	2017	USD	6M Libor+9,50%	8 000	6 000
Ukrainian bank	2017	USD	11,00%	1 196	598
Ukrainian bank	2017	USD	23,00%	2 332	0
Ukrainian bank	2017	USD	13,25%	5 000	0
Ukrainian bank	2017	USD	11,00%	300	250
Ukrainian bank	2018	USD	11,00%	915	300
Ukrainian bank	2018	USD	12,00%	660	350
Non-resident bank*	2020	USD	6M Libor+8,00%	36 474	-
				<b>68 538</b>	<b>21 159</b>
Bonds issued	2016	UAH	13,25%	2 479	2 479
				<b>71 017</b>	<b>23 638</b>

\* Loan from non-resident bank consists of:

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

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

	31 March 2017	31 March 2016
Within one year	10 939	23 638
In the second to fifth year inclusive	52 162	47 379
	<b>63 101</b>	<b>71 017</b>

The Group has committed to comply with loans covenants. As at 31 March 2017 the Group was in compliance with all loans covenants. As at 31 March 2016 a number of covenants were breached due to devaluation of the local currency, necessary waivers were received from banks.

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(in thousand USD, unless otherwise stated)

Finance lease liabilities were presented as follows:

	31 March 2017		31 March 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	2 633	2 347	3 023	2 496
In the second to fifth year inclusive	645	591	3 282	2 941
	3 278	2 938	6 305	5 437
Less future finance charges	(340)	-	(868)	-
Present value of minimum lease payments	<b>2 938</b>	<b>2 938</b>	<b>5 437</b>	<b>5 437</b>

32. Short-term loans and borrowings

	Currency	31 March 2017	31 March 2016
<b>Secured</b>			
Short-term bank loans	USD	13 566	17 903
Short-term bank loans	UAH	4 912	2 575
		<b>18 478</b>	<b>20 478</b>

Essential terms of credit contracts

Creditor	Currency	Nominal interest rate	31 March 2017
Ukrainian bank	USD	10,20%	10 000
Ukrainian bank	USD	10,00%	3 566
			<b>13 566</b>
Ukrainian bank	UAH	17,00%	4 912
			<b>18 478</b>

Creditor	Currency	Nominal interest rate	31 March 2016
Ukrainian bank	USD	13,00%	8 993
Ukrainian bank	USD	13,00%	8 910
			<b>17 903</b>
Ukrainian bank	UAH	28,00%	2 575
			<b>20 478</b>

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*(in thousand USD, unless otherwise stated)*

**33. Trade accounts payable**

	<u>31 March 2017</u>	<u>31 March 2016</u>
Trade accounts payable	15 132	10 741

**34. Other current liabilities and accrued expenses**

	<u>31 March 2017</u>	<u>31 March 2016</u>
Other liabilities:		
Advances from clients	2 443	7 048
	<u>2 443</u>	<u>7 048</u>
Other accounts payable:		
Accounts payable for non-current tangible assets	1 229	1 681
Accounts payable for the lease of land and property rights	852	1 661
Wages, salaries and related charges payable	725	528
Accruals for unused vacations	456	320
Interest payable on bank loans	1 069	972
Taxes payable	184	140
Other accounts payable	40	54
	<u>4 555</u>	<u>5 356</u>
	<u><u>6 998</u></u>	<u><u>12 404</u></u>

**35. Related party disclosures**

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

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

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

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

	<u>For the three months ended 31 March 2017</u>	<u>For the three months ended 31 March 2016</u>
Wages and salaries	83	83
Related charges	29	29
	<u>112</u>	<u>112</u>
The average number of employees, persons	4	4

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36. Information on segments

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

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

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

Information on business segments for the three months ended 31 March 2017 was the follow:

	Farming division	Livestock breeding	Storage and processing	Unallocated	Total
Revenue	66 740	614	1 827	-	69 181
Intra-group elimination	(30 505)	-	(1 690)	-	(32 195)
<b>Revenue from external buyers</b>	<b>36 235</b>	<b>614</b>	<b>137</b>	-	<b>36 986</b>
Gain from changes in fair value of biological assets and agricultural produce, net	2 608	570	-	-	3 178
Cost of sales	(36 214)	(539)	(126)	-	(36 879)
<b>Gross income</b>	<b>2 629</b>	<b>645</b>	<b>11</b>	-	<b>3 285</b>
Administrative expenses	-	-	-	(1 939)	(1 939)
Selling and distribution expenses	-	-	-	(3 214)	(3 214)
Other operating income	-	-	-	362	362
Other operating expenses	-	-	-	(879)	(879)
Write-offs of property, plant and equipment	-	-	-	(730)	(730)
<b>Operating income of a segment</b>	<b>2 629</b>	<b>645</b>	<b>11</b>	<b>(6 400)</b>	<b>(3 115)</b>
Financial expenses, net	-	-	-	(1 783)	(1 783)
Effect of additional return	-	-	-	(1 019)	(1 019)
Foreign currency exchange (loss)/gain, net	-	-	-	238	238
<b>Profit before tax</b>	<b>2 629</b>	<b>645</b>	<b>11</b>	<b>(8 964)</b>	<b>(5 679)</b>
Income tax expenses	-	-	-	(2)	(2)
<b>Net profit</b>	<b>2 629</b>	<b>645</b>	<b>11</b>	<b>(8 966)</b>	<b>(5 681)</b>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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Information on business segments for the three months ended 31 March 2016 was the follow:

	Farming division	Livestock breeding	Storage and processing	Unallocated	Total
Revenue	54 630	1 152	540	-	56 322
Intra-group elimination	(29 015)	-	(527)	-	(29 542)
<b>Revenue from external buyers</b>	<b>25 615</b>	<b>1 152</b>	<b>13</b>	<b>-</b>	<b>26 780</b>
Gain from changes in fair value of biological assets and agricultural produce, net	3 576	(264)	-	-	3 312
Cost of sales	(22 948)	(863)	(9)	-	(23 820)
<b>Gross income</b>	<b>6 243</b>	<b>25</b>	<b>4</b>	<b>-</b>	<b>6 272</b>
Administrative expenses	-	-	-	(1 232)	(1 232)
Selling and distribution expenses	-	-	-	(1 891)	(1 891)
Other operating income	-	-	-	596	596
Other operating expenses	-	-	-	(763)	(763)
Write-offs of property, plant and equipment	-	-	-	(282)	(282)
<b>Operating income of a segment</b>	<b>6 243</b>	<b>25</b>	<b>4</b>	<b>(3 572)</b>	<b>2 700</b>
Financial expenses, net	-	-	-	(3 030)	(3 030)
Effect of additional return	-	-	-	(863)	(863)
Foreign currency exchange (loss)/gain, net	-	-	-	(5 207)	(5 207)
<b>Profit before tax</b>	<b>6 243</b>	<b>25</b>	<b>4</b>	<b>(12 672)</b>	<b>(6 400)</b>
Income tax expenses	-	-	-	393	393
<b>Net profit</b>	<b>6 243</b>	<b>25</b>	<b>4</b>	<b>(12 279)</b>	<b>(6 007)</b>

37. Lease of land

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

Areas of operating leased land were as follows:

Location of land	31 March 2017	31 March 2016
	Hectare	Hectare
<b>Poltava region</b>		
Land under processing	30 079	30 079
Land for grazing, construction, other	2 009	2 009
<b>Chernihiv region</b>		
Land under processing	81 938	81 938
Land for grazing, construction, other	1 681	1 681
<b>Sumy region</b>		
Land under processing	24 584	24 584
Land for grazing, construction, other	113	113
	<b>140 404</b>	<b>140 404</b>

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

	<u>31 March 2017</u>	<u>31 March 2016</u>
Within one year	8 038	7 423
In the second to fifth year inclusive	30 179	26 908
Later than fifth year	25 071	23 283
	<u><b>63 288</b></u>	<u><b>57 614</b></u>

**38. Lease of property, plant and equipment**

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

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

	<u>31 March 2017</u>	<u>31 March 2016</u>
Within one year	784	1 751
In the second to fifth year inclusive	127	706
Later than fifth year	-	-
	<u><b>911</b></u>	<u><b>2 457</b></u>

The lease payments for operating leases of property, plant and equipment for the agreements mentioned above in the amount of USD 2 499 thousand for the three months ended 31 March 2017 were included to the item Rent of Cost of sales (USD 2 640 thousand for the year ended 31 December 2015).

**39. Financial instruments**

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

Financial instrument	Category	Measurement
<b>Financial assets</b>		
Accounts receivable	Loans and receivables	Amortized cost
Other financial assets	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Loans and borrowings	Financial liabilities	Amortized cost
Accounts payable	Financial liabilities	Amortized cost
Other financial liabilities	Financial liabilities	Amortized cost

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



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

**40. Events after the balance sheet date**

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

Loans and borrowings and interests are repaid in the amount of USD 8 889 thousand.

Loans and borrowings are received in the amount of USD 93 thousand.