

**KSG Agro S.A.**

**Unaudited Interim Condensed  
Consolidated Financial Statements**

**31 March 2017**

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### Statement of the Board of Directors and management's responsibility

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

The Board of Directors and the Group's management are responsible for the preparation of the interim condensed consolidated financial statements of the Group as at 31 March 2017 and for the three months then ended in accordance with International Accounting Standard 34 (IAS 34) "Interim Financial Reporting" as adopted by the European Union.

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

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

The Board of Directors and management are also responsible for:

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

In accordance with Article 4 (2) (c) of the law of 11 January 2008 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, we declare that, to the best of our knowledge, the interim condensed consolidated financial statements for the three months ended 31 March 2017, prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the period of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole. In addition, the management report includes a fair review of the development and performance of the business and the position of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The interim condensed consolidated financial statements for the three months ended 31 March 2017 were approved on 11 May 2017.

  
\_\_\_\_\_  
S. V. Nazin  
(Chief Executive Officer)

  
\_\_\_\_\_  
L.L. Omelchenko  
(Chief Financial Officer)

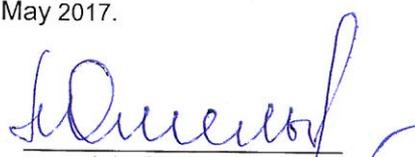
**KSG Agro S.A.**

**Unaudited Interim Condensed Consolidated Statement of Financial Position**

<i>In thousands of US dollars</i>	Note	31 March 2017 (unaudited)	31 December 2016 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	19,091	19,073
Intangible assets	6	34	33
Long-term biological assets		22,707	22,163
Long-term receivables		949	937
Deferred expense		450	514
Deferred tax assets		175	173
Promissory notes receivable		268	266
Term deposits		1,547	1,534
<b>Total non-current assets</b>		<b>45,221</b>	<b>44,693</b>
<b>Current assets</b>			
Current biological assets	8	5,199	4,172
Inventories and agricultural produce	7	2,165	1,102
Trade and other accounts receivable	9	6,269	7,321
Taxes recoverable and prepaid		382	207
Cash and cash equivalents		1,015	1,107
<b>Total current assets</b>		<b>15,030</b>	<b>13,909</b>
<b>TOTAL ASSETS</b>		<b>60,251</b>	<b>58,602</b>
<b>EQUITY</b>			
Share capital		150	150
Share premium		37,366	37,366
Treasury shares		(112)	(112)
Retained earnings		(39,093)	(39,440)
Currency translation reserve		(9,356)	(9,103)
<b>Equity attributable to the owners of the Company</b>		<b>(11,045)</b>	<b>(11,139)</b>
<b>Non-controlling interests</b>		<b>6,759</b>	<b>6,788</b>
<b>TOTAL EQUITY</b>		<b>(4,286)</b>	<b>(4,351)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	10	20,984	20,896
Deferred tax liability		255	253
<b>Total non-current liabilities</b>		<b>21,239</b>	<b>21,149</b>
<b>Current liabilities</b>			
Loans and borrowings	10	24,965	24,393
Trade and other accounts payable	11	16,850	15,920
Promissory notes issued		1,389	1,365
Taxes payable		94	126
<b>Total current liabilities</b>		<b>43,298</b>	<b>41,804</b>
<b>TOTAL LIABILITIES</b>		<b>64,537</b>	<b>62,953</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>60,251</b>	<b>58,602</b>

Approved for issue and signed on behalf of the Board of Directors on 11 May 2017.

  
S.V. Mazin  
(Chief Executive Officer)

  
L.L. Omelchenko  
(Chief Financial Officer)

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

**KSG Agro S.A.****Unaudited Interim Condensed Consolidated Income Statement**

	Note	Three months ended 31 March	
		2017	2016
		(unaudited)	(unaudited)
<i>In thousands of US dollars</i>			
Revenue	12	2,908	4,658
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs		867	208
Cost of sales	13	(2,682)	(3,601)
<b>Gross profit</b>		<b>1,093</b>	<b>1,265</b>
Government grant received		18	2
Selling, general and administrative expenses	14	(196)	(125)
Other operating income		165	-
Other operating expenses		-	-
<b>Operating profit</b>		<b>1,080</b>	<b>1,142</b>
Finance income	16	76	222
Finance expenses	16	(256)	(1,085)
Foreign currency exchange gain/(loss), net	17	(376)	(1,834)
Other income	15	-	-
Other expenses	15	(292)	(208)
<b>Profit/ (loss) before tax</b>		<b>232</b>	<b>(1,763)</b>
Income tax benefit/(expense)		(4)	(2)
<b>Profit/ (loss) for the period</b>		<b>228</b>	<b>(1,765)</b>
<b>Profit/ (loss) attributable to:</b>			
Owners of the Company		347	(1,073)
Non-controlling interest		(119)	(692)
<b>Profit/ (loss) for the period</b>		<b>228</b>	<b>(1,765)</b>
<b>Earnings per share</b>			
Weighted-average number of common shares outstanding		15,020,000	15,020,000
Basic earnings per share, USD		0.02	(0.07)
Diluted earnings per share, USD		0.02	(0.07)

**Unaudited Interim Condensed Consolidated Statement of Other Comprehensive Income**

	Three months ended 31 March	
	2017	2016
	(unaudited)	(unaudited)
<i>In thousands of US dollars</i>		
<b>Profit / (loss) for the period</b>	<b>228</b>	<b>(1,765)</b>
<b>Other comprehensive (loss)/ income, net of income tax</b>		
Currency translation differences	(163)	394
<b>Total comprehensive income/ (loss) for the period</b>	<b>65</b>	<b>(1,371)</b>
<b>Total comprehensive income/ (loss) attributable to</b>		
Owners of the Company	94	(1,696)
Non-controlling interests	(29)	325
<b>Total comprehensive income/ (loss) for the period</b>	<b>65</b>	<b>(1,371)</b>

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

**KSG Agro S.A.****Unaudited Interim Condensed Consolidated Statement of Cash Flows**

	Note	Three months ended 31 March	
		2017	2016
		(unaudited)	(unaudited)
<i>In thousands of US dollars</i>			
<b>Cash flows from operating activities</b>			
Profit/ (loss) before tax		232	(1,763)
Adjustments for:			
Depreciation and amortization	5,6	333	372
Impairment and write-off of trade and other accounts receivable	15	-	-
Impairment of LLR		-	-
Write off of accounts payable		(124)	-
Impairment of VAT receivable		-	-
Reversal of impairment of provision for inventory		-	-
Provision for inventory		-	-
Unrealised gain on biological assets and agricultural produce		(867)	(208)
Loss from dead crops	15	-	-
Exchange differences	17	492	1,834
Gain on share purchase warrant		-	-
Loss on disposal of property, plant and equipment	15	-	-
Finance expenses other than share purchase warrant	16	256	1,085
Finance income	16	(76)	(143)
Loss on fines and penalties		-	-
Goodwill impairment		-	-
Unwinding of discount	16	-	(79)
Other		-	-
<b>Operating cash flows before working capital changes</b>		<b>246</b>	<b>1,098</b>
Change in trade and other accounts receivable		937	3,320
Change in current biological assets		(491)	(744)
Change in inventories and agricultural produce		(1,058)	(92)
Change in trade and other accounts payable		680	(3,604)
<b>Cash generated from operations</b>		<b>314</b>	<b>(22)</b>
Interest paid		(266)	(436)
Income tax paid		4	(42)
<b>Cash generated from / (used in) operating activities</b>		<b>52</b>	<b>(500)</b>
<b>Cash flow from investment activities</b>			
Acquisition of property, plant and equipment		(98)	-
Proceeds from disposal of property, plant and equipment		-	-
Interest paid		-	-
Acquisition of subsidiaries, net of cash acquired		-	-
Loan given		-	-
Interest received		76	143
Term deposit received/(placed)		-	-
Investment payments		-	(56)
Settlement of accounts payable related to investment activities		(82)	(23)
Disposal of assets held for sale		-	-
<b>Net cash generated from / (used in) investment activities</b>		<b>(104)</b>	<b>64</b>

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

**KSG Agro S.A.****Unaudited Interim Condensed Consolidated Statement of Cash Flows**

<i>In thousands of US dollars</i>	Note	Three months ended 31 March	
		2017 (unaudited)	2016 (unaudited)
<b>Cash flow from financing activities</b>			
Repayment of bank loans		(41)	-
Repayment of financial lease liabilities		(10)	(14)
<b>Net cash (used in) / received from financing activities</b>		<b>(51)</b>	<b>(14)</b>
Net (decrease)/increase in cash and cash equivalents		(103)	(450)
Cash and cash equivalents at the beginning of the period		1,107	1,147
Effect of exchange rate differences on cash and cash equivalents		11	79
<b>Cash and cash equivalents at the end of the period</b>		<b>1,015</b>	<b>776</b>

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

**KSG Agro S.A.**

**Unaudited Interim Condensed Consolidated Statement of Changes in Equity**

	Attributable to owners of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Currency translation reserve	Retained earnings	Total attributable to owners of the Company		
<i>In thousands of US dollars</i>								
<b>Balance as at 31 December 2016 (audited)</b>	<b>150</b>	<b>37,366</b>	<b>(112)</b>	<b>(9,103)</b>	<b>(39,440)</b>	<b>(11,139)</b>	<b>6,788</b>	<b>(4,351)</b>
Profit/ (loss) for the period	-	-	-	-	347	347	(119)	228
Other comprehensive (loss)/ income	-	-	-	(253)	-	(253)	90	(163)
Total comprehensive income/(loss) for the period	-	-	-	(253)	347	94	(29)	65
<b>Balance as at 31 March 2017 (unaudited)</b>	<b>150</b>	<b>37,366</b>	<b>(112)</b>	<b>(9,356)</b>	<b>(39,093)</b>	<b>(11,045)</b>	<b>6,759</b>	<b>(4,286)</b>

	Attributable to owners of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Currency translation reserve	Retained earnings	Total attributable to owners of the Company		
<i>In thousands of US dollars</i>								
<b>Balance as at 31 December 2015</b>	<b>150</b>	<b>37,366</b>	<b>(112)</b>	<b>(9,616)</b>	<b>(41,551)</b>	<b>(13,763)</b>	<b>5,863</b>	<b>(7,900)</b>
Loss for the period	-	-	-	-	(1,073)	(1,073)	(692)	(1,765)
Other comprehensive (loss)/ income	-	-	-	(623)	-	(623)	1,017	394
Total comprehensive (loss)/ income for the period	-	-	-	(623)	(1,073)	(1,696)	325	(1,371)
<b>Balance as at 31 March 2016 (unaudited)</b>	<b>150</b>	<b>37,366</b>	<b>(112)</b>	<b>(10,239)</b>	<b>(42,624)</b>	<b>(15,459)</b>	<b>6,188</b>	<b>(9,271)</b>

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

**KSG Agro S.A.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements****1. Background**

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

The registered office of the Company is at 24, rue Astrid, L-1143 Luxembourg and the Company number with the Registre de Commerce is B 156 864.

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

The number of employees of the Group as at 31 March 2017 was 652 employees (31 December 2016: 577 employees).

**Scope of consolidation**

The Group's parent is OLBIS Investments LTD S.A., (65%) - , registered in Panama and the ultimate controlling party is Mr. Sergiy Kasianov. Remain Group's shares (35%) listed on the Warsaw Stock Exchange.

The subsidiaries and principal activities of the companies forming the Group and the Parent's effective ownership interest as at 31 March 2017 and 31 December 2016 were as follows:

Operating entity	Principal activity	Country of registration	Effective ownership ratio, %	
			31 March 2017	31 December 2016
KSG Agro S.A.	Holding company	Luxembourg	Parent	Parent
KSG Agricultural and Industrial Holding LTD	Subholding company	Cyprus	100%	100%
KSG Agro Polska	Trade of agricultural products	Poland	100%	100%
KSG Energy Group LTD	Trade of pellets	Cyprus	50%	50%
Parisifia LTD	Intermediate holding company	Cyprus	50%	50%
Abbondanza SA	Trade of agricultural products	Switzerland	50%	50%
Enterprise №2 of Ukrainian agricultural and industrial holding LLC	Agricultural production	Ukraine	100%	100%
Scorpio Agro LLC	Agricultural production	Ukraine	100%	100%
Goncharovo Agricultural LLC	Agricultural production	Ukraine	100%	100%
Agro-Trade House Dniprovsky LLC	Agricultural production	Ukraine	100%	100%
Dnipro LLC	Agricultural production	Ukraine	100%	100%
KSG Trade House LTD	Trade of agricultural products	Ukraine	100%	100%
Trade House of the Ukrainian Agroindustrial Holding LLC	Agricultural production	Ukraine	100%	100%
Askoninteks LLC	Agricultural production	Ukraine	100%	100%
Agro Golden LLC	Agricultural production	Ukraine	100%	100%
Agro LLC	Lessor of equipment	Ukraine	100%	100%
SPE Promvok LLC	Lessor of equipment	Ukraine	100%	100%
Meat plant Dnipro LLC	Manufacture	Ukraine	100%	100%
Hlebna Liga LLC	Trader	Ukraine	100%	100%
Agrofirm Vesna LLC	Agricultural production	Ukraine	100%	100%
Agrotrade LLC	Agricultural production	Ukraine	50%	50%
Factor D LLC	Agricultural production	Ukraine	50%	50%
Rantye LLC	Agricultural production	Ukraine	50%	50%
PrJSC Pererobnyk	Flour and animals' feed producing	Ukraine	25%	25%
Agroplaza LLC	Intermediate holding company	Ukraine	50%	50%
Stepove LLC	Agricultural production	Ukraine	50%	50%

Operating entity	Principal activity	Country of registration	Effective ownership ratio, %	
			31 March 2017	31 December 2016
Dzherelo LLC	Agricultural production	Ukraine	50%	50%
Kolosyste LLC	Agricultural production	Ukraine	50%	50%
Hlebodar LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Prudy LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Uytne LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Kirovske LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Yelizavetove LLC *	Agricultural production	Ukraine	50%	50%
KSG Dnipro LLC (SFG Bulah LLC)	Agricultural production	Ukraine	100%	100%
Ranniy Ranok LLC	Agricultural production	Ukraine	100%	100%
Pererobnyk LLC PE	Flour and animals' feed producing	Ukraine	25%	25%

Companies marked with \* are located in Crimea. The Group has no operating control over them starting from 01 October 2014, so deconsolidation of these companies was provided and net assets were written off to zero.

On the annual basis companies with voting rights less than 51% tests for the compliance with IFRS 10 regarding existence of control. In these consolidated financial statements presented subsidiaries with absolute control over operating activity and cash flows and total responsibilities for the incurred profits or losses.

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

## 2. Summary of Significant Accounting Policies

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

### Going concern assumption.

In determining the appropriate basis of preparation of the consolidated financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The financial performance of the Group is naturally dependent upon the weather conditions in areas of operations and wider economic environment of Ukraine.

Due to loss of control over Crimea subsidiaries, the Group's financial position and performance in 2014 significantly deteriorated. That caused significant difficulties with timely debt repayment and breach of loan covenants. Also Group's ability to continue its operations within foreseeable future was questioned. To deal with new challenges, In September 2014 the Group's management changed their development strategy. New strategy focused on: optimization of internal operating processes; focus on farming and pig breeding; decrease of loan burden; focusing on export contracts with existing customers. Still the Group management has been successful in implementation of changed strategy and stabilisation of Group financial performance:

- Focus on farming & pigs breeding and increase its efficiency
- Searching new contractors and signing agreements for sale of crops using USD prices
- Reduction of current debt and the extension period of credit

All above mentioned Management actions resulted significant improvement of the Group financial position and performance for the period ended 31 March 2017. For the three months ended 31 March 2017, the Company had comprehensive income of USD 65 thousand (three months ended 31 March 2016: comprehensive loss of USD (1,371) thousand). On the results of operation activity, for the three months ended 31 March 2017 the Company received operating profit USD 1,080 thousand (three months ended 31 March 2016: operating profit USD 1,142 thousand).

The Group Management concludes that, as the risks and uncertainties described above included in the cash flow forecast with conservative assumptions are covered by restructuring of overdue borrowings, there is a reasonable expectation that the Company can continue its operations in the foreseeable future and, accordingly, has formed a judgment that it is appropriate to prepare the consolidated financial statements as at and three months ended 31 March 2017 on a going concern basis. If the Company is not successful in debt restructuring plan, the going concern assumption might not be relevant any longer for the Group or its components. The consolidated financial statements would then need to be totally or partially amended to an extent which today cannot be estimated in respect of: the

valuation of the assets at their liquidation value, the incorporation of any potential liability and the reclassification of non-current assets and liabilities into current assets and liabilities.

**Consolidated financial statements.** Group recognise controls on subsidiary if next criteria are met:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the Group's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

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

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

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

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

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

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

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

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

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

### **Financial instruments**

#### *Key measurement terms*

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

*Fair value* is 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.

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

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

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

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

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

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

**Classification of financial liabilities.** The Group's financial liabilities include loans, borrowings, trade and other payables, financial lease, promissory notes issued and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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

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

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

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

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

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

lives of land lease rights based on the prolonged term. Recognized on consolidation lease agreements are amortized on straight line method over the term of the agreements without considering possible prolongation.

**Property, plant and equipment.** Property, plant and equipment items are stated at cost less accumulated depreciation and, where applicable, accumulated impairment. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects, if the recognition criteria are met. All repair and maintenance costs are expensed as incurred. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

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

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

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

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

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

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

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

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

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

assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Special tax for agricultural producers.** The Company's subsidiaries in Ukraine engaged in the production, processing and sale of agricultural products may opt for paying a *special tax for agricultural producers* ("Group #4 of Tax payers defined in Tax Code of Ukraine") in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, vehicle tax, duties for geological survey works and duties for trade patents if the revenues from sale of their self-grown agricultural products constitute not less than 75% of their total gross revenues. The amount of *special tax for agricultural producers* is assessed at 0.81% on the deemed value of the land plots owned or leased by the entity (as determined by the relevant State authorities). As at 31 March 2017 five Ukrainian subsidiaries of the Group elected to pay *special tax* (31 December 2016: 5). The rest of the Group's entities are subject to regular income tax.

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

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

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

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

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

**Crops in the field.** The fair value of crops in the field is determined by using valuation techniques, as there is no market for winter crops and other long-term crops of the same physical condition. The fair value of the Group's biological assets is calculated as the present value of anticipated future cash flows from the asset before tax. The fair value calculation of crops in the field is based on the existing field under crops and the assessments regarding expected crop yield on harvest, time of harvest, future cultivation, treatment, harvest costs and selling prices. The discount rate is determined by reference to weighted-average cost capital based on risk profile of the Group.

**Livestock.** The fair value of non-current livestock is determined by using valuation techniques, as there is no market for sows of the same physical conditions, such as weight, age and breed. The fair value of livestock is based on expected litter of piglets, expected volume of meat at the date of slaughter, respective anticipated prices, average expected productive lives of the livestock and future production costs. The discount rate is determined by reference to current market determined pre-tax rate.

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

The biological assets are classified as current or non-current depending on the expected pattern of consumption of the economic benefits embodied in the biological assets. Dairy cattle, sows, fruit gardens and long-term grass are classified as non-current and livestock husbandry and winter crops are classified as current biological assets.

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

**Agricultural produce.** Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the date of harvest.

**Inventories.** Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on

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

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

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

**Impairment of financial assets carried at amortised cost.** Impairment are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment has occurred:

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

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

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

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

**Cash and cash equivalents.** Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts, if any.

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

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

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

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

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

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

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

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

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognized in profit or loss. Translation at year end does not apply to nonmonetary items.

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

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

The exchange rates used for translating foreign currency balances were:

	<b>31 March 2017</b>	<b>31 December 2016</b>
USD/UAH	26.9760	27.1909
USD/UAH average for the period	27.0858	25.5873
EUR/UAH	28.9642	28.4226
EUR/UAH average for the period	28.8695	28.3116

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

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

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

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

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

### **3. Critical Accounting Estimates and Judgements**

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

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

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

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers. The key assumptions used to determine the fair value of biological assets presented in Note 11.

**Agricultural produce.** Agricultural produce is the harvested product of the Group's biological assets. It is recorded at its estimated fair value less costs to sell, at the point of harvest. The determination of fair value for a biological asset or agricultural produce is facilitated by grouping the produce according to significant attributes; for example, by type or quality. The fair value of each group of agricultural produce at the end of the reporting period is determined as lower of the available average market price for similar products at the point of harvest and net realizable value. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers. A 10% increase or decrease in market prices compared to the selling prices used would result in an increase or decrease in the fair value of agricultural produce of USD 321 thousand (31 December 2016: USD 330 thousand).

**Allowance for doubtful receivables.** The Group periodically assesses recoverability of receivables from main debtors. In the case objective evidence of uncollectability is in place, allowance is provided for the amount of doubtful receivables. No allowance for receivables from related parties is charged. Additionally a general provision for doubtful debts is provided on all receivables due for more than 365 days.

**Cost of inventories.** At each reporting date the Group carries out assessment of goods for signs impairment of initial value. As at March 31, 2017 the Group's management uses method of individual assessment of each unit of goods. The same approach was used in 2014.

**Goodwill.** Goodwill arising from the acquisition of subsidiaries is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount (estimated under five-year cash flows financial plans) of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment is recognised. Impairment relating to goodwill cannot be reversed in the future periods.

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

**Subsidiaries.** The Group consolidates the result of Parisifia Trading Ltd (Cyprus), KSG Energy Group Ltd (Cyprus) and Abondanza S.A. (Switzerland) although it only holds 50% of the voting rights, because it has the power to govern its financial and operating policies through arrangements with the other 50% shareholder. The Group also consolidates the results of Pererobnyk PrJSC, a company in which it holds 25% of the voting rights, because it has the power to govern its financial and operating policies through its sole presence in the supervisory and management boards of the company and ability to determine remuneration of its representatives in these governance bodies. Majority of the supervisory and management board members are employees of other entities of the Group. Judgement is required to determine whether the substance of the relationship between the Group and a subsidiary indicates that the entity is controlled by the Group. In making this judgement management considered arrangements with the other shareholders of the subsidiary.

**Fair value measurement.** Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available – Note 16) and non-financial assets (Note 9, 11). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date

**Income tax and deferred taxes** The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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 impact the current tax and deferred tax provisions.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### 4. Businesses' disposals and Disposal groups

No business acquisitions or disposals took place during three months ended 31 March 2017.

#### 5. Property, plant and equipment

Movement of property, plant and equipment for the three months ended 31 March 2017 and 2016 was as follows:

<i>In thousands of US dollars</i>	Buildings and construction	Agricultural equipment	Vehicles and office equipment	Constructio n in progress	Total
<b>Carrying amount as at 1 January 2017 (audited)</b>	<b>9,075</b>	<b>1,413</b>	<b>346</b>	<b>8,239</b>	<b>19,073</b>
Additions	173	310	20	-	503
Disposals	-	(13)	-	-	(13)
Transfers	-	-	-	-	-
Depreciation charge	(184)	(117)	(32)	-	(333)
Exchange differences	(72)	2	(3)	(66)	(139)
<b>Carrying amount as at 31 March 2017 (unaudited)</b>	<b>8,992</b>	<b>1,595</b>	<b>331</b>	<b>8,173</b>	<b>19,091</b>

<i>In thousands of US dollars</i>	Buildings and construction	Agricultural equipment	Vehicles and office equipment	Constructio n in progress	Total
<b>Carrying amount as at 1 January 2016</b>	<b>11,052</b>	<b>2,270</b>	<b>418</b>	<b>8,760</b>	<b>22,500</b>
Additions	132	37	21	494	684
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Depreciation charge	(182)	(120)	(33)	-	(335)
Exchange differences	(934)	(190)	(38)	(748)	(1,910)
<b>Carrying amount as at 31 March 2016 (unaudited)</b>	<b>10,068</b>	<b>1,997</b>	<b>368</b>	<b>8,506</b>	<b>20,939</b>

**KSG Agro S.A.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements****6. Intangible assets**

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Land lease rights	34	33
<b>Total intangible assets</b>	<b>34</b>	<b>33</b>

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

<i>In thousands of US dollars</i>	<b>2017</b>	<b>2016</b>
<b>At 1 January (audited)</b>		
Cost	1,920	2,357
Accumulated amortization	(1,887)	(2,123)
<b>Carrying amount as at 1 January (audited)</b>	<b>33</b>	<b>234</b>
Acquisition / (Disposal)	-	-
Amortization charge	-	(37)
Exchange difference, cost	1	(199)
Exchange difference, amortization	-	179
<b>At as at 31 March (unaudited)</b>	<b>34</b>	<b>177</b>
Cost	1,921	2,158
Accumulated amortization	(1,887)	(1,981)
<b>Carrying amount as at 31 March (unaudited)</b>	<b>34</b>	<b>177</b>

**7. Inventories and agricultural produce**

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Agricultural stock	1,170	207
Work in progress	362	210
Raw materials	121	152
Semi-finished goods	110	219
Agricultural produce	105	14
Goods for resale	22	24
Finished goods	-	206
Other	275	70
<b>Total inventories and agricultural produce</b>	<b>2,165</b>	<b>1,102</b>

**8. Current biological assets**

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Crops in the field	2,843	1,880
Livestock husbandry	2,356	2,292
<b>Total current biological assets</b>	<b>5,199</b>	<b>4,172</b>

The balances of crops in the field were as follows:

**KSG Agro S.A.**

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

<i>In thousands of US dollars</i>	31 March 2017 (unaudited), book value	Hectares as at 31 March 2017 (unaudited)	31 December 2016 (audited), book value	Hectares as at 31 December 2016 (audited)
Winter Wheat	2,037	7,866	1,427	7,866
Barley*	379	2,554	193	2,082
Coleseed (rape)*	427	928	249	628
Sunflower	-	-	11	241
<b>Total crops in the field</b>	<b>2,843</b>	<b>11,348</b>	<b>1,880</b>	<b>10,817</b>

\* winter and spring

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

<i>In thousands of US dollars</i>	2017	2016
<b>Carrying amount as at 1 January (audited)</b>	<b>1,880</b>	<b>1,911</b>
Purchases	-	-
Investments into future crops and livestock	653	396
Sales	-	-
Gain/(loss) arising from changes in fair value attributable to physical changes and changes in market prices	434	(34)
Harvested during the period	(19)	-
Loss from dead crops	-	(6)
Exchange differences	(105)	(188)
<b>Carrying amount as at 31 March (unaudited)</b>	<b>2,843</b>	<b>2,079</b>

**9. Trade and other accounts receivable**

<i>In thousands of US dollars</i>	31 March 2017 (unaudited)	31 December 2016 (audited)
Trade accounts receivable (Short term)	4,434	4,939
Less: provision for trade accounts receivable	(1,839)	(1,824)
Loans issued	696	1,071
Less: provision for loans issued	(353)	(350)
Other financial receivables	4,726	4,989
Less: provision for financial receivables	(1,554)	(1,542)
<b>Total financial trade and other receivables</b>	<b>6,110</b>	<b>7,283</b>
Advances issued	277	154
Less: provision for advances issued	(118)	(116)
<b>Total trade and other accounts receivable</b>	<b>6,269</b>	<b>7,321</b>

**10. Loans and borrowings**

<i>In thousands of US dollars</i>	31 March 2017 (unaudited)	31 December 2016 (audited)
<b>Long-term</b>		
Financial lease liabilities	79	83
Bank loans	20,905	20,813
<b>Total long-term loans and borrowings</b>	<b>20,984</b>	<b>20,896</b>
<b>Current</b>		
Financial lease liabilities	30	30
Bank loans	24,935	24,363
Other loans	-	-
<b>Total current loans and borrowings</b>	<b>24,965</b>	<b>24,393</b>

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The Group's loans and borrowings consisted from the following categories:

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Bank loans	24,317	24,057
Loan from related party	12,439	12,471
Interest payable	5,571	5,135
Accrued provision (reserve) for contingent liabilities	3,513	3,513
Financial lease liabilities	109	113
<b>Total bank and other loans</b>	<b>45,949</b>	<b>45,289</b>

Movements in the Bank loans during the period consist of:

<i>In thousands of US dollars</i>	<b>2017</b>	<b>2016</b>
<b>Carrying amount as at 1 January (audited)</b>	<b>45,176</b>	<b>46,140</b>
Loan received	-	-
Loan repayment	(41)	-
Interest accrued for the period	649	977
Interest on loan paid	(266)	(436)
Other IFRS adj effect	-	(847)
Exchange differences	322	(234)
<b>Carrying amount as at 31 March (unaudited)</b>	<b>45,840</b>	<b>45,600</b>

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

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Property, plant and equipment	4,375	3,172
Term deposit	1,547	1,534
Biological assets	1,065	1,057
Share in subsidiaries (Property rights)	1,561	1,549
<b>Total carrying amount of collateral</b>	<b>8,548</b>	<b>7,312</b>

**11. Trade and other accounts payable**

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>	<b>31 December 2016 (audited)</b>
Trade payables	6,956	5,561
Financial assistance received	6,770	6,979
Land lease payables	473	460
Other accounts payable	115	185
<b>Total financial trade and other payables</b>	<b>14,314</b>	<b>13,185</b>
Prepayments received	2,323	2,535
Litigation reserve	175	174
Wage and salaries accrued	38	26
<b>Total trade and other payables</b>	<b>16,850</b>	<b>15,920</b>

## 12. Revenue

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Sale of agricultural produce and processed food	2,878	4,664
Rendering of services	30	(6)
<b>Total revenue</b>	<b>2,908</b>	<b>4,658</b>

## 13. Cost of sales

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Cost of goods sold	2,592	3,601
Cost of services rendered	90	-
<b>Total cost of sales</b>	<b>2,682</b>	<b>3,601</b>

Cost of goods sold contains of the following components:

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Incurred costs*	2,814	3,675
Revaluation effects	(132)	(74)
<b>Total cost of sales</b>	<b>2,682</b>	<b>3,601</b>

\* Incurred costs contains Additional depreciation & amortization 4 thousand US dollars

## 14. Selling, general and administrative expenses

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Fuel and other materials	32	-
Taxes, other than income tax	29	25
Depreciation and amortization	27	13
Transport services	24	-
Wages and salaries	12	18
Informational, expert and consulting services	3	20
Bank services	-	2
Materials	-	8
Other expenses	69	39
<b>Total selling, general and administrative expenses</b>	<b>196</b>	<b>125</b>

## 15. Other income/ (expenses), net

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Gain of PPE sale	-	-
Maintenance and repairs	-	-
Fines and penalties	(24)	-
Impairment of value-added tax receivable	-	-
Impairment of accounts receivable	(131)	-
Write-off of damaged goods	-	-
Loss from dead crops	-	-
Other income /(expenses), net	(137)	(208)
<b>Total other income/(expenses),net</b>	<b>(292)</b>	<b>(208)</b>

## 16. Finance income and expenses

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
<b>Finance income</b>		
Interest income	76	222
Foreign exchange gain	-	-
Other finance income	-	-
<b>Total finance income</b>	<b>76</b>	<b>222</b>
<b>Finance expenses</b>		
Interest expense on bank loans	(247)	(1,072)
Foreign exchange loss	-	-
Unwinding of discount on long-term financial liabilities	-	-
Other finance expenses	(9)	(13)
<b>Total finance expenses</b>	<b>(256)</b>	<b>(1,085)</b>

## 17. Foreign exchange impact

<i>In thousands of US dollars</i>	Three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Foreign exchange gain	571	589
Foreign exchange loss	(947)	(2,423)
<b>Total foreign exchange impact</b>	<b>(376)</b>	<b>(1,834)</b>

## 18. Operating segments

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

- *Crop production.* Crop production is the core business of the Group. It is generally focused on production of sunflower, wheat, barley, colesseed (rape), soybeans and other crops, such as corn, triticale, pea, and buckwheat. The main factors affecting the crop production segment are climatic conditions, land quality, plant nutrition and moisture levels in the arable land.

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- *Food Processing.* Established relationships with retail chains provide the Group with opportunities to sell groceries and meat products. Currently the Group produces flour, sunflower oil, packaged crops, macaroni and meat products such as sausages and meat delicacies and supplies to retail chains.
- *Livestock breeding.* A segment which deals with pigs breeding and sale of respective livestock (cattle). Basic assets for sale in this segment are pigs in live weight
- *Other operations.* This operating segment includes fruit and vegetable production; the production of fuel pellets and the thermal energy; rendering of services to third parties. While this segment does not currently meet the threshold requiring separate segment disclosure, management believes it useful to distinguish this segment in its reporting.

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

Group's assets and liabilities are not monitored by operating segments. Substantially all non-current assets relate to subsidiaries located in Ukraine.

Information about operating segments for the three months ended 31 March 2017 (unaudited) is as follows:

<i>In thousands of US dollars</i>	<b>Crop production</b>	<b>Food Processing</b>	<b>Livestock breeding</b>	<b>Other operations</b>	<b>Total</b>
Revenue	90	1,151	2,515	166	<b>3,922</b>
Inter-segment transactions	(11)	(27)	(870)	(106)	<b>(1,014)</b>
<b>Revenue from external customers</b>	<b>79</b>	<b>1,124</b>	<b>1,645</b>	<b>60</b>	<b>2,908</b>
Change in fair value of biological assets less estimated point-of-sale costs	434	-	433	-	<b>867</b>
Cost of sales	(51)	(1,049)	(1,593)	11	<b>(2,682)</b>
<b>Segment profit</b>	<b>462</b>	<b>75</b>	<b>485</b>	<b>71</b>	<b>1,093</b>
Government grant received	-	-	-	-	18
Selling, general and administrative expenses	-	-	-	-	(196)
Other operating income / (expense), net	-	-	-	-	165
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,080</b>
Finance income	-	-	-	-	76
Finance expenses	-	-	-	-	(256)
Foreign currency exchange gain/(loss), net	-	-	-	-	(376)
Other income	-	-	-	-	-
Other expenses	-	-	-	-	(292)
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>232</b>
Income tax expense	-	-	-	-	(4)
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>228</b>

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Information about operating segments for the three months ended 31 March 2016 (unaudited) is as follows:

<i>In thousands of US dollars</i>	<b>Crop production</b>	<b>Food Processing</b>	<b>Livestock breeding</b>	<b>Other operations</b>	<b>Total</b>
Revenue	2,573	834	1,760	185	<b>5,352</b>
Inter-segment transactions	87	(36)	(694)	(51)	<b>(694)</b>
<b>Revenue from external customers</b>	<b>2,660</b>	<b>798</b>	<b>1,066</b>	<b>134</b>	<b>4,658</b>
Change in fair value of biological assets less estimated point-of-sale costs	(34)	-	242	-	<b>208</b>
Cost of sales	(1,716)	(693)	(1,029)	(163)	<b>(3,601)</b>
<b>Segment profit / (loss)</b>	<b>910</b>	<b>105</b>	<b>279</b>	<b>(29)</b>	<b>1,265</b>
Government grant received	-	-	-	-	2
Selling, general and administrative expenses	-	-	-	-	(125)
Other operating income / (expense), net	-	-	-	-	-
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,142</b>
Finance income	-	-	-	-	222
Finance expenses	-	-	-	-	(1,085)
Foreign currency exchange gain/(loss), net	-	-	-	-	(1,834)
Other income	-	-	-	-	-
Other expenses	-	-	-	-	(208)
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,763)</b>
Income tax expense	-	-	-	-	(2)
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,765)</b>

**Seasonality of operations.**

Crop production segment, due to seasonality and implications of IAS 41, in the first half of the year mainly reflects the sales of carried forward agricultural produce and effect of biological assets revaluation, while during the second half of the year it reflects sales of crops and effect of revaluation of agricultural produce harvested during the year. Also, crop production segment has seasonal requirements for working capital increase during November-May, to undertake land preparation work.

Food processing segment, pigs' breeding as well as other operations segment are not significantly exposed to the seasonal fluctuations.

**19. Related parties**

Significant related party balances outstanding at the reporting dates are.

<i>In thousands of US dollars</i>	<b>31 March 2017 (unaudited)</b>		<b>31 December 2016 (audited)</b>	
	<b>Parent</b>	<b>Entities under common control</b>	<b>Parent</b>	<b>Entities under common control</b>
<b>Assets</b>				
Trade accounts receivable	-	665	-	627
Loans issued	-	162	-	83
Advances issued	-	14	-	17
Other financial receivables	-	-	-	315
<b>Liabilities</b>				
Loans	10,338	2,100	10,388	2,083
Interest payable	3,111	336	2,997	210
Financial assistance received	21	1,595	21	1,904
Trade and other accounts payable	-	7	-	7
Prepayments received	-	-	-	-

Except for loans from related parties, transactions with related parties are recorded at the contractual amounts agreed

between the parties.

**20. Subsequent events**

No material subsequent events after the reporting period did not happen.