# KSG Agro S.A.

## Results for the first quarter of 2011

During the first quarter of 2011 the Group increased its Land bank from 26.8 thousand hectares to 33.7 thousand hectares by acquiring three companies. Total amount of acquisitions is USD 3,168 thousand. At the point of acquisition 2.0 thousand hectares of Unirem-Agro Plus LLC were sawed by winter crops that affected the Group's income from changes in fair value of biological assets.

The Group's management wants to draw this financial reports users' attention on the following: the financial result for the first quarter is not representative due to the fact that the major part of crops is harvested and sold during second half of the year.

**Financial highlights for the three-month period ended 30 March 2010**
The Group's sales revenue decreased 40% to USD 743 thousand for the three-month period ended March 31, 2011 from USD 1,247 thousand for the three-month period ended March 31, 2010.

The Group's result from operation activities for the three-month period ended March 31, 2011 amounted to USD 1,475 thousand in comparison with three-month period ended March 31, 2010, when it amounted to USD 174 thousand negative.

The Group's net profit for the three-month period ended March 31, 2011 amounted to USD 1,086 thousand in comparison with three-month period ended March 31, 2010, when it amounted to USD 238 thousand negative.

1. *Sales*

The decrease in Group's sales revenue by 40% for the three-month period ended March 31, 2011 in comparison with the three-month period ended March 31, 2010 is explained by following:

- Goods for sale as of 31/12/2009 were mainly represented by crude sunflower-seed oil which was sold for export in first quarter 2010;

- Goods for sale as of 31/12/2010 were mainly represented by wheat. The Group management's decision was not to sell it, but hold as raw product for processing into groceries. The Group started to develop wheat processing business segment in 2011 which s in line with the Group's strategy towards vertical integration of the business.

2. *Financial results*

The change in Group's financial result for the three-month period ended March 31, 2011 in comparison with the three-month period ended March 31, 2010 is mainly explained by following:

- Decrease in sales revenue by USD 503 thousand;

- Decrease in cost of goods sold by USD 738 thousand. The main drivers of the decrease are overall decrease in sales and the fact that the groceries (major part of sales during first three months of 2011) are sold with higher margin than crude sunflower-seed oil (major part of sales during first three months of 2010);

- Increase in income from changes in fair value of biological assets by USD 1,216 thousand, from USD 241 thousand for the three-month period ended March 31, 2010 to USD 1,457 thousand for the three-month period ended March 31, 2011. The increase in income from changes in fair value of biological assets is due to combined effect of increase in market prices of wheat in Ukraine and income on changes in fair value of biological assets of companies acquired in 2011.

**Indebtedness of the Group as at 31/03/2011**

During the first three months of 2011 the Group's total loans (Long-term and Short terms) increased substantially. The funds obtained from increase in loans were distributed as following:

- Acquisition of new companies;
- Coverage of net cash outflow from operational activities;
- Settlement of liabilities of the Group under financial lease;
- Interests payment under loans and financial lease liabilities;
- Increase in cash.

**GROUP OF COMPANIES**
**KSG AGRO S.A.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the period ended 31 March 2011

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 March 2011

*(in thousand US dollars)*

| | Notes | 31 March 2011 (not audited) | 31 December 2010 (audited) | 31 March 2010 (not audited) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 6 | 5,509 | 5,013 | 4,695 |
| Long-term biological assets | 7 | 226 | 247 | 250 |
| Goodwill | | 7,514 | 5,586 | 5,611 |
| **Total non-current assets** | | **13,249** | **10,846** | **10,556** |
| **Current assets** | | | | |
| Current biological assets | 9 | 10,933 | 7,621 | 3,367 |
| Inventories | 8 | 6,071 | 5,149 | 4,324 |
| Trade and other accounts receivable | 10 | 3,397 | 1,662 | 5,618 |
| Taxes prepaid | | 1,221 | 1,022 | 1,823 |
| Cash and cash equivalents | 11 | 797 | 30 | 220 |
| **Total current assets** | | **22,419** | **15,484** | **15,352** |
| **TOTAL ASSETS** | | **35,668** | **26,330** | **25,908** |
| **LIABILITIES AND EQUITY** | | | | |
| EQUITY: | | | | |
| Statutory capital | 14 | 41 | 2,628 | 1,417 |
| Retained earnings | | 11,466 | 7,671 | 2,523 |
| **Total equity** | | **11,507** | **10,299** | **3,940** |
| Non-controlling interest | | 1,826 | 1,363 | 864 |
| **Total equity** | | **13,333** | **11,662** | **4,804** |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 12 | 8,199 | 2,367 | 3,673 |
| **Total non-current liabilities** | | **8,199** | **2,367** | **3,673** |
| **Current liabilities** | | | | |
| Loans and borrowings | 12 | 7,606 | 5,414 | 6,389 |
| Trade and other accounts payable | 13 | 6,335 | 6,681 | 10,768 |
| Promissory notes issued | | | 188 | 188 |
| Tax liabilities | | 195 | 18 | 86 |
| **Total current liabilities** | | **14,136** | **12,301** | **17,431** |
| **TOTAL LIABILITIES** | | **35,668** | **26,330** | **25,908** |

____________________/ S.V. Mazin/
(General director)

_____________________/ L.V. Velichko/
(Financial director)

Notes on pages 7-35 are an integral part of these interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For three months ended 31 March 2011

*(in thousand US dollars)*

| | Notes | 3 months ended 31 March 2011 (not audited) | 3 months ended 31 March 2010 (not audited) |
|---|---|---|---|
| Income | 15 | 743 | 1,247 |
| Change in fair value of biological assets | | 1,457 | 241 |
| Cost of sales | 16 | (424) | (1,162) |
| **Gross profit** | | **1,776** | **326** |
| General and administrative expenses | 17 | (285) | (274) |
| Other operating income (expense), net | 18 | (16) | (226) |
| **Result from operating activities** | | **1,475** | **(174)** |
| Finance expenses, net | 19 | (388) | (62) |
| **Profit before tax** | | **1,087** | **(236)** |
| Income tax expenses | | (1) | (2) |
| **Profit for the year** | | **1,086** | **(238)** |
| **Profit attributable to:** | | | |
| Participants | | 622 | (420) |
| Minority share | | 464 | 182 |
| **Profit for the period** | | **1,086** | **(238)** |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | (2) | 44 |
| **Other comprehensive income for the period, net of income tax** | | **(2)** | **44** |
| **Total comprehensive income for the period** | | **1,084** | **(194)** |
| **Total comprehensive income attributable to** | | | |
| Participants | | **621** | **(380)** |
| Non-controlling interest | | **463** | **186** |
| **Total comprehensive income for the period** | | **1,084** | **(194)** |

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(Financial director)

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## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD

For three months ended 31 March 2011

*(in thousand US dollars)*

| | 3 months ended 31 March 2011 (not audited) | 3 months ended 31 March 2010 (not audited) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | 1,087 | (236) |
| Adjustments to: | | |
| Depreciation and amortization | 204 | 132 |
| (Reversal)/increase of loss from impairment of doubtful accounts receivable | (1,336) | 113 |
| Amortization of discount | - | - |
| Fair value of biological assets | (1,457) | (241) |
| Finance lease expenses | 148 | 366 |
| Loss from retirement of property, plant and equipment | (7) | 55 |
| Interest expense | 461 | 400 |
| Interest income | (1) | (21) |
| **Cash received from operating activities before changes in working capital** | **(901)** | **568** |
| Change of trade and other accounts receivable | (598) | (1,907) |
| Change of other assets | (2,750) | (162) |
| Change of trade and other accounts payable | 829 | 3 815 |
| Income tax paid | (1) | (2) |
| **Net cash flows received from (used in) operating activities** | **(3,421)** | **2,312** |
| **Cash flow from investment activities** | | |
| Acquisition of property, plant and equipment | (1) | (61) |
| Acquisition of companies | (3,168) | - |
| Interest received | 1 | 21 |
| **Net cash flow received from (used in) in investment activities** | **(3,168)** | **(40)** |
| **Cash flow from financing activities** | | |
| Inflows from bank loans | 10,106 | 3,180 |
| Repayment of bank loans | (1,679) | (6,492) |
| Repayment financial lease commitments | (610) | (904) |
| Interest payment | (461) | (400) |
| Contribution of equity | - | - |
| **Net cash flow received from (used in) financing activities** | **7,356** | **(4,616)** |
| **Net cash flow for the period** | **767** | **(2,344)** |
| **Cash at the beginning of period** | 30 | 2,564 |
| **Cash at the end of period** | 797 | 220 |
| **Foreign exchange difference** | **-** | **-** |

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_____________________/ L.V. Velichko/ (Financial director)

Notes on pages 7 -35 are an integral part of these interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For three months ended 31 March 2011

*(in thousand US dollars)*

| | Statutory capital | Retained earnings | Non-controlled participation shares | Total equity |
|---|---|---|---|---|
| **Balance as at 31 December 2009** | **1,406** | **2,914** | **678** | **4,998** |
| Net profit for the period | - | (420) | 182 | (238) |
| Foreign exchange difference | 11 | 29 | 4 | 44 |
| **Balance as at 31 March 2010 (not audited)** | **1,417** | **2,523** | **864** | **4 804** |
| **Balance as at 31 December 2010** | **2,628** | **7,671** | **1,363** | **11,662** |
| Net profit for the period | **-** | 622 | 464 | 1,086 |
| Integration of interests – reorganization | (2,587) | 3,174 | - | 587 |
| Foreign exchange difference | **-** | **(1)** | **(1)** | **(2)** |
| **Balance as at 31 March 2011 (not audited)** | **41** | **11,466** | **1,826** | **13,333** |

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(General director)

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(Financial director)

Notes on pages 7-35 are an integral part of these interim consolidated financial statements.

*(in thousand US dollars)*

## 1. Background

KSG Agro S.A. (the "Company") was incorporated under the name Borquest S.A. on 16 November 2010 (date of incorporation) as a "Société Anonyme" under Luxembourg company law and for an unlimited period. On 08 March 2011 the Company's name was changed into the current denomination.
The registered office of the Company is established in Luxembourg, 46A avenue J.F. Kennedy, L-1855 Luxembourg and the Company number with the Registre de Commerce is B 156 864. The Company's financial year begins on 1st January and closes on 31st December.

The Group KSG Agro S.A. includes the following companies:

| Company | Activity | Basis to be included into Group | Share as at 31 March 2011 | Share as at 31 December 2010 |
|---|---|---|---|---|
| KSG Agro S.A. (Luxemburg) | Parent company | Parent company to the Group | | |
| KSG Agricultural and Industrial Holding Limited (Cyprus) | Intermediate holding company | Parent company to Ukrainian subsidiaries | 100% | 100% |
| Enterprise №2 of Ukrainian agricultural and industrial holding LLC (Ukraine) [PUAIH-2 LLC] | Agriculture | Subsidiary | 100% | 100% |
| Scorpio Agro LLC (Ukraine) | Agriculture | Subsidiary | 100% | 99.9% |
| Souz-3 LLC (Ukraine) | Agriculture | Subsidiary | 100% | 100% |
| Goncharovo Agricultural LLC (Ukraine) | Agriculture | Subsidiary | 100% | 99.9% |
| Agro-Trade House Dniprovsky LLC (Ukraine) [ATD Dniprovsky LLC] | Agriculture | Subsidiary | 61% | 68.3% |
| Ukrainian agricultural and industrial holding LLC (Ukraine) [UAIH LLC] | Trade of agricultural products | Parent company | 100% | 100% |
| Agro-Dnister LLC (Ukraine) | Agriculture | Subsidiary | 100% | 90% |
| Trade House of the Ukrainian Agroindustrial Holding LLC (Ukraine) [TH UAIH LLC] | Agriculture | Subsidiary | 100% | 99.9% |
| Pivdenne Agricultural LLC (Ukraine) | Agriculture | Subsidiary | 100% | 100% |
| Unirem Agro Plus LLC (Ukraine) | Agriculture | Subsidiary | 100% | - |
| Askoninteks LLC (Ukraine) | Agriculture | Subsidiary | 100% | - |
| Agro Golden LLC (Ukraine) | Agriculture | Subsidiary | 100% | - |

This structure has been legally finalized in March 2011. In 2010, the structure of the Group comprised two holding companies under common control, but there was no formal ownership structure, namely «KSG Agricultural and Industrial Holding Limited» and "Ukrainian agro-industrial holding." As of December 31, 2010 the Group prepared combined financial statements which comprised the consolidated financial statements of «KSG Agricultural and Industrial Holding Limited» and its subsidiaries, as well as the consolidated financial statements of the "Ukrainian agro-industrial holding." As such, comparative figures for the three months ended March 31, 2010 are the pro forma consolidated financial statements prepared as if the agency «KSG Agrocultural and Indastrial Holding Limited» and its acquisition of ownership in companies listed in the Note 1, took place before 31 March 2010.

*(in thousand US dollars)*

## 2. Basis for preparation of interim consolidated financial statements

***Statement of compliance***

These interim consolidated financial statements for the three months period ended 31 March 2011 are prepared in compliance with International Financial Reporting Standards (further - IFRS).

***Basis for preparation of financial statements***

These interim consolidated financial statements are prepared on the historical value basis, except for the following material items in the consolidated statement of financial position:

- current biological assets,
- agricultural products, and
- investments available for sale at fair value.

***Functional and presentation currency***

Despite the fact that the functional currency of major companies of the Group is a national currency of Ukraine, UAH, these financial statements are presented in USD. Based on economic substance of transactions and operating environment, the Group has determined UAH as a functional currency. Transactions in other currencies are deemed foreign currency transactions. As the Group management uses USD when monitoring operating results and financial condition of the Group, the presentation currency of the financial statements is USD. At the reporting date assets and liabilities of subsidiaries are translated into presentation currency at the rate effective at the reporting date. Items of the statement of comprehensive income are translated at the average annual rate. Exchange differences arising at translation refer directly to a separate equity item.

Operations in other currencies are treated as foreign currency operations. Transactions in foreign currency are recorded initially in functional currency at the rate effective as at transaction date. Monetary assets and liabilities reported in foreign currency are translated into functional currency at the rate effective as at reporting date. Any exchange rate differences are reported in the consolidated statement of comprehensive income for the period.

Exchange rates for the basic currencies are presented below:

| | | 31 December 2010 | Average weighted rate for the year 2010 | 31 March 2011 | March 2010 |
|---|---|---|---|---|---|
| Euro | UAH/EUR | 10.57 | 11.09 | 11.21 | 11.45 |
| Russian rouble | UAH/RUB | 0.26 | 0.25 | 0.28 | 0.27 |
| US dollar | UAH/USD | 7.98 | 7.93 | 7.96 | 7.98 |

***Basis of consolidation and combination***

The combined financial statements include consolidated financial statements of KSG Agricultural and Industrial Holding Limited and its subsidiaries, as well as consolidated financial statements of Ukrainian agricultural and industrial holding LLC as at 31 December of each year.

Consolidated financial statements of companies under common control but not related by formal ownership structure, namely - KSG Agricultural and Industrial Holding Limited and Ukrainian agricultural and industrial holding LLC, are combined by integration of respective elements of the financial statement by their carrying amount adjusted only due to reconciliation of accounting policy. Any goodwill is not recognized. All intra-group balances, transactions, as well as non-realized profits and losses resulting from intra-group transactions are annulled.

Consolidation method is applied to subsidiaries. Financial statements of the subsidiaries are prepared for the same reporting period as the parent company’s ones, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions were eliminated in full.

Financial statements of subsidiaries are included in the consolidated financial statements, beginning from the acquisition date being the date the Group receives control and up to the date the control ceases.

Non-controlling interests represent the portion of profit, loss or net assets not held by the Group and are presented separately in the statement of comprehensive income for the period and within net assets attributable to participants in the combined statement of financial position, separately from the net assets that belong to parent's owners. Acquisition of non-controlling interests is accounted for using the parent entity's extension method, whereby the difference between consideration paid and the book value of the share of the net assets acquired is recognized as goodwill.

***Going concern assumption***

Stability of the Ukrainian economy in 2010 and early 2011 was largely affected by the subsequences of the global economic crisis, which manifested itself in a significant reduction in production in many sectors of the economy of Ukraine and the devaluation of the currency. Improvement of the economic situation in Ukraine will also depend upon the effectiveness of fiscal and other measures undertaken by the Government of Ukraine. These financial statements reflect the current management's assessment regarding the possible effect of economic conditions on the operations and financial position of the Group. Future conditions may differ materially from the management's estimates. These financial statements do not include any adjustments that might occur as a result of this uncertainty. Such adjustments will be made aware if they become known and can be reliably estimated.

## 3. Essential accounting estimations and assumptions

The Group has a number of estimations and assumptions about its future activities. These assessments and resulted assumptions are based on past experience of the management as well as other factors, including such expectations of the future events, which are considered to be grounded in existing circumstances. In future, actual results might differ from these estimations and assumptions. The most significant estimations and assumptions, which can be effected by significant risks of adjustments of carrying amounts of assets and liabilities during the next financial year, are set forth below.

- **Valuation of biological assets fair value based on revaluation.** The Group evaluates its biological assets at the initial recognition and as at each reporting date at fair value. The evaluations are made by the Group management without attracting an independent appraiser. In order to determine the fair value the Group uses a discounted cost of estimated cash flows; a discount ratio is applied as calculated on the basis of existing market conditions for cash flows before tax. Also, in order to estimate fair value, the Group determines the conventional yield of crops based on previous figures adjusted to estimated changes.

- **Useful lives of intangible assets and property, plant and equipment.** Depreciation or amortization of intangibles and property, plant and equipment is accrued during their useful lives. Useful lives are based upon management estimates of the period during which an asset is going to generate profit. These estimates are periodically reviewed for their further compliance.

- **Goodwill impairment.** The Group has to test its goodwill for the impairment annually. The replacement cost is determined on the basis of calculation of the value in use. The use of this method requires future cash flow valuation and choosing the accounting rate with the purpose of calculating current cash flow cost. Actual results may differ.

- **Inventories**. The Group examines a net realizable value and demand for its inventories quarterly in order to ascertain that accounted inventories are assessed at the least of cost or the net realizable value. The factors that may affect an estimated demand and selling price are computation of time and success of future technological innovations, competitors' actions, prices of suppliers and economic trends.

- **Income tax.** Subsidiary agricultural companies of the Group have chosen the simplified taxation system and are flat-sum agricultural tax payers. The mentioned companies according to the Ukrainian legislation are not income tax payers. The Group does not account a deferred tax of the parent company as these amounts according to management estimation are insignificant.

- **Litigation.** In compliance with IFRS, the Group recognizes the provision only when there is current liability related to the prior event, the possibility of transfer of economic benefits, and reliable valuation of the transfer expenses. In case of failure to meet these requirements, the information on the contingent liability can be disclosed in the notes to combined financial statements. The realization of any contingent liability, which was not recognized or disclosed in combined financial statements for the current moment, can considerably affect the Group's financial position. Application of these principles regarding litigation requires management's estimations of different actual and legal issues that are beyond its control. The Group revises unsettled litigation, following the events of the litigation for each combined statement of financial position date to estimate the necessity for provisions in its combined financial statements. Among the factors considered when making a decision about a provision charge, there are the following: nature of the litigation; requirements or estimations; legal process and the potential level of losses in the jurisdiction of the litigation, requirement or estimation (including litigation subsequent to the date of combined financial statements preparation, but before their approving); opinions of legal advisers; experience acquired in connection with similar cases; any decision of the Group management regarding its reaction on the litigation, requirement or estimation.

## 4. Summary of significant accounting policy

The accounting policies adopted in the interim consolidated financial statements are consistent with principles applied in the preparation of annual financial statements for the year ended December 31, 2010. The accounting policies set out below have been consistently applied to all periods presented in these interim consolidated financial statements and all Group companies, except for disclosed in the Note 2 changes in the accounting policies. Certain comparative figures have been assigned to another classification to conform to current period presentation.

***Property, plant and equipment***

Property, plant and equipment are stated at historical cost, net of depreciation and accumulated provision for impairment.

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

| | ***Useful life period (years)*** |
|---|---|
| Buildings and constructions | 20 |
| Machinery and equipment, vehicles | 10-15 |
| Other | 5-8 |

When each major inspection is performed, its cost is recognized in the carrying amount of the plant, plant and equipment as replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on retirement of the asset (calculated as the difference between the net disposals proceeds and the carrying amount of the asset) is included in the statement of comprehensive income for the period in the year the asset is derecognized.

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

***Intangible assets***

The Group's intangible assets include mainly software and licenses for the licensable types of activity.

The acquired licenses for software are capitalized on the basis of the software acquisition and implementation expenses. The capitalized software is regularly amortized during the expected useful life period, which comprises 5 years, and the licenses – during their validity term.

***Impairment of non-financial asset***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the Statement of comprehensive income for the period in those expense categories consistent with the function of the impaired asset.

An assessment is made by the Group at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 for the period. After such a reversal the depreciation charge is adjusted in future periods to amortize the asset's revised carrying amount, less any residual value, on regular basis over its remaining useful life.

***Recognition of financial instruments***

The Group recognizes financial assets and liabilities in its interim consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instruments. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the interim consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

In compliance with IAS 39, financial assets are divided into four categories as follows:

- financial assets at fair value through profit or loss;
- loans and accounts receivable;
- investments held to maturity; and
- financial assets available for sale.

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. When the Group becomes a contractual party, it determines embedded derivatives in the contract, if any. Embedded derivatives are separated from the host contract that is not assessed at fair value through profit or loss in case the economic character and risks of embedded derivatives materially differ from similar quotients of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed or appropriate, reevaluates this designation at each financial year-end.

All acquisition or sale transactions related to financial assets on `standard terms` are recognized at the transaction date, i.e. at the date when the Group undertakes an obligation to acquire an asset. Acquisition or sale transactions on `standard terms` mean acquisition or sale of financial assets that requires to supply an asset within the term determined by legislation or rules accepted in a certain market.

<u>Financial assets at fair value through profit or loss</u>

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Such assets are reflected at amortized cost using the effective interest method, net of provision for impairment after their initial evaluation. Amortized cost is calculated taking into account all discounts or bonuses that arose at acquisition and includes commissions being an integral part of the efficient interest rate as well as transaction costs. Gains and expenses incurring in result of asset derecognition are recognized in the statement of comprehensive income for the period, when those assets are derecognized or impaired, as well as through the amortization process.

After initial recognition, extended loans are measured at fair value of the funds granted that is determined using the effective market rate for such instruments, if they materially differ from the interest rate on such loan granted. In future loans are measured at amortized cost using the effective interest rate method. Difference between the fair value of the funds granted and loan reimbursement amount is reported as interest receivable during the whole period of the loan. Amortized cost is calculated taking into account all transaction expenses and discounts or bonuses that arose at repayment.

Loans that mature more than 12 months after the interim consolidated statement of financial position date are included into non-current assets.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 and for three months then ended
*(in thousand US dollars)*

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the interim consolidated statement of cash flows.

Investments available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

When the investment is retired, the cumulative gain or loss recorded earlier in other comprehensive income is recognized in the profit or loss. Interest gained or paid on investments is reported in combined financial statements as interest profit or expense using the effective interest rate. Dividends gained on investments are recognized in the statement of comprehensive income as `Dividends received` at the moment the Group gains the right for them.

Investments held-to-maturity

When the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Fair value

The estimated fair value of financial assets and liabilities is determined by reference to market information using appropriate methods of evaluation. However, a qualified opinion would be necessary to interpret marketing information for the purpose of fair value estimation. Correspondingly, at evaluation it is not necessary to indicate the estimated realization amount. Using different marketing assumptions and/or valuation techniques might affect the fair value significantly.

The estimated fair value of financial assets and liabilities is determined using the discounted cash flows model and other appropriate valuation methods at the year end; it does not indicate the fair value of such instruments at the reporting date of these combined financial statements. Such estimations do not report any bonds or discounts that might result from the proposal to sell simultaneously the whole package of certain financial instruments of the Group. The fair value estimation is based on assumptions as to future cash flows, current economic situation, risks inherent to various financial instruments and other factors.

The fair value estimation is based on existing financial instruments without any attempts to determine the cost of an expected futures transaction and the cost of assets and liabilities not considered to be financial instruments. Besides, tax ramification (branching) related to realization of non-realized profit and loss might impact the fair value estimation and therefore was not accounted for in these combined financial statements.

Financial assets and financial liabilities of the Group include cash and cash equivalents, receivables and payables, other liabilities and loans. Accounting policy as to their recognition and evaluation are presented in the relevant sections of these Notes.

During the reporting period the Group did not use any financial derivatives, interest swaps or forward contracts to reduce currency or interest risks.

Non-derivative financial liabilities

At initial recognition financial liabilities can be attributed to those estimated at fair value through profit and loss, if the following criteria are met: (i) attributing to this category excludes or materially reduces inconsistence in accounting methods that might otherwise arise at liability assessment or recognition of profit or loss related to such liability; (ii) liabilities comprise a part of financial liability group that is being managed and results of which are assessed at fair value in compliance with risks management policy; (iii) financial liability includes an embedded derivative that should be reported separately in the consolidated financial statements.

As at 31 December 2010 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognized at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and discount payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

***Impairment of financial assets***

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets reported at amortized cost

If there is objective evidence that an impairment loss has been incurred in loans and accounts receivable that are reported at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at initial effective interest rate for such financial asset (i.e. at the effective interest rate calculated at initial recognition). The carrying amount of the asset is reduced directly or using the reserve. The loss amount is recognized in the statement of comprehensive income for the period.

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

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is recovered. Any subsequent loss recovery is recognized in the statement of comprehensive income in the amount that the carrying amount of an asset should not exceed its amortized cost at the recovery date.

Provision for impairment loss is charged in receivables in case there is objective evidence (e.g. a possibility of the debtor's insolvency or other financial difficulties) that the Group might not gain all amounts due to the delivery terms. Carrying amount of receivables is then reduced through the allowance account. Impaired debts are derecognized as soon as they are considered to be bad.

Financial investments available for sale

Impairment losses on available for sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented at the fair value in capital reserves, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

***De-recognition of financial assets and liabilities***

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be requested to repay.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognized and a new liability is recognized with recognition of the difference in the respective carrying amounts in the statement of comprehensive income for the period.

***Biological assets and agricultural products***

Generally, biological assets are measured at fair value less costs to sell with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets.

Arable crops are initially recognized at their fair value less estimated point-of-sale costs at the time of harvesting. The fair value of arable crops is determined based on market prices in the local region. A gain or loss arising on initial recognition of arable crops at fair value less estimated point-of-sale costs is recognized in the period in which it originated.

Un-harvested crops are valued at fair value, being the present value of the expected net cash flows from the asset in its present condition discounted at a current market determined pre-tax rate. The assessment of the present condition of un-harvested crops excludes any increases in value from additional biological transformation and future activities of the Group.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. For agricultural produce, fair value less estimated point-of-sale costs at the point of harvest is considered to be the cost. Subsequent to initial recognition agricultural produce is stated at the lower of cost or estimated net realizable value. Cost is assigned using the 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. Inventories are periodically reviewed and provisions established for deteriorated, excess and obsolete items.

***Pension liabilities***

The Group does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the statement of comprehensive income in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

***Borrowing costs***

The Group capitalizes borrowing costs directly attributable to acquisition, construction or production of qualified assets as a part of the asset cost. Other borrowing costs are recognized as expenditure as incurred.

***Interest-bearing loans and borrowings***

All loans and borrowings are initially recognized at the fair value of the cash amount received less loan related costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at an amortized cost using the effective interest rate method.

Gains and losses are recognized in net profit or loss when liabilities retired, as well as through the amortization process.

***Lease***

Lease where the lessor retains all risks and rewards related to ownership of the asset is classified as operating lease. Payments made under operating lease are recognized as expenses in the statement of comprehensive income for the period using the straight-line write off method of these expenses over the lease term.

Finance lease under which the Group assumes almost all the risks and rewards related to ownership of leased assets are capitalized at the inception of the lease relations at the fair value of the leased property or, if this amount is less— at the discounted value of minimum lease payments. Lease payments are allocated between finance costs and decrease in principal amount of the lease obligation so as to achieve a constant interest rate on the outstanding amount of the obligation. Financing costs are reported directly in the statement of comprehensive income.

Leased assets are depreciated over the asset's useful life period. However, if there is no reasonable certainty that the Group will obtain the right of the ownership of the asset at the end of the lease term, the asset is depreciated over the shorter of the following periods: the estimated useful life of the asset and the lease term.

***Contingent liabilities***

Contingent liabilities are not reflected in the interim consolidated financial statements, unless it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimation of the amount of such obligations is probable. Information on contingent liabilities is disclosed in notes to the financial statements, unless an outflow of resources, which constitute the economic benefits, is remote.

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

***Revenue and expense recognition***

Revenue is recognized when the title of the product passes to the customer and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

The cost of products sold is recognized at the same time as the corresponding revenue.

Expenses are accounted for when incurred and reported in the statement of comprehensive income in the period to which they relate.

## 5. New Standards and Interpretations issued but not yet effective

At the moment of the preparation of these combined financial statements there is a number of new Standards, amendments and interpretations to them that are not effective yet and therefore were not applied to these interim consolidated combined financial statements. Following is the standard that might potentially influence the Group's consolidated financial statements.

In November 2009 IFRS 9 *Financial instruments, part 1: Classification and Measurement*, which replaces IAS 39 *Recognition and Measurement* in part of classification and measurement of financial instruments was issued. This new standard is effective starting from 01 January 2013.

IAS 24, *Related Party Disclosures*, (in new edition), becomes effective for annual reporting periods beginning on or after 1 January.

Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, becomes effective for annual reporting periods, beginning on or after 1 July 2010.

The management of the Group has not yet assessed the impact of these standards on the Group's interim consolidated financial statements.

*(in thousand US dollars)*

## 6. Property, plant and equipment

Movement of property, plant and equipment for the year ended 31 March 2011 and 2010 was as follows:

| | Buildings and construction | Agricultural equipment | Vehicles and office equipment | Total |
|---|---|---|---|---|
| **Initial cost** | | | | |
| **As at 01 January 2009** | **519** | **4,621** | **292** | **5,432** |
| Addition | 13 | 909 | 21 | **943** |
| Disposal | - | (96) | - | **(96)** |
| Exchange difference | (18) | (185) | (10) | **(213)** |
| **As at 31 December 2009** | **514** | **5,249** | **303** | **6,066** |
| Addition | - | - | - | **-** |
| Disposal | - | (132) | (25) | **(157)** |
| Exchange difference | 4 | 40 | 3 | **47** |
| **As at 31 March 2010** | **518** | **5,157** | **281** | **5,956** |
| **Accumulated depreciation** | | | | |
| **As at 01 January 2009** | **(74)** | **(624)** | **(85)** | **(783)** |
| Accrued during the year | (17) | (507) | (46) | **(570)** |
| Disposal | - | 68 | - | **68** |
| Exchange difference | 2 | 33 | 5 | **40** |
| **As at 31 December 2009** | **(89)** | **(1,030)** | **(126)** | **(1,245)** |
| Accrued during the year | (4) | (119) | (9) | **(132)** |
| Disposal | - | 120 | 6 | **126** |
| Exchange difference | (1) | (9) | (1) | **(11)** |
| **As at 31 March 2010** | **(94)** | **(1,038)** | **(129)** | **(1,261)** |
| **As at 31 December 2009** | **514** | **5,249** | **303** | **6,066** |
| Addition | 22 | 686 | 235 | **943** |
| Disposal | (1) | (212) | (121) | **(334)** |
| Exchange difference | 1 | 14 | - | **15** |
| **As at 31 December 2010** | **536** | **5,737** | **417** | **6,690** |
| Addition | 108 | 510 | 88 | **706** |
| Disposal | - | (16) | (4) | **(20)** |
| Exchange difference | - | (1) | - | **(1)** |
| **As at 31 March 2011** | **644** | **6,230** | **501** | **7,375** |
| **Accumulated depreciation** | | | | |
| **As at 31 December 2009** | **(89)** | **(1,030)** | **(126)** | **(1,245)** |
| Accrued during the year | (17) | (549) | (34) | **(600)** |
| Disposal | - | 137 | 33 | **170** |
| Exchange difference | - | (2) | - | **(2)** |

*(in thousand US dollars)*

| | | | | |
|---|---|---|---|---|
| **As at 31 December 2010** | **(106)** | **(1,444)** | **(127)** | **(1,677)** |
| Accrued during the year | (5) | (191) | (8) | **(204)** |
| Disposal | - | 13 | - | **13** |
| Exchange difference | - | 2 | - | **2** |
| **As at 31 March 2011** | **(111)** | **(1,620)** | **(135)** | **(1,866)** |
| **Net value** | | | | |
| **As at 31 December 2009** | **425** | **4,219** | **177** | **4,821** |
| **As at 31 March 2010** | **424** | **4 119** | **152** | **4 695** |
| **As at 31 December 2010** | **430** | **4,293** | **290** | **5,013** |
| **As at 31 March 2011** | **533** | **4,610** | **366** | **5,509** |

Carrying amount of vehicles and equipment used by the Group under agreements of financial lease and deferred payment purchase as at 31 March 2011 comprised 2, 274 thous. US dollars (31 March, 2010 – 2, 593 thous. US dollars).

Leased assets and assets acquired in instalments, act as collateral for the relevant obligations under finance lease agreements and hire-purchase agreements (Note 12).

## 7. Long-term biological assets

As at 31 March 2011 and 2010 long-term biological assets can be presented as follows:

| | Perennial plantings | Total non-current biological assets |
|---|---|---|
| **Cost as at 31 December 2009** | **215** | **215** |
| Additions | - | - |
| Disposal | - | - |
| Revaluation at fair value | 29 | 29 |
| Foreign exchange difference | 6 | 6 |
| **Cost as at 31 March 2010** | **250** | **250** |
| **Cost as at 31 December 2010** | **247** | **247** |
| Additions | - | - |
| Disposal | - | - |
| Revaluation at fair value | (27) | (27) |
| Foreign exchange difference | 6 | 6 |
| **Cost as at 31 March 2011** | **226** | **226** |

*(in thousand US dollars)*

## 8. Inventories

As at 31 March 2011 and 2010 inventories include:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Agricultural stock | 2,343 | 1,158 | 1,004 |
| Spare parts to agricultural machinery | 114 | 61 | 57 |
| Fuel | 222 | 152 | 208 |
| Crop products | 2,044 | 2,407 | 2,570 |
| Production in progress | 1,028 | 1,027 | 233 |
| Other | 320 | 344 | 252 |
| | **6,071** | **5,149** | **4,324** |

Work in process includes expenses incurred by agricultural companies at the reporting date for improving and supporting land out of crop (dead fallow, recultivation, disking, fertilizing). These improvements refer mainly to the harvest of the following year.

## 9. Current biological assets

As at 31 March 2011 and 2010 current biological assets include:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Current biological assets (crop products) | 10,668 | 7,452 | 3,148 |
| Current biological assets (livestock husbandry) | 265 | 169 | 219 |
| | **10,933** | **7,621** | **3,367** |

Current biological assets of livestock husbandry can be presented as follows:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Foundation | 157 | 61 | 61 |
| Newborn piggery under 2 months | 5 | 9 | 5 |
| Piggery 2-4 months | 22 | 7 | 7 |
| Piggery 4-6 months | 18 | 7 | 26 |
| Piggery 6-9 months | 38 | 46 | 76 |
| Replacement gilts | 25 | 39 | 44 |
| | **265** | **169** | **219** |

Reconciliation of changes in carrying amount of biological assets as at 31 March 2011 and 2010 is as follows:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| **Carrying amount as at 1 January** | **169** | **201** | 201 |
| Additions | 64 | 153 | 39 |
| Disposal | (46) | (288) | (29) |
| Change in fair value of biological assets | 79 | 102 | 6 |
| Exchange difference | (1) | 1 | 2 |
| **Carrying amount as at 31 December** | **265** | **169** | **219** |

*(in thousand US dollars)*

As at 31 March 2011 and 2010 current biological assets of crop production can be presented as follows:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| **Carrying amount as at 1 January** | **7,452** | **2,527** | **2,527** |
| Costs incurred during a period, including spring crops | 1,243 | 5, 063 | 396 |
| Additions from new companies | 602 | | |
| Income from changes in “fair value less expected distribution costs” | 1,405 | 5,104 | 206 |
| Harvest gathered during the year | | (5, 235) | |
| Exchange difference | (34) | (7) | 19 |
| **Carrying amount as at 31** | **10,668** | **7,452** | **3,148** |

As at 31 December 2010 and 2009 current biological assets include:

| | Area, hectare | 31.03.2011 (not audited) | Area, hectare | 31.12.2010 (audited) | Area, hectare | 31.03.2010 (not audited) |
|---|---|---|---|---|---|---|
| Wheat | 5 805 | 7 463 | 5 805 | 5 058 | 5 659 | 2 189 |
| Barley | 3 091 | 1 252 | 1 212 | 529 | 3 048 | 959 |
| Rape | 1 722 | 1 953 | 1 722 | 1 865 | | |
| | **10 618** | **10 668** | **8 739** | **7 452** | **8 707** | **3 148** |

Overall area of agricultural soil at the disposal of the Group comprises over 26 thousand hectares. Factual area of arable land in 2010 comprised 26.0 thousand hectares, (2009 - 25.8) and there was approximately 55 thousand tons of crops gathered (2009 – approximately 70 thousand tons). The Group plans to increase the scope of cultivation areas in 2011.

During the reporting period the Group increased costs of soil preparation and application of new sowing technologies for winter crops. The Group’s management believes that this will lead to significant crop yield growth of winter crops.

For discounting cash flows on current biological assets the rate was applied of 19.3%.

To determine discounting rate the following factors and assumptions were considered:

| | | 31.03.2011 | 31.03.2010 |
|---|---|---|---|
| Risk free rate | Earnings from medium-term internal state loan bonds (rotation period of 2-3 years) issued in UAH are taken as the basis for risk free rate in Ukraine. Rotation period for securities includes 2009 – 2011. | 12.3% | 20% |
| Market premium | Currently, the most adequate representation of the equity markets in Ukraine can be presented by such financial instrument as corporate bonds. Outcome of stock and OTC markets trading show 22% of current earnings from repayment of corporate bonds issued in UAH (in average for the market). The difference between the average earnings from Ukrainian corporate and state bonds is the indicator of market premium value. | 5.1% | 4.0% |
| Additional premiums for the risk, typical for the Group | Risk of Group business. Land use territory is within the zone of risk land tenure. Such zone is characterized by significant temperature jumping during vegetation period of grain crops. | 2.0% | 2.0% |
| | | **19.3%** | **26%** |

*(in thousand US dollars)*

## 10. Trade and other accounts receivable

As at 31 March 2011 and 2010 trade and other accounts receivable included:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Trade accounts receivable | 829 | 2,450 | 3,829 |
| Advances made | 1,256 | 575 | 1,506 |
| Other accounts receivable | 1,730 | 391 | 1,141 |
| Provision for doubtful debts | (418) | (1,754) | (858) |
| | **3,397** | **1,662** | **5,618** |

As at 31 March 2011 and 2010 trade accounts receivable included:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Trade accounts receivable | 829 | 2,448 | 3,829 |
| Provision for doubtful debts | (221) | (1 490) | (495) |
| | **608** | **958** | **3,334** |

Trade accounts receivable according to their ageing are presented as follows:

| | 31.03.2011 (not audited) | | 31.12.2010 (audited) | | 31.03.2010 (not audited) | |
|---|---|---|---|---|---|---|
| | Total carrying amount | Provision for impairment | Total carrying amount | Provision for impairment | Total carrying amount | Provision for impairment |
| Up to 90 days | 170 | - | 260 | - | 741 | - |
| From 91 to 180 days | 145 | - | 86 | - | 859 | - |
| From 181 to 270 days | 157 | - | 331 | - | 1,594 | - |
| From 271 to 365 days | 136 | - | 281 | - | 140 | - |
| Over 1 year | 221 | (221) | 1,490 | (1,490) | 495 | (495) |
| | **829** | **(221)** | **2,448** | **(1,490)** | **3,829** | **(495)** |

*(in thousand US dollars)*

As at 31 March 2011 and 2010 other current accounts receivable included:

| | **31.03.2011 (not audited)** | **31.12.2010 (audited)** | **31.03.2010 (not audited)** |
|---|---|---|---|
| Advances paid | 1,256 | 577 | 1,506 |
| Settlements with other debtors | 1,730 | 391 | 1,141 |
| Provision for doubtful debts | (197) | (264) | (363) |
| | **2,789** | **704** | **2,284** |

Advances made and other receivables by ageing are stated as follows:

| | **31.03.2011 (not audited)** | | **31.12.2010 (audited)** | | **31.03.2010 (not audited)** | |
|---|---|---|---|---|---|---|
| | Total carrying amount | Provision for impairment | Total carrying amount | Provision for impairment | Total carrying amount | Provision for impairment |
| Up to 90 days | 1,692 | - | 83 | - | 1,266 | - |
| From 91 to 180 days | 639 | - | 17 | - | 765 | - |
| From 181 to 270 days | 98 | - | 84 | - | 123 | - |
| From 271 to 365 days | 360 | - | 520 | - | 130 | - |
| Over 1 year | 197 | (197) | 264 | (264) | 363 | (363) |
| | **2,986** | **(197)** | **968** | **(264)** | **2,647** | **(363)** |

## 11. Cash and cash equivalents

As at 31 March 2011, 2010 cash and cash equivalents included balances on current bank accounts.

| | **31.03.2011 (not audited)** | **31.12.2010 (audited)** | **31.03.2010 (not audited)** |
|---|---|---|---|
| Cash and cash equivalents | 797 | 30 | 220 |
| | **797** | **30** | **220** |

## 12. Loans and borrowings

As at 31 March 2011, 2010 loans and borrowings are represented as follows:

| | **31.03.2011 (not audited)** | **31.12.2010 (audited)** | **31.03.2010 (not audited)** |
|---|---|---|---|
| **Long-term** | | | |
| Financial lease liabilities | 99 | 561 | 1,830 |
| Loans | 8,100 | 1,806 | 1,843 |
| | **8,199** | **2,367** | **3,673** |
| **Current** | | | |
| Financial lease liabilities | 1,720 | 1,662 | 1,499 |
| Loans | 5,886 | 3,752 | 4,890 |
| **Total** | **7,606** | **5,414** | **6,389** |

*(in thousand US dollars)*

Bank loans as at 31 March 2011 and 2010 were as follows:

| **Bank** | **Currency** | **Annual rate %** | **Maturity** | **31.03.2011 (not audited)** | | **31.12.2010 (audited)** | | **31.03.2010 (not audited)** | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **Current debt** | **Long-term debt** | **Current debt** | **Long-term debt** | **Current debt** | **Long-term debt** |
| JSC Rodovid bank | UAH | 17.00% | 2012 | 1,507 | - | | 1,507 | 3,020 | - |
| CB Credit-Dnepr | UAH | 18.00% | 2011 | 4,379 | - | 2,073 | | - | - |
| CB Credit-Dnepr | UAH | 17.00% | 2013 | | 6 898 | | | | |
| Soyuz CB | UAH | 21.50% | 2011 | | - | 1,679 | | 870 | |
| Soyuz CB | USD | 16.0% | 2011 | - | | | | 1,000 | |
| RED-PLAZA OJSC CNVCIF | UAH | 29.00% | 2012 | | | | | - | 1,644 |
| Olbis Invesnments Ltd SA | USD | 5.00% | 2013 | - | 75 | | 80 | | |
| ICD Investments SA | USD | 5.00% | 2012 | | 1 127 | | 219 | | 199 |
| | | | | **5,886** | **8,100** | **3,752** | **1,806** | **4,890** | **1,843** |

* Credit line amounting to 1 million was granted by the main owner of the Group—the company ISD Investments S.A. in US dollars, with fixed rate of 5% annual. The loan is not secured by collateral.

Collateral securing the loan commitments are the following Group assets:

| | **31.03.2011 (not audited)** | **31.12.2010 (audited)** | **31.03.2010 (not audited)** |
|---|---|---|---|
| Shifting stock of merchandise | - | - | - |
| Merchandise in storage | - | - | - |
| Property (carrying amount) | 278 | 268 | 266 |
| Non-residential premises | - | - | - |
| Deposit | - | - | - |
| **Total** | **278** | **268** | **266** |

Pledge and guarantee agreements of related parties serve as the collateral for the loan commitments.

As at 31 March 2011 and 2010 obligations under financial lease included:

| | **31.03.2011 (not audited)** | **31.12.2010 (audited)** | **31.03.2010 (not audited)** |
|---|---|---|---|
| Long-term financial lease liabilities | 99 | 561 | 1,830 |
| Short-term financial lease liabilities | 1,720 | 1,662 | 1,499 |
| **Total** | **1,819** | **2,223** | **3,329** |
| Total future minimum lease payments | 1,968 | 2,444 | 3,844 |
| Less: interest expenses | (149) | (221) | (515) |
| Discounted value of future minimal lease payments | **1,819** | **2,223** | **3,329** |

*(in thousand US dollars)*

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

**31.03.2011**

| By maturity term | 31.03.2011 | 31.03.2012 | Total |
|---|---|---|---|
| Future minimum lease payments | 1,865 | 103 | **1,968** |
| Less: interest expenses | (145) | (4) | **(149)** |
| Discounted value of future minimal lease payments | 1,720 | 99 | 1,819 |

**31.03.2010**

| By maturity term | 31.03.2010 | 31.03.2011 | 31.03.2012 | Total |
|---|---|---|---|---|
| Future minimum lease payments | 1,865 | 1,880 | 99 | 3,844 |
| Less: interest expenses | (366) | (147) | (2) | (515) |
| Discounted value of future minimal lease payments | 1,499 | 1,733 | 97 | 3,329 |

**2010**

| By maturity term | 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|
| Future minimum lease payments | 1,865 | 578 | 1 | **2,444** |
| Less: interest expenses | (203) | (17) | (1) | **(221)** |
| Discounted value of future minimal lease payments | 1,662 | 561 | - | 2,223 |

## 13. Trade and other accounts payable

As at 31 March 2011 and 2010, trade and other accounts payable included:

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Trade payables | 1,024 | 498 | 1,512 |
| Prepayments received | 82 | 572 | 596 |
| Interest payable | 979 | 815 | 712 |
| Land share lease payables | 90 | 102 | 54 |
| Wage arrears | 33 | 17 | 18 |
| Settlements with participants | - | 6 | 65 |
| Share purchase settlements | - | - | 3,435 |
| Payables to guarantor | 4,127 | 4,126 | 4,145 |
| Other accounts payable | | 545 | 231 |
| | **6,335** | **6,681** | **10,768** |

*(in thousand US dollars)*

## 14. Statutory capital

The structure of the Group's equity as at 31 March 2011 and 2010 can be represented as follows:

| | **31.03.2011 (not audited)** | | **31.12.2010 (audited)** | | **31.03.2010 (not audited)** | |
|---|---|---|---|---|---|---|
| | **Ownership share** | **Thous. USD** | **Ownership share** | **Thous. USD** | **Ownership share** | **Thous. USD** |
| KSG Agro S.A. | 100% | 41 | | | | |
| KSG | - | - | 100% | 3 | 100% | 3 |
| LLC Ukrainian Agricultural and Industrial Holding | - | - | 100% | 2,625 | 100% | 1,414 |
| | | **41** | | **2,628** | | **1,417** |

## 15. Income

For three months ended 31 March 2011 and 2010 the Group's income included:

| | **31.03.2011 (not audited)** | **31.03.2010 (not audited)** |
|---|---|---|
| Sale of agricultural products | 683 | 1,209 |
| Sale of services | 22 | 6 |
| Other sales | 38 | 32 |
| | **743** | **1,247** |

## 16. Cost of sales

For three months ended 31 March 2011 and 2010, cost of sales of the Group included:

| | **31.03.2011 (not audited)** | **31.03.2010 (not audited)** |
|---|---|---|
| Material costs | 353 | 295 |
| Services | 3 | 758 |
| Other | 68 | 109 |
| | **424** | **1 ,162** |

The cost includes:

| | **31.03.2011 (not audited)** | **31.03.2010 (not audited)** |
|---|---|---|
| Social charges | 14 | 15 |
| Salary | 40 | 46 |
| | **54** | **61** |

The effect of changes in the fair value of biological assets to the cost of sold products can be stated as follows:

| | **31.03.2011 (not audited)** | **31.03.2010 (not audited)** |
|---|---|---|
| Incurred costs included in the cost of sold products | 250 | 1,168 |
| Changes of fair value net of preliminary estimated point of sale expenses | 174 | (6) |
| | **424** | **1,162** |

*(in thousand US dollars)*

## 17. General and administrative expenses

For three months ended 31 March 2011 and 2010, Group general and administrative expenses included:

| | 31.03.2011 (not audited) | 31.03.2010 (not audited) |
|---|---|---|
| Transport services | 19 | 23 |
| Services of crop storage and refining | 35 | - |
| Salary and social taxes | 78 | 57 |
| Taxes | 38 | 47 |
| Informational, expert and consulting services | 73 | 59 |
| POL | - | 1 |
| Lease | 7 | 15 |
| Bank services | 21 | 2 |
| Amortization | 2 | 3 |
| Repairs and maintenance of fixed assets | 3 | 1 |
| Communication costs | 2 | - |
| Materials | 2 | 1 |
| Insurance | - | 44 |
| Other expenses | 5 | 21 |
| | **285** | **274** |

## 18. Other operating income (expenses)

For three months ended 31 March 2011 and 2010 other operating expenses of the Group included:

| | 31.03.2011 (not audited) | 31.03.2010 (not audited) |
|---|---|---|
| Write-off of accounts receivable | (1,083) | - |
| Provision for doubtful debts on accounts receivable | 1,336 | (113) |
| (Expenses)/income from sale of non-current assets | 1 | (55) |
| Income from sale of current assets | (137) | |
| Penalties, fines and forfeits | (11) | (63) |
| (Expenses)/income from exchange differences | (153) | - |
| Income from sale of foreign currency | (1) | 7 |
| Other (expenses) / income | 32 | (2) |
| | **(16)** | **(226)** |

## 19. Financial income (expenses), net

For three months ended 31 March 2011 and 2010, net financial income (expenses) of the Group included:

| | 31.03.2011 (not audited) | 31.03.2010 (not audited) |
|---|---|---|
| Loan interest | (461) | (400) |
| Interest on the financial lease | (148) | (366) |
| Financial lease commitments | 220 | 683 |
| Interest received | 1 | 21 |
| | **(388)** | **(62)** |

## 20. Related parties

***Control relationships***

The Group's owners are legal entities, which prepare financial statements available for public use. The main participant of the Group is its ultimate controlling party.

Related parties include:

- shareholders
- key management personnel and their close family members
- companies that are controlled or significantly influenced by shareholders

Information on interest rates and maturity dates of long-term loans from shareholders is disclosed in Note 12.

***Companies that are controlled or significantly influenced by shareholders***

ICD INVESTMENTS SA (Switzerland);
Fortholing (Switzerland)
Zemivor Holding Limited (Cyprus)
KSG Export Limited (Cyprus)
Vernilia Holding Limited (Cyprus)
Hellpic Limited (Cyprus)
Olcom Limited (Cyprus)
KS Retail Limited (Cyprus)
LLC ICD UA (Ukraine)
LLC KS Development (Ukraine
LLC Niko Plaza (Ukraine)
LLC Newfort (Ukraine)
LLC K.Marx (Ukraine)
LLC Innovative City Development Investments (Ukraine)
LLC Berezinka (Ukraine)
LLC Kiev Marketing Center (Ukraine)
LLC SPAR-Logistic (Ukraine)
LLC SPAR-Center (Ukraine)
LLC SPAR-Ukraine (Ukraine)
LLC Business Management Group (Ukraine)

***Transactions with the key management***

Remuneration of key management personnel for the three months ended 31 March 2011 is in the form of short-term employee benefits amounting to US dollars 52 thousand (31 March 2010: US dollars 38 thousand).

The key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

As at 31 March 2011 and 2010 the Group's indebtedness on transactions with related parties can be represented as follows:

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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*(in thousand US dollars)*

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| **Assets** | | | |
| Trade accounts receivable | 164 | 300 | 50 |
| Other accounts receivable | 1 | 124 | 124 |
| **Liabilities** | | | |
| Trade accounts payable | 6 | 14 | 15 |

For three months ended 31 March 2011 and 2010 income of the Group from the transactions with related parties is as follows:

| | 31.03.2011 (not audited) | 31.03.2010 (not audited) |
|---|---|---|
| Sales of agricultural products | 530 | 48 |
| Other sales | | |
| Other services (rent of premises) | 1 | 10 |
| Other services | 4 | - |

## 21. Integration of companies and acquisition of non-controlling participation share

In 1 quarter 2011 the Group acquired 100% of corporate rights share in Unirem Agro Plus LLC, Askoninteks LLC, Agro Golden LLC

Given companies are located in Ukraine and perform agricultural activities. Fair value of identified assets and liabilities of companies at acquisition date and respective carrying amounts were as follows:

| | Agrogolden | | Uniremagro | | Askonintex | |
|---|---|---|---|---|---|---|
| **31.12.2008** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Property, plant and equipment | 23 | 23 | 15 | 15 | 500 | 500 |
| Accounts receivable | 3 | 3 | 52 | 52 | 106 | 106 |
| Cash | - | - | 15 | 15 | - | - |
| Inventories | - | - | 7 | 7 | - | - |
| Current biological assets | 71 | 71 | 531 | 531 | - | - |
| | **97** | **97** | **620** | **620** | **606** | **606** |
| Borrowings | - | - | - | - | - | - |
| Accounts payable | (26) | (26) | (57) | (57) | - | - |
| | **(26)** | **(26)** | **(57)** | **(57)** | **-** | **-** |
| **Net assets** | **71** | **71** | **563** | **563** | **606** | **606** |
| **Acquisition cost** | - | 168 | - | 1,266 | - | 1,734 |
| **Goodwill from acquisition** | - | 97 | | 703 | | 1,128 |

Cash outflow from acquisition:

| | |
|---|---|
| Net amount of cash acquired with the company | 15 |
| Cash paid | (3,168) |
| Net cash flows from acquisition | (3,153) |

*(in thousand US dollars)*

Goodwill amount equals to 1,928 thous. US dollars includes value of estimated positive effect from acquisition and the right for lease of land of agricultural nature, which is not recognized in the financial statements as a separate asset. In accordance with the contractual terms set for acquisition, the lease right is not a separate asset, as such, it does not comply with recognition criteria for intangible asset as per IFRS (IAS) 38, *Intangible assets*. It is expected that the recognized goodwill will not be deductible for taxation purposes – neither to full extent, nor partially.

## 22. Commitments and contingencies

***Commitments***

The Group has operational lease liability to individuals. These liabilities mainly refer to farm land, where the Group performs its activity. Structure of leased agricultural land by lenders and geographical location can be presented as follows:

| Group company | Geographical location (region) | 31 March 2011 (hectare) | 31 December 2010 (hectare) | 31 March 2010 (hectare) |
|---|---|---|---|---|
| Agro-Dnister LLC | Khmelnitsk | 1,607 | 1,531 | 1,488 |
| Agro-Trade House Dniprovsky LLC | Dnepropetrovsk | 3,500 | 3,490 | 3,733 |
| Goncharovo Agricultural LLC | Dnepropetrovsk | 2,494 | 2,539 | 2,489 |
| Pivdenne Agricultural LLC | Kherson | 1,671 | 1,671 | 1,638 |
| Enterprise №2 of Ukrainian agricultural and industrial holding LLC | Dnepropetrovsk | 2,194 | 1,845 | 1,812 |
| Scorpio Agro LLC | Dnepropetrovsk | 6,011 | 6,017 | 6,034 |
| SOUZ-3 LTD | Dnepropetrovsk | 6,722 | 6,730 | 6,434 |
| SOUZ-3 LTD | Kharkov | 3,054 | 2,974 | 2,862 |
| Unirem Agro Plus LLC (Ukraine) | Dnepropetrovsk | 5,787 | - | - |
| Agro Golden LLC (Ukraine) | Kharkov | 611 | - | - |
| | | **33,651** | **26,797** | **26,490** |

Lease payments for the land are preliminary agreed between the Group and a respective lessor. The Group increased areas of leased land; due to that it incurred additional one-time expenses related to legalization of lease relations. The Group did not capitalize such expenses and referred them to expenses in these periods.

***Contingent liabilities***

Legal aspects

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect to the financial position or the results of future operations of the Group.

Tax risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and customs regulations, continue to evolve due to transitional period in the economy. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not single.

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Group does not believe that these contingencies, as relating to its operations, are any more significant than those of similar enterprises in Ukraine.

*(in thousand US dollars)*

***Financial lease and obligations under hire-purchase agreements***

The Group has entered into several financial lease agreements and hire-purchase agreements in respect of various agricultural equipment. These agreements contain provisions on the right to purchase an asset. Minimum future lease payments under finance lease agreements and hire purchase agreements, as well as the discounted value of net minimum lease payments are set out in the table below:

**Minimum lease payments**

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Amounts payable under financial lease agreements: | | | |
| During 1 year | 1,865 | 1,865 | 1,865 |
| Over 1 year but no more than 5 years | 103 | 579 | 1,979 |
| More than 5 years | | | |
| **Total minimum lease payments** | **1,968** | **2,444** | **3,844** |
| Net of future financial costs | **(149)** | **(221)** | **(515)** |
| **Discounted value of minimal lease payments** | **1,819** | **2,223** | **3,329** |

**Current cost of minimum lease payments**

| | 31.03.2011 (not audited) | 31.12.2010 (audited) | 31.03.2010 (not audited) |
|---|---|---|---|
| Amounts payable under financial lease agreements | | | |
| During 1 year | 1,720 | 1,662 | 1,499 |
| Over 1 year but no more than 5 years | 99 | 561 | 1,830 |
| More than 5 years | - | - | - |
| **Total minimum lease payments** | **1,819** | **2,223** | **3,329** |
| Net of future financial costs | - | - | - |
| **Discounted value of minimal lease payments** | - | - | - |

## 23. Financial risk management: objectives and policies

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade receivables and trade payables, which arise directly from its operations.

The Group has not entered into any derivative transactions. It is the Group's policy not to trade in financial instruments. The Group’s overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

The main risks, arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The management reviews and agrees policies for managing each of these risks. The essence of these approaches is disclosed below.

*(in thousand US dollars)*

***Interest rate risk***

Risk of changes in interest rate is generally related to interest-bearing loans and other debt obligations of the Group. The Group's management analyses market interest rates to minimize interest rate risk of the Group.

The table below represents the Group's profit before tax sensitivity to a possible moderate interest rates change, when all other variable remain constant (as the effect to loans at variable interest rate). There is no effect to the net assets attributable to the Group's participants.

| | *Increase / decrease of basis points* | *Effect on profit before tax* |
|---|---|---|
| ***For the period ended 31 March 2011*** | | |
| Change in interest rate | 20 | (9) |
| Change in interest rate | (20) | 9 |
| ***For the period ended 31 March 2010*** | | |
| Change in interest rate | 20 | (34) |
| Change in interest rate | (20) | 34 |
| ***For the period ended 31 March 2010*** | | |
| Change in interest rate | 20 | (8) |
| Change in interest rate | (20) | 8 |
| ***For the year ended 31 December 2009*** | | |
| Change in interest rate | 20 | (34) |
| Change in interest rate | (20) | 34 |

***Foreign currency risk***

Like for many other companies having their activities in Ukraine, foreign currencies, particularly US dollar, take a sufficient part in the Group's operations. The Group performs its operations mainly in the following currencies: Ukrainian hryvnya (UAH), US dollars (USD), Euro (EUR).

According to IFRS 7, the currency risk arises on monetary financial instruments in currency, which is not a functional one; risks related to the currency translation are not taken into account. The currency risk arises mainly on non-functional currencies, in which the Group has its financial instruments. The table below represents sensitivity of the Group's profit before tax to a possible moderate change of exchange rates, when other components remain unchangeable.

| | *Increase / decrease* | *Effect on profit before tax* |
|---|---|---|
| ***For the period ended 31 March 2011*** | | |
| Change in USD exchange rate | 5% | (15) |
| Change in USD exchange rate | -5% | 15 |
| ***For the year ended 31 December 2010*** | | |
| Change in USD exchange rate | 5% | (15) |
| Change in USD exchange rate | -5% | 15 |
| ***For the period ended 31 March 2010*** | | |
| Change in USD exchange rate | 5% | (10) |
| Change in USD exchange rate | -5% | 10 |
| ***For the year ended 31 December 2009*** | | |
| Change in USD exchange rate | 5% | 114 |
| Change in USD exchange rate | -5% | (114) |

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 and for three months then ended
*(in thousand US dollars)*

| As at 31.03.2011. | UAH | EURO | USD | Non-monetary items | Total |
|---|---|---|---|---|---|
| Property, plant and equipment | | | | 5,509 | 5,509 |
| Non-current biological assets | | | | 226 | 226 |
| Goodwill | | | | 7,514 | 7,514 |
| Inventories | | | | 6,071 | 6,071 |
| Current biological assets | | | | 10,933 | 10,933 |
| Trade and other receivables | 3 397 | | | | 3 397 |
| VAT receivables | 1 221 | | | | 1,221 |
| Cash and cash equivalents | 797 | | | | 797 |
| **TOTAL** | 5 415 | - | - | 30,253 | 35,668 |
| Long-term loans | (6,997) | (1,202) | | | (8,199) |
| Short-term loans and borrowings | (7,606) | | | | (7,606) |
| Trade and other payables | (6,335) | | | | (6,335) |
| Tax payables | (195) | | | | (195) |
| **TOTAL** | (21,133) | (1,202) | - | - | (22,335) |
| **Net balance position** | (15,718) | (1,202) | - | 30,253 | 13,333 |

| As at 31.12.2010 | UAH | EURO | USD | Non-monetary items | Total |
|---|---|---|---|---|---|
| Property, plant and equipment | | | | 5,013 | 5,013 |
| Non-current biological assets | | | | 247 | 247 |
| Goodwill | | | | 5,586 | 5,586 |
| Inventories | | | | 5,149 | 5,149 |
| Current biological assets | | | | 7,621 | 7,621 |
| Trade and other receivables | 1,662 | | | | 1,662 |
| VAT receivables | 1,022 | | | | 1,022 |
| Cash and cash equivalents | 30 | - | | | 30 |
| **TOTAL** | 2,714 | - | - | 23,616 | 26,330 |
| Long-term loans | (2,068) | (299) | - | | (2,367) |
| Short-term loans and borrowings | (5,414) | | | | (5,414) |
| Promissory notes | (188) | | | | (188) |
| Trade and other payables | (6,681) | | | | (6,681) |
| Tax payables | (18) | | | | (18) |
| **TOTAL** | (14,369) | (299) | - | - | (14,668) |
| **Net balance position** | (11,655) | (299) | - | 23,616 | 11,662 |

| As at 31.03.2010 | UAH | EURO | USD | Non-monetary items | Total |
|---|---|---|---|---|---|
| Property, plant and equipment | | | | 4,695 | 4,695 |
| Non-current biological assets | | | | 250 | 250 |
| Goodwill | | | | 5,611 | 5,611 |
| Inventories | | | | 4,324 | 4,324 |
| Current biological assets | | | | 3,367 | 3,367 |
| Short-term financial instruments | | | | - | - |
| Trade and other receivables | 5,618 | | | | 5,618 |
| VAT receivables | 1,823 | | | | 1,823 |
| Cash and cash equivalents | 220 | | | | 220 |
| **TOTAL** | 7,661 | - | - | 18,247 | 25,908 |

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2011 and for three months then ended

*(in thousand US dollars)*

| | | | | | |
|---|---|---|---|---|---|
| Long-term loans | (3,474) | (199) | | | (3 673) |
| Short-term loans and borrowings | (6,389) | | | | (6,389) |
| Promissory notes | (188) | | | | (188) |
| Trade and other payables | (10,768) | | | | (10,768) |
| Tax payables | (86) | | | | (86) |
| **TOTAL** | (20,905) | (199) | - | - | (21,104) |
| **Net balance position** | (13,244) | (199) | - | 18,247 | 4,804 |

Short-term and long-term loans in foreign currency, trade accounts receivable and payable give rise to foreign exchange risk exposure.

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans provided by banks and suppliers.

The Group monitors its assets and liabilities as to circulation and mature terms and plans its liquidity depending upon the expected term of obligations fulfillment. When liquidity of individual entities is insufficient or redundant, the Group redistributes its resources and funds to achieve optimal financing of every Group's entity needs.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments:

| | ***Less than 3 months*** | ***3 to 12 months*** | ***1 to 5 years*** | ***Total*** |
|---|---|---|---|---|
| ***For the period ended 31 March 2011 (not audited)*** | | | | |
| Long-term liabilities | | | 8,199 | 8,199 |
| Loans and borrowings | | 7,606 | | 7,606 |
| Trade and other payables | 195 | 6,335 | | 6,530 |
| **For the year ended 31 December 2010 (audited)** | | | | |
| Long-term liabilities | | | 2,367 | 2,367 |
| Loans and borrowings | | 5,414 | | 5,414 |
| Trade and other payables | 18 | 6,681 | | 6,699 |
| ***For the period ended 31 March 2010 (not audited)*** | | | | |
| Long-term loans | | | 3,673 | 3,673 |
| Short-term loans and borrowings | | 6,389 | | 6,389 |
| Trade and other payables | 86 | 10,956 | | 11,042 |
| **For the year ended 31 December 2009 (audited)** | | | | |
| Long-term loans | | | 2,904 | 2,904 |
| Short-term loans and borrowings | | 11,008 | | 11,008 |
| Trade and other payables | | 7,223 | | 7,223 |

*(in thousand US dollars)*

### *Credit risk*

Financial instruments that potentially expose the Group to the concentration of credit risks primarily include trade receivables.

Credit risk related to trade receivables is minimized due to the limited number of customers – grain traders with sound reputation. The Group manages this risk through monitoring of the customers' credit capacity. Cash is placed in financial institutions, which are considered to have minimal risk of default at the time of deposit.

The Group management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the Group's sales are made to the customers with an appropriate credit history or on a prepayment basis. The Group does not require collateral in respect of its financial assets.

The credit risk exposure of the Group is monitored and analyzed on a case-by-case basis and, based on historical collection statistics, the Group's management believes that there is no significant risk of loss to the Group beyond the impairment allowances recognized against the assets of each category.

### *Capital risk management*

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

| | **31.03.2011** | **2010** | **31.03.2010** |
|---|---|---|---|
| Total amount of borrowings | 15,805 | 7,781 | 10,062 |
| Net of cash and cash equivalents | (1,221) | (30) | (220) |
| Net debt | 14,584 | 7,751 | 9,842 |
| Total capital | 13,333 | 11,662 | 4,804 |
| Plus – subordinated debt instruments | | | |
| Adjusted capital | 13,333 | 11,662 | 4,804 |
| Debt to adjusted net assets ratio | 109,38% | 66,46% | 204,87% |

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

### *Risk of grain prices change*

Apart from the risks arising from the use of financial instruments, the Group is exposed to the risk, connected with grain price changes. The Group did not conclude derivative contracts or other contracts for this risk management. The Group constantly regulates grain prices to evaluate the necessity of active financial risk management.

### *Classification of financial instruments*

As at 31 March 2011 and 2010, financial instruments are classified as follows:

| **As at 31.03.2011** | Loans and accounts receivable | Non-financial assets | **TOTAL** |
|---|---|---|---|
| Property, plant and equipment | | 5,509 | 5,509 |
| Non-current biological assets | | 226 | 226 |
| Goodwill | | 7,514 | 7,514 |
| Inventories | | 6,071 | 6,071 |
| Current biological assets | | 10,933 | 10,933 |
| Trade and other receivables | 3,397 | | 3,397 |
| VAT receivables | | 1,221 | 1,221 |
| Cash and cash equivalents | 797 | | 797 |
| | **4,194** | **31,474** | **35,668** |

*(in thousand US dollars)*

| | | | |
|---|---|---|---|
| Long-term loans | (8,199) | | (8,199) |
| Short-term loans and borrowings | (7,606) | | (7,606) |
| Trade and other payables | | (6,335) | (6,335) |
| Tax payables | | (195) | (195) |
| **TOTAL** | (15,805) | (6,530) | (22,335) |
| **Net balance position** | (11,611) | 24,944 | 13,333 |

| **As at 31.12.2010** | Loans and accounts receivable | Non-financial assets | **TOTAL** |
|---|---|---|---|
| Property, plant and equipment | | 5,013 | 5,013 |
| Non-current biological assets | | 247 | 247 |
| Goodwill | | 5,586 | 5,586 |
| Inventories | | 5,149 | 5,149 |
| Current biological assets | | 7,621 | 7,621 |
| Trade and other receivables | 1,662 | | 1,662 |
| VAT receivables | | 1,022 | 1,022 |
| Cash and cash equivalents | 30 | | 30 |
| | **1,692** | **24,638** | **26,330** |
| Long-term loans | (2,367) | | (2,367) |
| Short-term loans and borrowings | (5,414) | | (5,414) |
| Promissory notes | (188) | | (188) |
| Trade and other payables | | (6,681) | (6,681) |
| Tax payables | | (18) | (18) |
| **TOTAL** | (7,969) | (6,699) | (14,668) |
| **Net balance position** | (6,277) | 17,939 | 11,662 |

| **As at 31.03.2010** | Loans and accounts receivable | Non-financial assets | **TOTAL** |
|---|---|---|---|
| Property, plant and equipment | | 4,695 | 4,695 |
| Non-current biological assets | | 250 | 250 |
| Goodwill | | 5,611 | 5,611 |
| Inventories | | 4,324 | 4,324 |
| Current biological assets | | 3,367 | 3,367 |
| Trade and other receivables | 5,618 | | 5,618 |
| VAT receivables | | 1,823 | 1,823 |
| Cash and cash equivalents | 220 | | 220 |
| | **5,838** | **20,070** | **25,908** |
| Long-term loans | (3,673) | | (3,673) |
| Short-term loans and borrowings | (6,389) | | (6,389) |
| Promissory notes | (188) | | (188) |
| Trade and other payables | | (10,768) | (10,768) |
| Tax payables | | (86) | (86) |
| **TOTAL** | (10,250) | (10,854) | (21,104) |
| **Net balance position** | (4,412) | 9,216 | 4,804 |