



**Industrial Milk Company S.A. and its subsidiaries**  
**Condensed Consolidated Interim Financial Statements**  
**For the six months ended 30 June 2012**

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## Statement of management responsibilities for preparation and approval of condensed consolidated interim financial statements for the six months ended 30 June 2012

Management of the Group of companies "IMC S.A." (Group) is responsible for preparing the condensed consolidated interim financial statements which reflect in all material aspects the financial position of the Group as at 30 June 2012, as well as the results of its activities, cash flows and changes in equity for the six months ended in accordance with International Financial Reporting Standards (IFRS).

In preparing condensed consolidated interim financial statements, the Group's Management is responsible for:

- selecting appropriate accounting policies and their consistent application;
- making reasonable measurement and calculation;
- following principles of IFRS or disclosing all considerable deviations from IFRS in the notes to condensed consolidated interim financial statements;
- preparing condensed consolidated interim financial statements of the Group on the going concern basis, except for the cases when such assumption is illegal.
- accounting and disclosing in the condensed consolidated interim financial statements all the relations and transactions between related parties;
- accounting and disclosing in the condensed consolidated interim financial statements all subsequent events that need to be adjusted or disclosed;
- disclosing all claims related to previous or potential legal proceedings;
- disclosing in the condensed consolidated interim financial statements all the loans or guarantees on behalf of the management.

The Group's Management is also responsible for:

- development, implementation and control over effective and reliable internal control system in the Group;
- keeping accounting records in compliance with the legislation and accounting standards of the respective country of the Group's registration;
- taking reasonable steps within its cognizance to safeguard the assets of the Group;
- detecting and preventing from fraud and other irregularities.

These condensed consolidated interim financial statements as at 30 June 2012 prepared in compliance with IFRS are approved on behalf of the Group's Management on 28 August 2012.

On behalf of the Management:

Chief Executive Officer



IEVGEN OSYPOV

Chief Financial Officer



DMYTRO MARTYNIUK

**Consolidated management report**

1. Business and General Conditions
2. Operational and Financial Results
3. Risk Report
4. Forecast Report
5. Selected Financial Data

**1. Business and General Conditions**

**Macro-economic development**

- **World economy**

The world economic developments during the first quarter and the beginning of the second quarter of 2012 were generally positive. Significant structural, fiscal and monetary policy steps in high-income Europe during that period contributed to a significant improvement in market sentiment, and less constraining financial conditions. This combined with monetary policy easing in developing countries was reflected in a strengthening of real-side economic activity in both developing and high-income countries.

Afterwards in May, 2012 market tensions jumped up again, sparked by fiscal slippage, banking downgrades, and political uncertainty in the Euro Area.

Grain prices reversed course at the beginning of 2012, gaining some 9 percent within 4 months after it became apparent that supply conditions were tighter than originally thought. Specifically, between December 2011 and June 2012, corn prices gained 9.3 percent. Tight corn supplies caused corn to be traded at roughly the same price level with wheat, a very rare occurrence—historically, wheat has been traded 30 percent higher than corn.

- **Ukrainian economy**

Real GDP growth in January-June of 2012 was 2,5%. During this period the highest growth took place in June – 4,7%. In the second quarter of 2012 the GDP increased by 1,9% in comparison with the first quarter of 2012 and by 3% in comparison with the second quarter of 2011.

Nominal GDP in the first half of 2012 reached 631 billion UAH.

The highest growth of the volumes of gross added value was fixed in agriculture (7,4%) and trade (7,2%). The increase in output of food industry was 1,2% (including production of oil and fats – 12,8%, dairy products – 2,8%). Also the substantial increase took place in natural terms in production of butter (by 19,9% (43,6 tns t)) and unrefined sunflower oil (by 16,2% (1,9 mln t)).

The low level of inflation (from the beginning of the year till the end of June the level of basic inflation was 0,4%) indicates not only general financial stability but also definite possibilities for further development of the Ukrainian economy.

The objective economic indicators demonstrate clear evidences of stability of the national economy.

**Development of Industrial Milk Company S.A. and its Subsidiaries (the hereinafter «the Group » or «IMC»)**

- **Corporate structure**

The parent company of the Group of companies “Industrial Milk Company” is Industrial Milk Company S.A. It is a limited company registered in accordance with the legislation of Luxembourg.

Unigrain Holding Limited is a direct subsidiary company of Industrial Milk Company S.A. and the parent company of Burat-Agro LLC, Burat LLC, Chernihiv Industrial Milk Company LLC, PJSC Mlibor. In addition, PJSC PKZ belongs directly to Burat LLC and the subsidiary company ZKCP belongs directly to Chernihiv Industrial Milk Company LLC.

In 2011 Industrial Milk Company S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited) the silo OJSC Vyrivske HPP and the following agrarian companies:

- PAE Slavutich
- PE Progress 2010
- PAE Promin
- AF Kalynivska-2005, Ltd
- AF Zhovtneva, Ltd
- AF Shid-2005, Ltd
- AIE Vyrivske, Ltd
- Pisky, Ltd
- SE Vry-Agro

# INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

## Condensed Consolidated Interim Financial Statements

On November 30, 2011 to decrease expenses and to improve management quality the agrarian companies PAE Slavutich and PE Progress 2010 were joined to Chernihiv Industrial Milk Company LLC, and PAE Promin was joined to Burat-Agro LLC.

On August 30, 2011 owing to increase of volumes of export sales of the Group the direct subsidiary company Unigrain Holding Limited established Aristo Eurotrading Ltd (BVI).

During the 6-month period ended 30 June 2012 Industrial Milk Company S.A. purchased (indirectly, through its direct subsidiary company Unigrain Holding Limited and Burat-Agro LLC belongs directly to Unigrain Holding Limited) the following agrarian companies:

- Ukragrosouz KSM, Ltd
- PAC Slobozhanschina Agro

### • Group strategy

In I-st half of 2012 the Group of companies “Industrial Milk Company” (hereinafter “the Group”) actively implemented its development strategy announced during IPO

| Strategy   | Strategy implementation results in I-st half of 2012.  |
|--|--|
| <b>Land bank expansion</b> <ul style="list-style-type: none"> <li>Focus on land bank expansion via acquisition of agricultural entities with land lease rights as well as on organical growth through attracting new land owners</li> <li>Development of land bank as land cluster model, which assumes highly concentrated location of fields and self-sufficiency in farming infrastructure of each cluster</li> <li>Land bank expansion in prime quality agricultural areas, in the so-called black earth belt, with favourable weather conditions adding to its operational efficiency</li> </ul>  | <p>In the I-st half of 2012 the Group increased its Land Bank under processing by 39%, from 59,640 ths ha as of 31.12.2011 to 82,638 ths ha as of 30.06.2012.</p> <p>Expansion of the Land Bank under processing took place in existing clusters of the Group (Poltava and Sumy).</p> <p>The Group’s Land Bank under processing is logistically concentrated that allows to maintain high level of operational efficiency.</p>   |
| <b>Operational efficiency</b> <ul style="list-style-type: none"> <li>Specialisation in limited number of high marginal crops, which are optimal for effective crop rotation and suitable for land and climate specifics</li> <li>Focus on increasing of yields and decreasing of production costs by use of high performance machinery and equipment, modern agricultural technologies, as well as controlling systems.</li> <li>Sustaining sufficient level of grain and potato storage capacities with purpose to get optimal prices and have control over processing and storing process</li> </ul> | <p>In the I-st half of 2012 the growth of EBITDA was 42% vs. I-st half of 2012.</p> <p>The Group continued its specialization on 4 high marginal crops:</p> <ul style="list-style-type: none"> <li>corn</li> <li>wheat</li> <li>sunflower</li> <li>soybean</li> </ul> <p>The Group has tripled planted area under highly marginal crops – Corn and Sunflower (71% of crop mix in 2012).</p> <p>The Group increased the storage capacities by 6% from 211 ths tonnes as of 31.12.2011 to 223 ths tonnes as of 30.06.2012.</p> |
| <b>Diversification</b> <ul style="list-style-type: none"> <li>Diversification of operations with purpose to reduce risk exposure related to crop farming. In line with this strategy, the Group support and develops cattle business segment and potato production</li> <li>Sales geography diversification</li> </ul>   | <p>Cattle breeding ensured stable income during I-st half of 2012.</p> <p>The number of cattle herd was stable (7,5 ths heads) but the cattle herd structure was improved with the growth of milk cows to 4,0 ths heads.</p> <p>The Group increased milk production by 20% vs. I-st half of 2012.</p> <p>Sales geography diversification was supported.</p> <p>Export sales accounted 55% of total revenue in the I-st half of 2012.</p>   |

# INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

## Condensed Consolidated Interim Financial Statements

- **The internal control system**

IMC's control system relies on daily resource planning analyses which are detailed by cost centre and cost article, department, thus providing all the necessary information for controlling inventories and products.

IMC established internal controlling instruments to secure proper accounting in compliance with legal requirements.

IMC's accounting procedures are governed by standardized guidelines and rules as well as a clearly defined course of action in different situation. Therefore, standard account parameters and booking directions for various production operations were established. Another control tool is the clear allocation of functions regarding various accounting processes. For Group consolidation and accounting purposes all book-keeping data of the consolidated companies may be accessed automatically.

The internal control system of IMC is based on the accounting data base thus integrating all controlling processes. Accounting processes are carried out on a high level basis and are monitored and adjusted by specialists.

IMC's accounting-related risk management system is set up in a way that the risk of misrepresentation could mainly ensue from new business processes or amendments to legal provisions. Risks are contained by transferring decisions on accounting-relevant data resulting from new business processes to the management level. Ongoing continuation training regarding the applicable accounting provisions from time to time is provided to the management.

- **Personnel**

Trained and motivated employees are the most precious success resource for an enterprise dedicated to agricultural production. Motivation and professionalism are prerequisites for excellent results. IMC can always rely on its qualified and motivated staff. Future-oriented technologies, trained personnel and continuation training of the company's employees are vital to secure quality and low cost of agricultural products.

As IMC is a vocational training provider, the company is able to train its qualified skilled workers and executives mainly from its own staff. Specialized training programs are aimed at the improvement of employees professional skills. Open communication channels on all levels, short decision-making processes are values applied and lived.

Number of employees as at 30 June

|   | 2012  | 2011  | Change in % |
|---|-------|-------|-------------|
| Total number of employees   | 2 030 | 1 498 | 36%         |
| operating personnel   | 1 599 | 1 156 | 38%         |
| administrative personnel  | 397   | 309   | 28%         |
| sales personnel   | 25    | 24    | 0%          |
| non-operating personnel   | 9     | 9     | 0%          |
| Wages and salaries and related charges per employee (USD, for 6 months ended 30 June) | 2 376 | 2 185 | 9%          |

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**Condensed Consolidated Interim Financial Statements**

**2. Operational and Financial Results**

The following table sets forth the Company's results of operations for the 6-month period ended 30 June 2012 and 2011 derived from the Condensed Consolidated Interim Financial Statements:

(in thousand USD)

|   | Notes | For the six months ended |               | Change in % |
|---|-------|--------------------------|---------------|-------------|
|   |       | 30 June 2012             | 30 June 2011  |             |
|   |       | Unaudited                | Unaudited     | Unaudited   |
| <b>CONTINUING OPERATIONS</b>  |       |                          |               |             |
| Revenue   | 6     | 32 143                   | 10 977        | 193%        |
| Net change in fair value of biological assets and agricultural produce, net | 7     | 33 918                   | 22 417        | 51%         |
| Cost of sales   | 8     | (35 721)                 | (13 119)      | 172%        |
| <b>GROSS INCOME</b>   |       | <b>30 340</b>            | <b>20 275</b> | <b>50%</b>  |
| Administrative expenses   | 9     | (2 205)                  | (1 414)       | 56%         |
| Selling and distribution expenses   | 10    | (1 064)                  | (501)         | 112%        |
| Other operating income  | 11    | 1 843                    | 482           | 282%        |
| Income from the exchange of property certificates                           | 12    | 101                      | 91            | 11%         |
| Other operating expenses  | 13    | (2 862)                  | (594)         | 382%        |
| Write-offs of property, plant and equipment                                 |       | (747)                    | (628)         | 19%         |
| <b>OPERATING INCOME</b>   |       | <b>25 406</b>            | <b>17 711</b> | <b>43%</b>  |
| Financial expenses, net   | 16    | (1 221)                  | (783)         | 56%         |
| <b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>                         |       | <b>24 185</b>            | <b>16 928</b> | <b>43%</b>  |
| Income tax expenses   | 17    | (5)                      | (60)          | -91%        |
| <b>NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>                 |       | <b>24 180</b>            | <b>16 868</b> | <b>43%</b>  |
|   |       |                          |               |             |
| <b>Normalised EBITDA</b>  |       | <b>29 349</b>            | <b>20 598</b> | <b>42%</b>  |
| <b>Normalised EBIT</b>  |       | <b>26 052</b>            | <b>18 248</b> | <b>43%</b>  |
| <b>Normalised Net profit</b>  |       | <b>24 826</b>            | <b>17 405</b> | <b>43%</b>  |
|   |       |                          |               |             |
| Depreciation and amortization   |       | (3 297)                  | (2 350)       | 40%         |
| Income from the exchange of property certificates                           |       | 101                      | 91            | 11%         |
| Write-offs of property, plant and equipment                                 |       | (747)                    | (628)         | 19%         |

Normalisation adjustments to EBITDA, EBIT and Net profit exclude effects of non-recurring expenditure from operating segments such as income from the exchange of property certificates and write-offs of property, plant and equipment resulting from an isolated, non-recurring event.

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**Revenue**

The Company's revenue from sales of finished products increased year-on-year by 215% primarily as a consequence of the change in stock of agricultural produce: as of 31 December 2011 the stock of agricultural produce had a book value of USD 33,8 million, compared to USD 10,0 million on 31 December of the previous year. The following table sets forth the Company's sales revenue by products for the 6-month periods indicated:

(in thousand USD)

|           | For the six months ended |              |             |
|-----------|--------------------------|--------------|-------------|
|           | 30 June 2012             | 30 June 2011 | Change in % |
|           | Unaudited                | Unaudited    | Unaudited   |
| Cattle    | 831                      | 444          | 87%         |
| Corn      | 17 440                   | 5 080        | 243%        |
| Milk      | 3 285                    | 2 746        | 20%         |
| Wheat     | 1 092                    | 246          | 344%        |
| Sunflower | 5 549                    | 98           | 5562%       |
| Soy beans | 1 754                    | 272          | 545%        |
| Other     | 1 526                    | 1 111        | 37%         |
|           | <b>31 477</b>            | <b>9 997</b> | <b>215%</b> |

The most significant portion of the Company's revenue comes from selling corn, which represented 55% and 51% of total revenue for the 6-month periods ended 30 June 2012 and 2011, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

(in thousand USD)

|   | For the six months ended |              |
|---|--------------------------|--------------|
|   | 30 June 2012             | 30 June 2011 |
| <b>Corn</b>   |                          |              |
| Sales of produced corn ( <i>in tonnes</i> )                     | 73 480                   | 20 987       |
| Realization price (U.S. \$ per ton)                             | 237                      | 242          |
| Revenue from produced corn ( <i>U.S. \$ in thousands</i> )      | 17 440                   | 5 080        |
| <b>Wheat</b>  |                          |              |
| Sales of produced wheat ( <i>in tonnes</i> )                    | 5 768                    | 1 249        |
| Realization price (U.S. \$ per ton)                             | 189                      | 197          |
| Revenue from produced wheat ( <i>U.S. \$ in thousands</i> )     | 1 092                    | 246          |
| <b>Rye</b>  |                          |              |
| Sales of produced rye ( <i>in tonnes</i> )                      | 760                      | -            |
| Realization price (U.S. \$ per ton)                             | 164                      | -            |
| Revenue from produced rye ( <i>U.S. \$ in thousands</i> )       | 125                      | -            |
| <b>Soy beans</b>  |                          |              |
| Sales of produced soy beans ( <i>in tonnes</i> )                | 4 228                    | 796          |
| Realization price (U.S. \$ per ton)                             | 415                      | 342          |
| Revenue from produced soy beans ( <i>U.S. \$ in thousands</i> ) | 1 754                    | 272          |
| <b>Sunflower</b>  |                          |              |
| Sales of produced sunflower ( <i>in tonnes</i> )                | 13 003                   | 225          |
| Realization price (U.S. \$ per ton)                             | 427                      | 436          |
| Revenue from produced sunflower ( <i>U.S. \$ in thousands</i> ) | 5 549                    | 98           |
| <b>Rape seed</b>  |                          |              |
| Sales of produced rye ( <i>in tonnes</i> )                      | 35                       | -            |
| Realization price (U.S. \$ per ton)                             | 400                      | -            |
| Revenue from produced rye ( <i>U.S. \$ in thousands</i> )       | 14                       | -            |
| <b>Lupin</b>  |                          |              |
| Sales of produced lupin ( <i>in tonnes</i> )                    | 1 972                    | 2 631        |
| Realization price (U.S. \$ per ton)                             | 226                      | 240          |
| Revenue from produced lupin ( <i>U.S. \$ in thousands</i> )     | 445                      | 632          |



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**Potato**

|   |       |     |
|---|-------|-----|
| Sales of produced potato ( <i>in tonnes</i> )               | 4 823 | 733 |
| Realization price (U.S. \$ per ton)                         | 53    | 311 |
| Revenue from produced potato (U.S. \$ <i>in thousands</i> ) | 257   | 228 |

**Other (produced only)**

|  |                |               |
|--|----------------|---------------|
| Total sales volume ( <i>in tonnes</i> )                                | 1 164          | 1 742         |
| Total revenues (U.S. \$ <i>in thousands</i> )                          | 699            | 251           |
| <b>Total sales volume</b> ( <i>in tonnes</i> )                         | <b>105 233</b> | <b>28 363</b> |
| <b>Total revenue from sale of crops</b> (U.S. \$ <i>in thousands</i> ) | <b>27 375</b>  | <b>6 807</b>  |

Revenue relating to sales of corn increased by 243% to USD 17,4 million for the 6-month period ended 30 June 2012 from USD 5,0 million for the 6-month period ended 30 June 2011, primarily due to an increase in sales volume (tonnes) in 2012.

Revenue relating to sales of sunflower increased by 5 562% to USD 5,5 million for the 6-month period ended 30 June 2012 from USD 0,1 million for the 6-month period ended 30 June 2011, primarily due to an increase in sales volume (tonnes) in 2012.

Revenue relating to sales of soy beans increased by 545% to USD 1,7 million for the 6-month period ended 30 June 2012 from USD 0,3 million for the 6-month period ended 30 June 2011, primarily due to an increase in the prices and in sales volume (tonnes) in 2012.

Revenue relating to the sale of raw milk, which represented 10% and 27% of total revenue for the 6-month periods ended 30 June 2012 and 2011, respectively, increased by 20% to USD 3,3 million for the 6-month period ended 30 June 2012 from USD 2,7 million for the 6-month period ended 30 June 2011, primarily due to an increase in the quantity of milking cows.

**Cost of sales**

The Company's cost of sales increased by 172% to USD 35,8 million for the 6-month period ended 30 June 2012 from USD 13,1 million for the 6-month period ended 30 June 2011. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

(in thousand USD)

|   | Notes | For the six months ended |                 | Change in % |
|---|-------|--------------------------|-----------------|-------------|
|   |       | 30 June 2012             | 30 June 2011    |             |
|   |       | Unaudited                | Unaudited       | Unaudited   |
| Raw materials   |       | (18 417)                 | (9 064)         | 103%        |
| Change in inventories and work-in-progress                    | a)    | (4 048)                  | 4 660           | -187%       |
| Wages and salaries of operating personnel and related charges | 15    | (3 610)                  | (2 464)         | 46%         |
| Depreciation and amortization                                 | 14    | (2 843)                  | (2 175)         | 31%         |
| Third parties' services                                       |       | (927)                    | (634)           | 46%         |
| Fuel and energy supply  |       | (2 709)                  | (1 635)         | 66%         |
| Rent  |       | (2 888)                  | (1 625)         | 78%         |
| Repairs and maintenance                                       |       | (225)                    | (138)           | 63%         |
| Taxes and other statutory charges                             |       | (39)                     | (40)            | -2%         |
| Other expenses  |       | (15)                     | (3)             | 411%        |
|   |       | <b>(35 721)</b>          | <b>(13 119)</b> | <b>172%</b> |

Raw materials increased by 103% to USD 18,4 million for the 6-month period ended 30 June 2012 from USD 9,1million for the 6-month period ended 30 June 2011. This increase was primarily due to an increase in arable land in 2011.

The Company recognised a decrease from change in inventories and work in progress in the amount of USD 4,0 million for the 6-month period ended 30 June 2012 compared to an increase of USD 4,7 million for the 6-month period ended 30 June 2011.

Depreciation and amortisation increased by 31% to USD 2,8 million for the 6-month period ended 30 June 2012 from USD 2,1 million for the 6-month period ended 30 June 2011. This increase was primarily due to effect of acquisition of subsidiaries.

Wages and salaries of operational personnel and related charges increased by 46% to USD 3,6 million for the 6-month period ended 30 June 2012 from USD 2,5 million for the 6-month period ended 30 June 2011. This increase was primarily due to an increase in arable land in 2011.

Rent increased by 78% to USD 2,9 million for the 6-month period ended 30 June 2012 from USD 1,6 million for the 6-month period ended 30 June 2011. This increase was primarily due to effect of acquisition of subsidiaries.

# INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

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### Gross income

The Company's gross income increased to USD 30,3 million for the 6-month period ended 30 June 2012 from USD 20,2 million for the 6-month period ended 30 June 2011, an 50% year-on-year increase. In relative terms, the total revenue went up 193% year-on-year.

### Administrative expenses

Administrative expenses increased year-on-year to USD 2,2 million for the 6-month period ended 30 June 2012 from USD 1,4 million for the 6-month period ended 30 June 2011, reflecting an increase in the wages and salaries of administrative personnel year-on-year to USD 1,1 million from USD 0,7 million, and professional (audit and legal) services to USD 0,3 million from USD 0,2 million.

### Other operating income

The Company's other operating income increased by 282% to USD 1,8 million for the 6-month period ended 30 June 2012 from USD 0,5 million for the 6-month period ended 30 June 2011.

### Write-offs of property, plant and equipment

The Company's write-offs of property, plant and equipment increased by 19% to USD 0,7 million for the 6-month period ended 30 June 2012 from USD 0,6 million for the 6-month period ended 30 March 2011. This increase was due to the write-off of property, plant and equipment of former collective farms acquired by the Company in 2008 and 2009.

### Financial expenses, net

The Company's financial expenses, net increased by 56% to USD 1,2 million for the 6-month period ended 30 June 2012 from USD 0,7 million for the 6-month period ended 30 June 2011. This increase was due primarily to a increase in interest expenses on short-term and long-term loans and borrowings and other financial expenses related to the attraction new loans for the 6-month period ended 30 June 2012.

### Income tax expenses

Income tax expenses decreased by 91% to USD 0,005 million for the 6-month period ended 30 June 2012 from USD 0,06 million for the 6-month period ended 30 June 2011, due to the calculation of deferred tax on fixed assets.

### Net profit for the period from continuing operations

Net profit for the period from continuing operations increased by 43% to USD 24,1 million for the 6-month period ended 30 June 2012 from USD 16,9 million for the 6-month period ended 30 June 2011, primarily due to an increase in income from changes in fair value of biological assets and agricultural produce, net.

### Cash flows

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

(in thousand USD)

|  | For the six months ended |               |
|--|--------------------------|---------------|
|  | 30 June 2012             | 30 June 2011  |
| Net cash flows from operating activities         | (2 875)                  | (4 203)       |
| Net cash flows from investing activities         | (22 812)                 | (7 484)       |
| Net cash flows from financing activities         | 39 331                   | 27 228        |
| <b>Net increase in cash and cash equivalents</b> | <b>13 644</b>            | <b>15 541</b> |

### *Net cash flow from operating activities*

The Company's net cash outflow from operating activities decreased to USD 2,9 million for the 6-month period ended 30 June 2012 compared to net cash outflow of USD 4,2 million for the 6-month period ended 30 June 2011. The decrease in 2012 was primarily attributable to higher stock of agricultural produce: as of 31 December 2011 the stock of agricultural produce had a book value of USD 33,8 million, compared to USD 10,0 million on 31 December of the previous year.

### *Net cash flow from investing activities*

The Company's net cash outflow from investing activities increased to USD 22,8 million for the 6-month period ended 30 June 2012 compared to net cash outflow of USD 7,5 million for the 6-month period ended 30 June 2011. The increase in 2012 was primarily attributable to acquisition of subsidiaries and purchase of agricultural equipment.

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### *Net cash flow from financing activities*

Net cash inflow from financing activities increased to USD 39,3 million for the 6-month period ended 30 June 2012 from a net cash inflow of USD 27,0 million for the 6-month period ended 30 June 2011. The increase in 2012 was primarily due to proceeds from short-term and long-term borrowings. Weighted average costs of debt financing equaled to 10,5% for the 6-month period ended 30 June 2012.

### 3. Risk Report

Risks relating to the Group's business and Industry are as follows:

- Failure to generate or raise sufficient capital may restrict the group's development strategy  
To decrease an influence of this risk the Group works on several sources of financing: bank crediting, bonds issue, financing by international financial organizations.
- The Group's financial results are sensitive to fluctuations in market prices of its products  
To decrease an influence of this risk the Group on permanent basis researches the international and Ukrainian agricultural markets, monitoring price fluctuations and factors affecting these fluctuations (stocks, production, consumption, export, import, forecasts). On the basis of an analysis of the above mentioned information the management of the Group makes decisions regarding crop rotation structure and production plans.
- Poor and unexpected weather conditions may disrupt the Group's production of crops  
To decrease an influence of this risk the Group is using the following practices:
  - Application of mini-till and no-till technologies on 70% of cultivated lands enables the Group to decrease the risk of disruption of a general production of crops and increase yields during rainless season;
  - Cultivation of relatively small share (10%) of winter crops in the general crop rotation structure enables to decrease the risk of disruption of a general production of crops during unfavourable winter conditions;
  - Examination of introduction of irrigation to increase potato yields.
- The Group's operating costs could increase  
The risk of Group's operating costs increase is basically connected to a possible price growth for fuel, seeds, fertilizers and crop protection materials.  
To reduce the above mentioned risks the Group:
  - has implemented the fuel consumption and machinery usage controlling systems using GPS-trackers;
  - uses no-till and mini-till technologies that allow to reduce general fuel consumption;
  - follows the land bank development strategy based on principle of fields' close proximity to each other that allows to reduce fuel consumption;
  - is focused on limited number of crops (not more than 4) that allows to use and purchase seeds, fertilizers and crop protection materials more efficiently;
  - has built long-term and mutually benefit relationships with suppliers of seeds, fertilizers and crop protection materials.

### 4. Forecast Report

The Group will focus on efficiency of crop rotation and technological crop production, animal husbandry as well as reduction of general and administrative costs.

In accordance with its strategy of development the Group is going to increase a farming land bank up to 285,000 ha during next 7 years by 2019.

In consequence of the above-mentioned factors the management expects the Group will have EBITDA of USD 185 million by 2019.

**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**

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**5. Selected Financial Data**

(in thousand USD)

|       | for the 6-month period ended 30 June      | 2012       | 2011       |
|-------|---|------------|------------|
| I.    | Revenue                                   | 32 143     | 10 977     |
| II.   | Operating profit/(loss)                   | 25 406     | 17 711     |
| III.  | Profit/(loss) before income tax           | 24 185     | 16 928     |
| IV.   | Net profit/(loss)                         | 24 180     | 16 868     |
| V.    | Net cash flow from operating activity     | (2 876)    | (4 203)    |
| VI.   | Net cash flow from investing activity     | (22 812)   | (7 484)    |
| VII.  | Net cash flow from financing activity     | 39 331     | 27 228     |
| VIII. | Total net cash flow                       | 13 643     | 15 541     |
| IX.   | Total assets                              | 213 291    | 134 292    |
| X.    | Share capital                             | 56         | 56         |
| XI.   | Total equity                              | 133 228    | 108 197    |
| XII.  | Non-current liabilities                   | 44 326     | 14 068     |
| XIII. | Current liabilities                       | 35 736     | 12 026     |
| XIV.  | Weighted average number of shares         | 31 300 000 | 31 300 000 |
| XV.   | Profit/(loss) per ordinary share (in USD) | 0,77       | 0,54       |
| XVI.  | Book value per share (in USD)             | 4,20       | 3,54       |

To the Shareholders and Directors of  
Industrial Milk Company S.A.  
16, Avenue Pasteur  
L-2310 Luxembourg

## Report on Review of the Condensed Consolidated Interim Financial Statements

### *Introduction*

We have reviewed the accompanying condensed consolidated interim statement of financial position of Industrial Milk Company S.A. and its subsidiaries as at June 30, 2012 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six months then ended. The Board of Directors is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

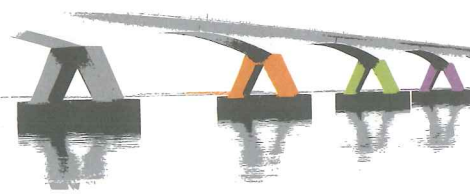
### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as adopted by the Institut des Réviseurs d'Entreprises. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

119, avenue de la Faïencerie  
L-1511 Luxembourg

Tél. +(352) 47 68 461  
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INTERAUDIT société à responsabilité limitée au capital de 31250 €  
RCS Luxembourg B 29. 501 Identification TVA LU 139 871 52  
Autorisation d'établissement 103 200/A



*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

INTERAUDIT S.à r.l.  
Cabinet de révision agréé



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Edward Kostka  
Managing partner

August 28, 2012  
Luxembourg

119, avenue de la Faïencerie  
L-1511 Luxembourg

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

(in thousand USD, unless otherwise stated)

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| <b>CONTINUING OPERATIONS</b>  |       |  |  |
| Revenue   | 6     | 32 143                                   | 10 977                                   |
| Net change in fair value of biological assets and agricultural produce, net | 7     | 33 918                                   | 22 417                                   |
| Cost of sales   | 8     | (35 721)                                 | (13 119)                                 |
| <b>GROSS INCOME</b>   |       | <b>30 340</b>                            | <b>20 275</b>                            |
| Administrative expenses   | 9     | (2 205)                                  | (1 414)                                  |
| Selling and distribution expenses   | 10    | (1 064)                                  | (501)                                    |
| Other operating income  | 11    | 1 843                                    | 482                                      |
| Income from the exchange of property certificates                           | 12    | 101                                      | 91                                       |
| Other operating expenses  | 13    | (2 862)                                  | (594)                                    |
| Write-offs of property, plant and equipment                                 |       | (747)                                    | (628)                                    |
| <b>OPERATING INCOME</b>   |       | <b>25 406</b>                            | <b>17 711</b>                            |
| Financial expenses, net   | 16    | (1 221)                                  | (783)                                    |
| <b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>                         |       | <b>24 185</b>                            | <b>16 928</b>                            |
| Income tax expenses   | 17    | (5)                                      | (60)                                     |
| <b>NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>                 |       | <b>24 180</b>                            | <b>16 868</b>                            |
| Net profit for the period attributable to:                                  |       |  |  |
| Owners of the parent company  |       | 24 308                                   | 17 031                                   |
| Non-controlling interests   |       | (128)                                    | (163)                                    |
| Weighted average number of shares   |       | 31 300 000                               | 31 300 000                               |
| Profit per ordinary share (in USD)  |       | 0,77                                     | 0,54                                     |
| <b>OTHER COMPREHENSIVE INCOME</b>   |       |  |  |
| Deferred tax charged directly to revaluation reserve                        |       | 113                                      | 60                                       |
| Effect of foreign currency translation                                      |       | (53)                                     | (436)                                    |
| <b>TOTAL OTHER COMPREHENSIVE INCOME</b>                                     |       | <b>60</b>                                | <b>(376)</b>                             |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |       | <b>24 240</b>                            | <b>16 492</b>                            |
| Comprehensive income attributable to:                                       |       |  |  |
| Owners of the parent company  |       | 24 368                                   | 16 655                                   |
| Non-controlling interests   |       | (128)                                    | (163)                                    |

  
Ievgen Osypov  
Chief Executive Officer

  
Dmytro Martyniuk  
Chief Financial Officer



**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**



**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

As at 30 June 2012

(in thousand USD, unless otherwise stated)

|  | Notes | 30 June<br>2012 | 31 December<br>2011 | 30 June<br>2011 | 31 December<br>2010 |
|--|-------|-----------------|---------------------|-----------------|---------------------|
|  |       | Unaudited       | Audited             | Unaudited       | Audited             |
| <b>ASSETS</b>  |       |                 |                     |                 |                     |
| <b>Non-current assets</b>  |       |                 |                     |                 |                     |
| Property, plant and equipment                                    | 18    | 70 356          | 61 607              | 54 821          | 54 025              |
| Intangible assets  | 19    | 7 424           | 3 294               | 2 157           | 306                 |
| Non-current biological assets                                    | 20    | 9 240           | 9 057               | 6 925           | 4 657               |
| Deferred tax assets  | 21    | 61              | 120                 | 134             | 203                 |
| Other non-current assets   | 22    | 991             | 790                 | 387             | 203                 |
| <b>Total non-current assets</b>                                  |       | <b>88 072</b>   | <b>74 868</b>       | <b>64 425</b>   | <b>59 394</b>       |
| <b>Current assets</b>  |       |                 |                     |                 |                     |
| Inventories  | 23    | 11 883          | 40 637              | 4 306           | 13 030              |
| Current biological assets  | 24    | 83 290          | 11 093              | 43 524          | 6 100               |
| Trade accounts receivable, net                                   | 25    | 2 032           | 1 447               | 806             | 3 780               |
| Prepayments and other current assets, net                        | 26    | 9 716           | 6 074               | 4 075           | 3 147               |
| Prepayments for income tax                                       |       | 19              | -                   | -               | -                   |
| Cash and cash equivalents  | 28    | 18 279          | 4 595               | 17 156          | 1 989               |
| <b>Total current assets</b>                                      |       | <b>125 219</b>  | <b>63 846</b>       | <b>69 867</b>   | <b>28 046</b>       |
| <b>TOTAL ASSETS</b>  |       | <b>213 291</b>  | <b>138 714</b>      | <b>134 292</b>  | <b>87 440</b>       |
| <b>LIABILITIES AND EQUITY</b>                                    |       |                 |                     |                 |                     |
| <b>Equity attributable to the owners of parent company</b>       |       |                 |                     |                 |                     |
| Share capital  | 29    | 56              | 56                  | 56              | 46                  |
| Share premium  |       | 24 387          | 24 387              | 24 492          | -                   |
| Revaluation reserve  |       | 12 745          | 13 862              | 14 369          | 15 829              |
| Retained earnings  |       | 110 661         | 85 123              | 82 091          | 63 540              |
| Effect of foreign currency translation                           |       | (16 461)        | (16 408)            | (16 242)        | (15 806)            |
| <b>Total equity attributable to the owners of parent company</b> |       | <b>131 388</b>  | <b>107 020</b>      | <b>104 766</b>  | <b>63 609</b>       |
| Non-controlling interests  |       | 1 840           | 1 968               | 3 431           | 3 594               |
| <b>Total equity</b>  |       | <b>133 228</b>  | <b>108 988</b>      | <b>108 197</b>  | <b>67 203</b>       |
| <b>Non-current liabilities</b>                                   |       |                 |                     |                 |                     |
| Long-term loans and borrowings                                   | 30    | 41 394          | 14 068              | 10 818          | 8 676               |
| Deferred tax liabilities   | 21    | 2 932           | 3 121               | 3 250           | 3 322               |
| <b>Total non-current liabilities</b>                             |       | <b>44 326</b>   | <b>17 189</b>       | <b>14 068</b>   | <b>11 998</b>       |
| <b>Current liabilities</b>                                       |       |                 |                     |                 |                     |
| Current portion of long-term borrowings                          | 30    | 5 607           | 4 486               | 544             | 1 802               |
| Short-term loans and borrowings                                  | 31    | 14 352          | 3 467               | 3 535           | 1 716               |
| Trade accounts payable   | 32    | 10 614          | 1 473               | 4 502           | 504                 |
| Other current liabilities and accrued expenses                   | 33    | 5 152           | 3 099               | 3 445           | 4 217               |
| Income tax payable   |       | 12              | 12                  | -               | -                   |
| <b>Total current liabilities</b>                                 |       | <b>35 737</b>   | <b>12 537</b>       | <b>12 026</b>   | <b>8 239</b>        |
| <b>TOTAL LIABILITIES AND EQUITY</b>                              |       | <b>213 291</b>  | <b>138 714</b>      | <b>134 292</b>  | <b>87 440</b>       |

Ievgen Osyov  
Chief Executive Officer

Dmytro Martyniuk  
Chief Financial Officer



**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
Condensed Consolidated Interim Financial Statements



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

For the six months ended 30 June 2012

(in thousand USD, unless otherwise stated)

|  | Share capital | Share premium | Revaluation reserve | Retained earnings | Effect of foreign currency translation | Total          | Non-controlling interests | Total equity   |
|--|---------------|---------------|---------------------|-------------------|--|----------------|---------------------------|----------------|
| <b>31 December 2010 (restated) (audited)</b>                         | <b>46</b>     | <b>-</b>      | <b>15 829</b>       | <b>63 540</b>     | <b>(15 806)</b>                        | <b>63 609</b>  | <b>3 594</b>              | <b>67 203</b>  |
| Profit for the period  | -             | -             | -                   | 17 031            | -                                      | 17 031         | (163)                     | 16 868         |
| Amortization of revaluation reserve                                  | -             | -             | (1 520)             | 1 520             | -                                      | -              | -                         | -              |
| Deferred tax charged directly to amortization of revaluation reserve | -             | -             | 60                  | -                 | -                                      | 60             | -                         | 60             |
| Other comprehensive income   | -             | -             | -                   | -                 | (436)                                  | (436)          | -                         | (436)          |
| <b>Total comprehensive income</b>                                    | <b>46</b>     | <b>-</b>      | <b>14 369</b>       | <b>82 091</b>     | <b>(16 242)</b>                        | <b>80 264</b>  | <b>3 431</b>              | <b>83 695</b>  |
| Issue of share capital   | 10            | 24 492        | -                   | -                 | -                                      | 24 502         | -                         | 24 502         |
| <b>30 June 2011 (unaudited)</b>                                      | <b>56</b>     | <b>24 492</b> | <b>14 369</b>       | <b>82 091</b>     | <b>(16 242)</b>                        | <b>104 766</b> | <b>3 431</b>              | <b>108 197</b> |
| <b>31 December 2011 (audited)</b>                                    | <b>56</b>     | <b>24 387</b> | <b>13 862</b>       | <b>85 123</b>     | <b>(16 408)</b>                        | <b>107 020</b> | <b>1 968</b>              | <b>108 988</b> |
| Profit for the period  | -             | -             | -                   | 24 308            | -                                      | 24 308         | (128)                     | 24 180         |
| Amortization of revaluation reserve                                  | -             | -             | (1 230)             | 1 230             | -                                      | -              | -                         | -              |
| Deferred tax charged directly to amortization of revaluation reserve | -             | -             | 113                 | -                 | -                                      | 113            | -                         | 113            |
| Other comprehensive income   | -             | -             | -                   | -                 | (53)                                   | (53)           | -                         | (53)           |
| <b>Total comprehensive income</b>                                    | <b>56</b>     | <b>24 387</b> | <b>12 745</b>       | <b>110 661</b>    | <b>(16 461)</b>                        | <b>131 388</b> | <b>1 840</b>              | <b>133 228</b> |
| <b>30 June 2012 (unaudited)</b>                                      | <b>56</b>     | <b>24 387</b> | <b>12 745</b>       | <b>110 661</b>    | <b>(16 461)</b>                        | <b>131 388</b> | <b>1 840</b>              | <b>133 228</b> |

Ievgen Oshpov  
Chief Executive Officer

Dmytro Martyniuk  
Chief Financial Officer

**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**



**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**

For the six months ended 30 June 2012

(in thousand USD, unless otherwise stated)

|  | Notes | For the six<br>months ended 30<br>June 2012 | For the six<br>months ended 30<br>June 2011 |
|--|-------|---|---|
|  |       | Unaudited                                   | Unaudited                                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |       |   |   |
| Profit before tax from continuing operations   |       | 24 185                                      | 16 928                                      |
| Adjusted to reconcile profit before tax with net cash used in operating activities:  |       |   |   |
| Depreciation and amortization  | 14    | 3 297                                       | 2 350                                       |
| Gain on disposal of inventories  | 11    | -   | (15)  |
| Loss on disposal of other property, plant and equipment                              | 13    | 13  | 45  |
| Write-offs of property, plant and equipment  |       | 747   | 628   |
| Write-offs of VAT  | 13    | 153   | 77  |
| Loss from VAT on export operations   | 13    | 1 395                                       | -   |
| Interest income  | 16    | (113)                                       | (20)  |
| Interest expenses  | 16    | 1 447                                       | 764   |
| Lost crops   | 13    | 175   | 232   |
| Allowance for doubtful accounts receivable   | 13    | 521   | -   |
| Loss from exchange differences   | 16    | 25  | 49  |
| Shortages and losses due to impairment of inventories                                | 13    | 117   | 92  |
| Provision for vacations  |       | 202   | 88  |
| Income from the exchange of property certificates                                    | 12    | (101)                                       | (91)  |
| Income from changes in fair value of biological assets and agricultural produce, net | 7     | (33 918)                                    | (22 417)                                    |
| <b>Cash flows from operating activities before changes in working capital</b>        |       | <b>(1 855)</b>                              | <b>(1 290)</b>                              |
| Increase / decrease in accounts receivable   |       | (1 122)                                     | 2 961                                       |
| Increase in prepayments and other current assets                                     |       | (4 415)                                     | (865)                                       |
| Decrease / increase in inventories   |       | 30 043                                      | 8 941                                       |
| Decrease / increase in current biological assets                                     |       | (29 679)                                    | (15 021)                                    |
| Decrease/ increase in accounts payable   |       | 3 783                                       | 3 048                                       |
| Decrease/ increase in other non-current assets                                       |       | 38  | (184)                                       |
| Increase in other current liabilities and accrued expenses                           |       | 1 725                                       | (1 029)                                     |
| <b>Cash flows from operations</b>  |       | <b>(1 482)</b>                              | <b>(3 439)</b>                              |
| Interest paid  |       | (1 356)                                     | (764)                                       |
| Income tax paid  |       | (37)  | -   |
| <b>Net cash flows from operating activities</b>                                      |       | <b>(2 875)</b>                              | <b>(4 203)</b>                              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |       |   |   |
| Purchase of property, plant and equipment  |       | (8 680)                                     | (1 951)                                     |
| Purchase of non-current biological assets  |       | (683)                                       | (258)                                       |
| Purchase of intangible assets  |       | (44)  | (27)  |
| Proceeds from disposal of property, plant and equipment                              |       | 7   | 52  |
| Cash (acquisition of the subsidiary)   | 5     | 90  | 17  |
| Acquisition of the subsidiary  | 5     | (13 502)                                    | (5 317)                                     |
| <b>Net cash flows from investing activities</b>                                      |       | <b>(22 812)</b>                             | <b>(7 484)</b>                              |

  
Ievgen Osypov  
Chief Executive Officer

  
Dmytro Martyniuk  
Chief Financial Officer

Notes on pages 20-58 form an integral part of these Condensed Consolidated Interim Financial Statements

**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**



**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS** (continued)

For the six months ended 30 June 2012

(in thousand USD, unless otherwise stated)

|   | Notes | For the six<br>months ended 30<br>June 2012<br>Unaudited | For the six<br>months ended 30<br>June 2011<br>Unaudited |
|---|-------|--|--|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |       |  |  |
| Issue of share capital                                      |       | -  | 24 502   |
| Proceeds from long-term and short-term borrowings           |       | 39 686   | 4 022  |
| Repayment of long-term and short-term borrowings            |       | (322)  | (1 274)  |
| Repayment of lease liabilities                              |       | (33)   | (22)   |
| <b>Net cash flows from financing activities</b>             |       | <b>39 331</b>  | <b>27 228</b>  |
| <b>NET CASH FLOWS</b>                                       |       | <b>13 644</b>  | <b>15 541</b>  |
| Cash and cash equivalents as at the beginning of the period | 28    | 4 595  | 1 989  |
| Effect of translation into presentation currency            |       | 40   | (374)  |
| Cash and cash equivalents as at the end of the period       | 28    | 18 279   | 17 156   |

Ievgen Osypov  
Chief Executive Officer

Dmytro Martyniuk  
Chief Financial Officer

**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**

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

*(in thousand USD, unless otherwise stated)*

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

For the purposes of these condensed consolidated interim financial statements the term the "Operating group" (or the "Group" or the "Company") has been taken to indicate the companies listed below.

The financial year begins on January 1 of each year and terminates on December 31 of each year. It's register number within the Registre de Commerce et des Sociétés du Luxembourg is RCS Lu B157843.

The Group consolidated accounts are public and available for consultation at <http://imcagro.com.ua/index.php/uk/dlya-investoriv/regulatory-filings/financial-reports> or at its registered office.

Description of formation: Industrial Milk Company S.A. (the "Parent or "Industrial Milk Company S.A." or "IMC"), a limited liability company registered under the laws of Luxembourg, was formed on 28 December 2010 for an unlimited period of time. Industrial Milk Company S.A. was formed to serve as the ultimate holding company of Unigrain Holding Limited and its subsidiaries. The registered address of Industrial Milk Company S.A. is 16, Avenue Pasteur, L-2310, Luxembourg.

In the course of the corporate reorganization a sub-holding company under Industrial Milk Company S.A., Unigrain Holding Limited, was established and through a series of transactions became the immediate parent of trading company Aristo Eurotrading, Burat-Agro, Ltd., Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., CJSC Mlibor and OJSC Poltava Kombilormoviy Zavod belong directly to Burat, Ltd., Zemelnii Kadaastroviy Centr SA belongs directly to Chernihiv Industrial Milk Company, Ltd., Agrofirma «Kalynivska-2005», Ltd., Agrofirma «Govtneva», Ltd., Agrofirma «Shid», Ltd., APP «Virynske», Ltd., Pisky, Ltd., Viry-Agro, SC and 80,61% of the voting shares in the company PSJC Viryvske HPP.

Unigrain Holding Limited acquired 100% of the voting shares in the company Ukragrosouz, Ltd in March 2012 and 100% of the voting shares in the company PAC Slobozhanshina Agro in June 2012.

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

| Operating entity                        | Principal activity   | Country of registration | Year established/<br>acquired | Cumulative ownership ratio, % |              |
|---|--|-------------------------|-------------------------------|-------------------------------|--------------|
|   |  |                         |                               | 30 June 2012                  | 30 June 2011 |
| Industrial Milk Company S.A.            | Holding company  | Luxembourg              | 28.12.2010                    | 100,00                        | 100,00       |
| Unigrain Holding Limited                | Subholding company   | Cyprus                  | 02.06.2009                    | 100,00                        | 100,00       |
| Burat-Agro, Ltd.                        | Production of cattle milk and meat, oil-yielding and grain crops cultivation | Ukraine                 | 31.12.2007                    | 100,00                        | 100,00       |
| Burat, Ltd.                             | Agricultural products processing   | Ukraine                 | 31.12.2007                    | 100,00                        | 100,00       |
| Chernihiv Industrial Milk Company, Ltd. | Production of cattle milk and meat, oil-yielding and grain crops cultivation | Ukraine                 | 31.12.2007                    | 100,00                        | 100,00       |
| PJSC Mlibor                             | Flour grinding   | Ukraine                 | 31.05.2008                    | 71,82                         | 71,82        |
| PJSC Poltava Kombilormoviy Zavod        | Granting of PPE into finance lease   | Ukraine                 | 31.12.2007                    | 87,56                         | 87,56        |
| Zemelnii Kadaastroviy Centr SA          | Preparation of technical documentation concerning land issues                | Ukraine                 | 23.11.2010                    | 100,00                        | 100,00       |
| Aristo Eurotrading Limited              | Trading company  | British Virgin Islands  | 30.08.2011                    | 100,00                        | -            |
| AF Kalynivska-2005, Ltd                 | Agricultural and farming production  | Ukraine                 | 26.12.2011                    | 100,00                        | -            |
| AF Govtneva, Ltd                        | Agricultural and farming production  | Ukraine                 | 26.12.2011                    | 100,00                        | -            |

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

*(in thousand USD, unless otherwise stated)*

|                          |                                     |         |            |        |   |
|--------------------------|-------------------------------------|---------|------------|--------|---|
| AF Shid-2005, Ltd        | Agricultural and farming production | Ukraine | 26.12.2011 | 100,00 | - |
| AIE Vyrynske, Ltd        | Agricultural and farming production | Ukraine | 26.12.2011 | 100,00 | - |
| Pisky, Ltd               | Agricultural and farming production | Ukraine | 26.12.2011 | 100,00 | - |
| SE "Vyry-Agro"           | Agricultural and farming production | Ukraine | 26.12.2011 | 100,00 | - |
| OJSC "Vyryvske HPP"      | Agricultural products processing    | Ukraine | 28.12.2011 | 80,61  | - |
| Ukragrosouz KSM, Ltd     | Agricultural production             | Ukraine | 29.03.2012 | 100,00 | - |
| PAC Slobozhanschina Agro | Agricultural production             | Ukraine | 26.06.2012 | 100,00 | - |

Description of the business: Companies comprising the Group are engaged in agricultural production and sale of grain and oil-yielding crops (Ukraine and export); and in farming production and sale of cattle milk and meat (Ukraine).

IMC is the group that was founded from the consolidation of mid-sized agricultural companies in 2007. The Group harvests 82,7 thousand ha of high quality arable land and operates in three segments: crop farming, dairy and beef farming and grain and oilseed storage as at 30 June 2012.

The Group's business model is focused on efficiency and a manageable growth strategy.

Today IMC is the vertically integrated and high-technology group of companies engaged in crop farming, dairy farming, feed and flour production, storage services, operating in Sumy, Poltava and Chernihiv region (northern and central Ukraine). IMC was ranked as a top five Ukrainian milk producer and a top eight Ukrainian meat producer in terms of herd headcount as of November 2009. The Group controlled 86 thousand ha in the most fertile regions of Ukraine (Poltava, Chernihiv and Sumy) as at 30 June 2012.

IMC is strategically focused on the development of its crop operations due to high gross marginality in the segment. The Group plans to increase cultivated land from its current 82,7 thousand ha to 285 thousand ha in 2019.

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

### **Statement of compliance**

The condensed consolidated interim financial statements as at and for the six months ended 30 June, 2012 and 2011 (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") No.34 "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto in the Company's Annual Report for the year ended December 31, 2011 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union.

The interim financial statements are unaudited.

Companies comprising the Group which are incorporated in Ukraine maintain their accounting records in accordance with Ukrainian regulations. The financial information has been prepared from those accounting records and adjusted as management considers necessary in order to comply with IFRS.

In preparation of these condensed consolidated interim financial statements the management used their best knowledge of International Financial Reporting Standards and interpretations, facts and circumstances that can affect these consolidated financial statements.

### **Basis of measurement**

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

The Group's management has decided to present and measure these condensed consolidated interim financial statements in US Dollars for the purposes of convenience of users of these financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*(in thousand USD, unless otherwise stated)*

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

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

### Use of estimates

The preparation of these condensed consolidated interim financial statements involves the use of reasonable accounting estimates and requires the management to make judgments in applying the Group's accounting policies. Note 4 contains areas, related to a high degree of importance or complexity in decision-making, or areas where assumptions and estimates are important for amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period.

### Foreign currency translation

#### *Functional and presentation currency*

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

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

#### *Foreign currency transactions and balances*

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All exchange differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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

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

| Currency | 30 June 2012 | Average for 6<br>months ended 30<br>June 2012 | 31 December<br>2011 | 30 June 2011 | Average for 6<br>months ended 30<br>June 2011 | 31 December 2010 |
|----------|--------------|---|---------------------|--------------|---|------------------|
| UAH/ USD | 7,9925       | 7,98908                                       | 7,9898              | 7,972300     | 7,95821                                       | 7,9617           |
| UAH/EUR  | 9,970        | 10,357  | 10,298              | 11,50004     | 11,15977                                      | 10,573100        |

#### *Translation into presentation currency*

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

- assets and liabilities for each balance sheet presented are translated at the official rate at the date of the balance sheet;
- income and expenses are translated at average exchange rate for the period, unless fluctuations in exchange rates during that period are significant, in which case income and expenses are translated at the rate on the dates of the transactions;
- all the equity and provision items are translated at the rate on the dates of the transactions;
- all resulting exchange differences are recognized as a separate component of other comprehensive income;



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

*(in thousand USD, unless otherwise stated)*

- in the consolidated statement of cash flows cash balances at the beginning and end of each presented period are translated at rates prevailing at corresponding dates. All cash flows are translated at average exchange rates for the periods presented. Exchange differences arising from the translation are presented as the effect of translation into presentation currency.

### **Going concern**

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

### **Principles of consolidation**

#### ***Restructuring***

In 2010, the Group was restructured as shown in Note 1. During the restructuring, all the ownership rights for the Group's companies were concentrated in the established parent company, holder of investments.

In preparation of these condensed consolidated interim financial statements the assumption was used that parent company, which was legally incorporated on 28 December 2010, and subsidiary companies comprising the Group existed with the same structure prior to restructuring, starting from 31 December 2007.

Until 28 December 2010, the parent company had no direct or indirect participation in equity of the companies included into these condensed consolidated interim financial statements. Shares in the equities of these companies belonged to companies and individuals, controlled by the direct owners of the parent company. During the restructuring, all rights of control over the subsidiaries were transferred to the parent company.

The following key assumptions were made in the preparation of consolidated statement of comprehensive income:

- Restructuring of the Group was completed before 31 December 2010;
- The parent company owned a share in equities of subsidiary companies;
- Rights of control over the subsidiaries were determined on the basis of cumulative ownership ratio of all the companies which are controlled by the direct owners of the parent company.

#### ***Subsidiaries***

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

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

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

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

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

*(in thousand USD, unless otherwise stated)*

### **3. Summary of significant accounting policies**

#### **Property, plant and equipment**

Property, plant and equipment are shown at revalued price, based on regular valuations by external independent values, less subsequent accumulated depreciation. The Group conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Previously recognized property, plant and equipment or their essential component is written-off on their disposal or in case if future economic benefits from use or disposal of such asset are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included to the other incomes (expenses) in the income statement when the asset is derecognized.

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives, as follows:

- |                  |             |
|------------------|-------------|
| - Buildings      | 15-35 years |
| - Machinery      | 5-15 years  |
| - Motor vehicles | 5-15 years  |
| - Other assets   | 5-10 years  |

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

#### **Income from the exchange of property certificates**

According to IAS 16 "Property, Plant and Equipment" in the case when the items of property, plant and equipment are acquired in exchange for non-cash asset (property certificate), the initial value of such assets is estimated at fair value. The difference between the price paid for property certificates and the fair value of received items of property, plant and equipment is recognized as income in the period of the exchange operation.

#### **Biological assets**

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

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

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



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

*(in thousand USD, unless otherwise stated)*

### ***Determination of fair value of biological assets***

Due to an absence of an active market for cattle and pigs, and biological assets-plants in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets as at reporting date.

The carrying amount of biological assets is determined at each balance sheet date as their fair value less estimated selling and distribution expenses. Fair value is determined based on market prices at each balance sheet date.

Gains or losses from movements in the fair value of biological assets, less estimated selling and distribution expenses of the Group are recorded in the period they incurred.

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

### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in other expenses in the year in which the expenditure is incurred.

Research costs are recognized as an expense as incurred. Costs incurred on development (relating to the design, construction and testing of new or improved devices, products, processes or systems) are recognized as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of adequate resources to complete the development, and the ability to measure reliably the expenditure during the development. Other development expenditures are recognized as an expense as incurred.

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

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

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

The amount of amortization of an intangible asset with finite useful life is systematically allocated over its useful life as follows:

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

### **Inventories**

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

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

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods includes costs of raw materials, direct labor and other direct productions costs and related production overheads (based on normal operating capacity).

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

### **Cash and cash equivalents**

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

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

*(in thousand USD, unless otherwise stated)*

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

### **Leases**

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

#### **i) Group as a lessee**

Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are classified as finance leases. Assets held under finance lease are included in property, plant and equipment since the commencement of lease at the lower of the fair value of leased property and present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

#### **ii) Group as a lessor**

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### **Financial assets**

#### ***Initial recognition and measurement***

The Group classifies its investments in equity and debt securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every balance sheet date.

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

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

#### ***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

##### ***Financial assets at fair value through profit or loss***

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in the held for trading category if acquired for the purpose of sale in the nearest future.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value with fair value changes recognized in financing income or financing expenses within income statement.

##### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables include trade and other accounts receivable. Lendings given are financial assets, that appeared owing to issuance of means to debtor.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Borrowings issued are measured at amortized cost less impairment losses.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

### **Available-for-sale financial assets**

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These assets are included in non-current assets unless Group has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Available-for-sale financial assets are accounted at fair value through equity.

### **Held-to-maturity investments**

Investments with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity, other than loan and receivables originated by the Group, are classified as held-to-maturity investments. Such investments are included in non-current assets, except for maturities within twelve months from the balance sheet date, which are classified as current assets. Held-to-maturity investments are accounted at amortized cost.

### **Derecognition**

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

### **Prepayments issued and other accounts receivable that are not financial assets**

Prepayments issued are reflected at nominal value less VAT and accumulated impairment losses, other current assets are reflected at nominal value less accumulated impairment losses.

Impairment of prepayments issued is recognized under objective evidences that total amount of liability will not be repaid in compliance with terms of financial lease agreements, including while receiving the information about the significant financial straits of the debtor, possibility of composition in bankruptcy or probability of debtor's reorganization, while delivery breakdown and etc.

### **Taxes**

Depending on the nature of activity, companies of the Group incorporated in Ukraine fall under different taxation systems:

| The Group's company                     | Taxation system                                     |
|---|---|
| Burat-Agro, Ltd.                        | Simplified taxation system (fixed agricultural tax) |
| Burat, Ltd.                             | Common taxation system                              |
| Chernihiv Industrial Milk Company, Ltd. | Simplified taxation system (fixed agricultural tax) |
| PJSC Mlibor                             | Common taxation system                              |
| PJSC Poltava Kombilormoviy Zavod        | Common taxation system                              |
| Zemelniy Kadaстровий Centr SA           | Common taxation system                              |
| AF «Kalynivska-2005», Ltd               | Simplified taxation system (fixed agricultural tax) |
| AF «Jovtneva», Ltd                      | Simplified taxation system (fixed agricultural tax) |
| AF «Shid-2005», Ltd                     | Simplified taxation system (fixed agricultural tax) |
| AIE Vyrnske, Ltd                        | Simplified taxation system (fixed agricultural tax) |
| Pisky, Ltd                              | Simplified taxation system (fixed agricultural tax) |
| SE "Vry-Agro"                           | Simplified taxation system (fixed agricultural tax) |
| OJSC "Vryvske HPP"                      | Common taxation system                              |
| Ukragrosouz KSM, Ltd                    | Simplified taxation system (fixed agricultural tax) |
| PAC Slobzhanschina Agro                 | Simplified taxation system (fixed agricultural tax) |

The activities of the companies under the simplified taxation system and registered as fixed agricultural tax payers are governed by the Law of Ukraine «On fixed agricultural tax».

### **Income tax**

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

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

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

*(in thousand USD, unless otherwise stated)*

### **i) Current income tax**

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

### **ii) Deferred income tax**

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

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

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

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

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

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

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

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

### **Value added tax (VAT)**

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

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

### **Government grants related to VAT**

According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive benefits regarding VAT payment on agricultural operations. These tax amounts are not paid to the budget, but recognized as an income in the other operating income.

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

*(in thousand USD, unless otherwise stated)*

### **Government grants related to plant-breeding**

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

Amount of such benefit is determined based on the number of hectares planted for the future harvest, taking into account the crop expected to be bred. The Group of companies recognizes this type of benefits upon the receipt of funds as other operating income.

### **Government grants related to cattle-breeding**

Agricultural producers of poultry and livestock are eligible for government grants, depending on quantity of meat in live weight delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.

Agricultural producers of poultry and livestock are also eligible for government grants for each animal unit of poultry and livestock, including slaughter for own needs or transfer to slaughter. The Group recognizes these grants upon the receipt of funds due to the uncertainty in amounts and timeframes of receipt.

### **Share capital**

Ordinary shares are classified as equity. Nominal value of share capital of Parent company is specified in Note 29.

### **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.

### **Financial liabilities**

#### ***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

Financial liabilities are initially recognized at fair value, adjusted in case of borrowings at costs that are directly attributed to transaction expenses.

#### ***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

#### ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated at initial recognition as liabilities at fair value through profit or loss.

#### ***Loans and borrowings***

Borrowings initially recognized at fair value less transaction costs, are subsequently recorded at amortized cost; any difference between amount of received resources and sum to repayment is recorded as interest cost at effective interest rate method during the period, when borrowings were received.

Borrowings are classified as current liabilities except the cases, when Group has vested right reschedule liability payments at least for 12 months since the reporting date.

#### ***Derecognition***

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

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

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

*(in thousand USD, unless otherwise stated)*

### **Revenue recognition**

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

#### **i) Sales of goods**

The Group manufactures and sells a range of products stated in Note 1. Revenue from sales of goods are recognized when a Group entity has delivered products to the purchaser and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the purchaser, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

#### **ii) Rendering of services**

Revenue from rendering services is recognized on the basis of the stage of work completion under each contract. When financial result can be measured reliably, revenue is recognized only to the extent of the amount of incurred charges, which can be recovered.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income resulting from temporary investment of received borrowing costs, until their expensing for the purchase of capital construction objects, shall be deducted from the cost of raising borrowing costs that may be capitalized.

### **Impairment**

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

The recoverable amount is the higher of the fair value of an asset less costs to sell and its value in use.

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

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

### **Contingent assets and liabilities**

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

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

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

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

*(in thousand USD, unless otherwise stated)*

### **4. Critical accounting estimates and judgments**

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

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

#### **Value of property, plant and equipment**

The Group engaged an independent appraiser to determine the fair value of property, plant and equipment as at 31 December 2010. In respect of portion of property, plant and equipment, the cost plus method was used due to lack of comparable market data, because of the nature of real estate. The cost plus method is adjusted by the income method data, which is based on the discounted cash flow model. This model is most sensitive to the discount rate, as well as to the expected cash flows and growth rates used for the extrapolation purposes. Judgments of the Group in determining the indices used in the appraisers' calculations may have a significant effect on the determination of fair value of property, plant and equipment, and hence on their carrying amount.

In accordance with IAS 16, the Group carries out revaluations on a regular basis and conducts a full valuation exercise if there is an indication of impairment. An impairment review was conducted at the balance sheet date. To test property, plant and equipment for impairment, the Group's business is treated as a single cash generating unit. The recoverable amount of the cash-generating unit was determined on the basis of value-in use. The amount of value in use for the cash generating unit was determined on the basis of the most recent budget estimates prepared by management and application of the income approach of valuation. Under the income approach, the discounted cash flow method has been applied with discount rate of 17,12 %. No impairment was detected following the results of impairment test.

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

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

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

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

#### **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### **Value of biological assets**

The Group classifies crop-bearing fields and livestock as biological assets. Biological assets are carried at their fair value less estimated costs to sell, except for the case where the fair value cannot be measured reliably. Change of biological assets is recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets.

##### ***Livestock***

Livestock held for regeneration of livestock population and animals raised for milk production. The fair value of live stock is determined based on market prices of livestock of similar age, breed and genetic merit.



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

*(in thousand USD, unless otherwise stated)*

### **Crop-bearing fields**

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets.

### **Inventories**

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

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

### **Trade and other accounts receivable**

Accounts receivable are recorded in the financial statements at net realizable value, less allowance for doubtful debts. Allowance for doubtful debts is calculated on the basis of the assessment of possible losses in existing balances of accounts receivable. In forming the allowance, management takes into account many factors, including general economic conditions, specifics of industry and history of customer servicing. Uncertainties associated with changes in financial position of customers, both positive and negative, can also affect the amount and timing of allowance for doubtful debts.

### **Taxation**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

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

Since 01 January 2011 a new Tax Code of Ukraine has been adopted. Tax Code regulates relationships evolving in process of adoption, altering and cancellation of taxes and charges in Ukraine; it specifies full list of taxes and charges collected in Ukraine, administration procedure for taxes, payers of taxes and charges, their rights and obligations, power of controlling authorities, credentials and responsibilities of their officials in the exercise of tax control, and also liability for the infringement of tax law.

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

### **Impairment of assets**

The carrying amount of the Group's assets is reviewed for evidence of impairment of such assets. If any events or changes in circumstances indicate that the current value of the assets may not be recoverable, the Group estimates the recoverable amount of assets. Such estimate results in a number of judgments in respect of long-range forecast of future revenue and expenses associated with the assets. In turn, these forecasts are uncertain, since they are based on assumptions about the product demand level and future market conditions.



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

*(in thousand USD, unless otherwise stated)*

Subsequent and unforeseen changes in such assumptions and estimates used in testing for impairment may lead to the result different from the one presented in the condensed consolidated interim financial statements.

### **Legal proceedings**

The Group's management makes significant assumptions in estimation and reflection of inventories and risk of exposure to contingent liabilities related to current legal proceedings and other unliquidated claims, as well as other contingent liabilities. Management's judgments are required in assessing the possibility of a secured claim against the Group or material obligations, as well as in determining probable amounts of final payment or obligations. Due to the uncertainties inherent in the evaluation process, actual expenses may differ from the initial calculations. These preliminary estimates are subject to changes as new information becomes available from the Group's internal specialists, if any, or from third parties, such as lawyers. Revisions of such estimates may have a significant impact on future operating results.

### **New and amended standards and interpretations**

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group (become effective after 1 January 2012):

- IFRS 7 - Disclosures - Transfers of financial assets (Amendment)
- IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)
- IAS 12 - Deferred Tax: Recovery of Underlying Assets (Amendment)

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

*(in thousand USD, unless otherwise stated)*

**5. Business combination**

**Acquisition of Ukragrosouz KSM, Ltd**

On March, 29, 2012 Unigrain Holding Limited acquired 100% of the voting shares in the company Ukragrosouz KSM, Ltd.

Ukragrosouz KSM, Ltd is located in Ukraine, Poltava region. The subsidiary owns the books of lease contracts for 4 447 hectares of land under processing.

The fair value of identifiable assets and liabilities of Ukragrosouz KSM, Ltd at the acquisition date and corresponding carrying amounts directly before the acquisition were as follows:

|  | <b>Fair value at the date of<br/>acquisition</b> | <b>Balance value at the date<br/>of acquisition</b> |
|--|--|---|
| <b>Non-current assets</b>  |  |   |
| Property, plant and equipment  | 2 612  | 1 402   |
| Intangible assets  | 1 490  | -   |
| Non-current biological assets  | 19   | 19  |
| Other non-current assets   | 14   | -   |
| <b>Current assets</b>  |  |   |
| Inventories  | 703  | 877   |
| Current biological assets  | 399  | 1   |
| Trade accounts receivable, net   | 2  | 2   |
| Prepayments and other current assets, net  | 205  | 251   |
| Cash and cash equivalents  | 87   | 87  |
| <b>Non-current liabilities</b>   |  |   |
| Long-term loans and borrowings   | (2 299)  | (2 299)   |
| <b>Current liabilities</b>   |  |   |
| Trade accounts payable   | (175)  | (175)   |
| Other current liabilities and accrued expenses   | (62)   | (64)  |
| <b>Net assets</b>  | <b>2 995</b>                                     | <b>101</b>  |
| Non-controlling interests  | -  |   |
| Owners of the parent company   | <b>2 995</b>                                     |   |
| Cost of acquisition  | 2 995  |   |
| <b>Excess of the Group's share in the fair value of the net assets<br/>acquired over the cost of acquisition</b> | <b>-</b>   |   |

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

*(in thousand USD, unless otherwise stated)*

**Acquisition of PAC Slobozhanschina Agro**

On June, 26, 2012 the Group acquired 100% of the voting shares in the company PAC Slobozhanschina-Agro.

PAC Slobozhanschina-Agro is located in Ukraine, Sumy region. The subsidiary owns the books of lease contracts for 14 234 hectares of land under processing.

The fair value of identifiable assets and liabilities of PAC Slobozhanschina-Agro at the acquisition date and corresponding carrying amounts directly before the acquisition were as follows:

|  | <u>Fair value at the date of<br/>acquisition</u> | <u>Balance value at the date<br/>of acquisition</u> |
|--|--|---|
| <b>Non-current assets</b>  |  |   |
| Property, plant and equipment  | 1 163  | 340   |
| Intangible assets  | 2 949  | -   |
| Other non-current assets   | 224  | 224   |
| <b>Current assets</b>  |  |   |
| Inventories  | 639  | 639   |
| Current biological assets  | 10 096   | 3 268   |
| Trade accounts receivable, net   | 8  | 8   |
| Prepayments and other current assets, net  | 458  | 458   |
| Cash and cash equivalents  | 3  | 3   |
| <b>Non-current liabilities</b>   |  |   |
| Long-term loans and borrowings   | (2 176)  | (2 176)   |
| <b>Current liabilities</b>   |  |   |
| Trade accounts payable   | (2 793)  | (2 793)   |
| Other current liabilities and accrued expenses   | (64)   | (57)  |
| <b>Net assets</b>  | <u>10 507</u>                                    | <u>(86)</u>   |
| Non-controlling interests  | -  |   |
| Owners of the parent company   | 10 507   |   |
| Cost of acquisition  | 10 507   |   |
| <b>Excess of the Group's share in the fair value of the net assets<br/>acquired over the cost of acquisition</b> | -  |   |

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

*(in thousand USD, unless otherwise stated)*

**6. Revenue**

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| Revenue from sales of finished products | a)    | 31 477                                   | 9 997                                    |
| Revenue from services rendered          | b)    | 666                                      | 980                                      |
|   |       | <b>32 143</b>                            | <b>10 977</b>                            |

a) Revenue from sales of finished products for the 6-month period ended 30 June was as follows:

|           | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|-----------|--|--|
|           | Unaudited                                | Unaudited                                |
| Cattle    | 831                                      | 444                                      |
| Corn      | 17 440                                   | 5 080                                    |
| Milk      | 3 285                                    | 2 746                                    |
| Wheat     | 1 092                                    | 246                                      |
| Sunflower | 5 549                                    | 98                                       |
| Soy beans | 1 754                                    | 272                                      |
| Other     | 1 526                                    | 1 111                                    |
|           | <b>31 477</b>                            | <b>9 997</b>                             |

b) Revenue from services rendered for the 6-month period ended 30 June was as follows:

|            | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|------------|--|--|
|            | Unaudited                                | Unaudited                                |
| Storage    | 264                                      | 2  |
| Processing | 77                                       | 296                                      |
| Transport  | 190                                      | 263                                      |
| Other      | 135                                      | 419                                      |
|            | <b>666</b>                               | <b>980</b>                               |

**7. Income / (loss) from changes in fair value of biological assets and agricultural produce, net**

|                               | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|-------------------------------|-------|--|--|
|                               |       | Unaudited                                | Unaudited                                |
| Non-current biological assets | 20    | (519)                                    | 1 409                                    |
| Current biological assets     | 24    | 34 374                                   | 20 879                                   |
| Agricultural produce          |       | 63                                       | 129                                      |
|                               |       | <b>33 918</b>                            | <b>22 417</b>                            |

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

*(in thousand USD, unless otherwise stated)*

**8. Cost of sales**

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| Raw materials   |       | (18 417)                                 | (9 064)                                  |
| Change in inventories and work-in-progress                    | a)    | (4 048)                                  | 4 660                                    |
| Wages and salaries of operating personnel and related charges | 15    | (3 610)                                  | (2 464)                                  |
| Depreciation and amortization                                 | 14    | (2 843)                                  | (2 175)                                  |
| Third parties' services                                       |       | (927)                                    | (634)                                    |
| Fuel and energy supply  |       | (2 709)                                  | (1 635)                                  |
| Rent  |       | (2 888)                                  | (1 625)                                  |
| Repairs and maintenance                                       |       | (225)                                    | (138)                                    |
| Taxes and other statutory charges                             |       | (39)                                     | (40)                                     |
| Other expenses  |       | (15)                                     | (3)                                      |
|   |       | <b>(35 721)</b>                          | <b>(13 119)</b>                          |

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

**9. Administrative expenses**

|  | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|--|-------|--|--|
|  |       | Unaudited                                | Unaudited                                |
| Wages and salaries of administrative personnel and related charges | 15    | (1 134)                                  | (735)                                    |
| Third parties' services  |       | (112)                                    | (91)                                     |
| Repairs and maintenance  |       | (99)                                     | (52)                                     |
| Depreciation and amortisation                                      | 14    | (104)                                    | (80)                                     |
| Bank services  |       | (154)                                    | (50)                                     |
| Professional services  |       | (332)                                    | (216)                                    |
| Transport expenses   |       | (174)                                    | (108)                                    |
| Other expenses   |       | (96)                                     | (82)                                     |
|  |       | <b>(2 205)</b>                           | <b>(1 414)</b>                           |

**10. Selling and distribution expenses**

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| Wages and salaries of sales personnel and related charges | 15    | (68)                                     | (49)                                     |
| Depreciation  | 14    | (40)                                     | (25)                                     |
| Delivery costs  |       | (901)                                    | (410)                                    |
| Other expenses  |       | (55)                                     | (17)                                     |
|   |       | <b>(1 064)</b>                           | <b>(501)</b>                             |

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

*(in thousand USD, unless otherwise stated)*

**11. Other operating income**

|  | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|--|-------|--|--|
|  |       | Unaudited                                | Unaudited                                |
| Government grants and subsidies recognised as income | a)    | 361                                      | -  |
| Income from subsidized VAT                           | b)    | 875                                      | 388                                      |
| Gain on disposal of inventories                      |       | -  | 15                                       |
| Other  | c)    | 607                                      | 79                                       |
|  |       | <b>1 843</b>                             | <b>482</b>                               |

a) Government grants and subsidies recognized as income for the six months ended 30 June 2012 amounting to th USD 361 comprise th USD 27 of grants related to the farming division and th USD 334 of grants related to the live-stock breeding.

b) According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive benefits regarding VAT payment on agricultural operations. These tax amounts are not paid to the budget, but recognized as net result of income or expenses in the other operating income.

c) Other operating income for the six months ended 30 June 2012 amounting to th USD 607 comprises th USD 334 of income related to the return of allowances.

**12. Income from the exchange of property certificates**

|   | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|--|--|
|   | Unaudited                                | Unaudited                                |
| Income from the exchange of property certificates | 101                                      | 91                                       |

Income from the acquisition of property certificates represents the difference between the nominal value of the certificate and the cost of purchasing a certificate from individuals on the property certificate of collective farms.

**13. Other operating expenses**

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| Write-offs of VAT   |       | (153)                                    | (77)                                     |
| Shortages and losses due to impairment of inventories             |       | (117)                                    | (92)                                     |
| Allowance for doubtful accounts receivable                        | 27    | (521)                                    | -  |
| Loss from VAT on export operations                                | a)    | (1 395)                                  | -  |
| Lost crops  |       | (175)                                    | (232)                                    |
| Depreciation  | 14    | (303)                                    | (51)                                     |
| Wages and salaries of non-operating personnel and related charges | 15    | (13)                                     | (15)                                     |
| Loss on disposal of other property, plant and equipment           |       | (13)                                     | (45)                                     |
| Other   |       | (172)                                    | (82)                                     |
|   |       | <b>(2 862)</b>                           | <b>(594)</b>                             |

a) Loss from VAT on export operations for the six months ended 30 June 2012 amounting to th USD 1 395 related to changes in Ukrainian tax legislation. According to the Tax Code temporarily till 01 April 2014 sales operations on export of certain agricultural crops are exempted from VAT. Consequently, the Company loses the right on VAT credit for expenses incurred for cultivation of these crops.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

### 14. Depreciation and amortisation

|   | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|-------|--|--|
|   |       | Unaudited                                | Unaudited                                |
| <b>Depreciation</b>   |       |  |  |
| Cost of sales   | 8     | (2 493)                                  | (2 151)                                  |
| Administrative expenses                                     | 9     | (102)                                    | (77)                                     |
| Selling and distribution expenses                           | 10    | (40)                                     | (25)                                     |
| Depreciation of non-operating property, plant and equipment | 13    | (303)                                    | (51)                                     |
| Depreciation as a part of article "Lost crops"              |       | (7)                                      | (19)                                     |
|   |       | <b>(2 945)</b>                           | <b>(2 323)</b>                           |
| <b>Amortisation</b>   |       |  |  |
| Cost of sales   | 8     | (350)                                    | (24)                                     |
| Administrative expenses                                     | 9     | (2)                                      | (3)                                      |
|   |       | <b>(352)</b>                             | <b>(27)</b>                              |
| <b>Total depreciation and amortisation</b>                  |       | <b>(3 297)</b>                           | <b>(2 350)</b>                           |

### 15. Wages and salaries expenses

|  | Notes | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|--|-------|--|--|
|  |       | Unaudited                                | Unaudited                                |
| Wages and salaries   |       | (3 583)                                  | (2 416)                                  |
| Related charges  |       | (1 280)                                  | (857)                                    |
|  |       | <b>(4 863)</b>                           | <b>(3 273)</b>                           |
| The average number of employees, persons   |       | 2 030                                    | 1 498                                    |
| Remuneration of management   |       | 259                                      | 259                                      |
| Wages and salaries of operating personnel and related charges                          | 8     | (3 610)                                  | (2 464)                                  |
| Wages and salaries of administrative personnel and related charges                     | 9     | (1 134)                                  | (735)                                    |
| Wages and salaries of sales personnel and related charges                              | 10    | (68)                                     | (49)                                     |
| Wages and salaries of non-operating personnel and related charges                      | 13    | (13)                                     | (15)                                     |
| Wages and salaries as a part of article "Lost crops" and related charges               |       | (2)                                      | (3)                                      |
| Wages and salaries as a part of article "Construction in progress" and related charges |       | (36)                                     | (7)                                      |
|  |       | <b>(4 863)</b>                           | <b>(3 273)</b>                           |

### 16. Financial (expenses)/income, net

|   | For the six months<br>ended 30 June 2012 | For the six months<br>ended 30 June 2011 |
|---|--|--|
|   | Unaudited                                | Unaudited                                |
| Interest income on bank deposits          | 113                                      | 20                                       |
| Income from sale of currency              | 138                                      | 10                                       |
| Loss from exchange differences            | (25)                                     | (49)                                     |
| Interest expenses on loans and borrowings | (1 268)                                  | (764)                                    |
| Bond interest expenses                    | (44)                                     | -  |
| Other financial expenses                  | (135)                                    | -  |
|   | <b>(1 221)</b>                           | <b>(783)</b>                             |

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

*(in thousand USD, unless otherwise stated)*

**17. Income tax expenses**

|  | <b>For the six months<br/>ended 30 June 2012</b> | <b>For the six months<br/>ended 30 June 2011</b> |
|--|--|--|
|  | Unaudited  | Unaudited  |
| Current income tax   | (21)   | -  |
| Deferred tax   | 16   | (60)   |
| <b>Income tax expenses reported in the statement of comprehensive income</b> | <b>(5)</b>                                       | <b>(60)</b>                                      |

**Consolidated statement of other comprehensive income**

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

|  |     |    |
|--|-----|----|
| Net gain on revaluation of property, plant and equipment | 113 | 60 |
|--|-----|----|

A reconciliation between tax expenses and the product of accounting multiplied by Ukrainian domestic tax rate for the 6-month periods ended 30 June 2012 and 2011 is as follows:

|  | <b>For the six months<br/>ended 30 June 2012</b> | <b>For the six months<br/>ended 30 June 2011</b> |
|--|--|--|
|  | (3 001)  | (3 119)  |
| <b>Opening balance as of 01 January</b>  |  |  |
| Tax income (expenses) during the period recognized in profit or loss             | 16   | (60)   |
| Tax income (expenses) during the period recognized in other comprehensive income | 113  | 60   |
| Effect of foreign currency translation   | 1  | 3  |
| <b>Closing balance as at 30 June</b>   | <b>(2 871)</b>                                   | <b>(3 116)</b>                                   |

Since 01 January 2011 a new Tax Code of Ukraine has been adopted. Under new Tax Code, income tax rate in the subsequent periods will be decreased annually from 25% to 16%. For the purposes of calculation of deferred tax stemming from long-term items rates were applied in compliance with new rates specified in Tax Code.



**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**

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

*(in thousand USD, unless otherwise stated)*

**18. Property, plant and equipment**

|   | Land and<br>buildings | Machinery      | Motor<br>vehicles | Other          | Construction<br>in progress | Total           |
|---|-----------------------|----------------|-------------------|----------------|-----------------------------|-----------------|
| <b>Initial cost</b>                                   |                       |                |                   |                |                             |                 |
| <b>31 December 2010 (audited)</b>                     | <b>39 042</b>         | <b>17 418</b>  | <b>6 592</b>      | <b>1 022</b>   | <b>1 006</b>                | <b>65 080</b>   |
| Additions   | 38                    | 1 630          | 408               | 38             | 131                         | 2 245           |
| Additions from acquisition of subsidiaries            | 775                   | 601            | 289               | 9              | -                           | 1 674           |
| Disposals   | (500)                 | (351)          | (42)              | -              | -                           | (893)           |
| Transfer  | -                     | 354            | -                 | -              | (354)                       | -               |
| Effect from translation into presentation<br>currency | (54)                  | (26)           | (10)              | (1)            | (1)                         | (92)            |
| <b>30 June 2011 (unaudited)</b>                       | <b>39 301</b>         | <b>19 626</b>  | <b>7 237</b>      | <b>1 068</b>   | <b>782</b>                  | <b>68 014</b>   |
| <b>31 December 2011 (audited)</b>                     | <b>44 345</b>         | <b>21 857</b>  | <b>8 250</b>      | <b>1 133</b>   | <b>1 087</b>                | <b>76 672</b>   |
| Additions   | 197                   | 3 943          | 3 686             | 131            | 772                         | 8 729           |
| Additions from acquisition of subsidiaries            | 2 360                 | 797            | 575               | 25             | 20                          | 3 777           |
| Disposals   | (563)                 | (437)          | (96)              | (33)           | -                           | (1 129)         |
| Transfer  | 55                    | 46             | 1                 | -              | (102)                       | -               |
| Effect from translation into presentation<br>currency | (17)                  | (10)           | (6)               | -              | (1)                         | (34)            |
| <b>30 June 2012 (unaudited)</b>                       | <b>46 377</b>         | <b>26 196</b>  | <b>12 410</b>     | <b>1 256</b>   | <b>1 776</b>                | <b>88 015</b>   |
| <b>Accumulated depreciation</b>                       |                       |                |                   |                |                             |                 |
| <b>31 December 2010 (audited)</b>                     | <b>(3 189)</b>        | <b>(5 049)</b> | <b>(2 037)</b>    | <b>(780)</b>   | <b>-</b>                    | <b>(11 055)</b> |
| Depreciation for the period                           | (711)                 | (1 124)        | (413)             | (75)           | -                           | (2 323)         |
| Additions from acquisition of subsidiaries            | -                     | -              | -                 | (1)            | -                           | (1)             |
| Disposals   | 45                    | 109            | 14                | -              | -                           | 168             |
| Effect from translation into presentation<br>currency | 5                     | 9              | 3                 | 1              | -                           | 18              |
| <b>30 June 2011 (unaudited)</b>                       | <b>(3 850)</b>        | <b>(6 055)</b> | <b>(2 433)</b>    | <b>(855)</b>   | <b>-</b>                    | <b>(13 193)</b> |
| <b>31 December 2011 (audited)</b>                     | <b>(4 569)</b>        | <b>(6 792)</b> | <b>(2 734)</b>    | <b>(970)</b>   |                             | <b>(15 065)</b> |
| Depreciation for the period                           | (857)                 | (1 307)        | (512)             | (269)          | -                           | (2 945)         |
| Additions from acquisition of subsidiaries            | -                     | -              | -                 | (2)            | -                           | (2)             |
| Disposals   | 71                    | 201            | 52                | 23             | -                           | 347             |
| Effect from translation into presentation<br>currency | 3                     | 2              | 1                 | -              | -                           | 6               |
| <b>30 June 2012 (unaudited)</b>                       | <b>(5 352)</b>        | <b>(7 896)</b> | <b>(3 193)</b>    | <b>(1 218)</b> | <b>-</b>                    | <b>(17 659)</b> |
| <b>Net book value</b>                                 |                       |                |                   |                |                             |                 |
| <b>As at 31 December 2010 (audited)</b>               | <b>35 853</b>         | <b>12 369</b>  | <b>4 555</b>      | <b>242</b>     | <b>1 006</b>                | <b>54 025</b>   |
| <b>As at 30 June 2011 (unaudited)</b>                 | <b>35 451</b>         | <b>13 571</b>  | <b>4 804</b>      | <b>213</b>     | <b>782</b>                  | <b>54 821</b>   |
| <b>As at 31 December 2011 (audited)</b>               | <b>39 776</b>         | <b>15 065</b>  | <b>5 516</b>      | <b>163</b>     | <b>1 087</b>                | <b>61 607</b>   |
| <b>As at 30 June 2012 (unaudited)</b>                 | <b>41 025</b>         | <b>18 300</b>  | <b>9 217</b>      | <b>38</b>      | <b>1 776</b>                | <b>70 356</b>   |

The fair value of property, plant and equipment of all the Group's companies has been measured as at 31 December 2010 by an independent appraiser FDI "Bureau Veritas Ukraine" (ODS Certificate No.7100/08 as of 26 May 2008 issued by State Property Fund of Ukraine). While acquisition of the subsidiaries, values of property, plant and equipment in acquired companies were adjusted to their fair value as at the date of consolidation. The fair values as at the date of acquisition of new subsidiaries were determined by an independent appraisers FDI "Bureau Veritas Ukraine".

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

The cost approach involves the definition of present value of costs of reconstruction or replacement of the assessment item with their further adjustment by the depreciation (impairment) amount. Based on the application of this approach, the fair value of certain items of property, plant and equipment was determined in the amount of the replacement of these items. The comparative approach is based on an analysis of sales prices and offers of similar items of property, plant and equipment, taking into account the appropriate adjustments for differences between the objects of comparison and assessment item. Based on the application of this approach, the fair value of property, plant and equipment was determined on the basis of their market value.

### 19. Intangible assets

|  | Computer<br>software | Property<br>certificates | Land lease rights | Total        |
|--|----------------------|--------------------------|-------------------|--------------|
| <b>Initial cost</b>                                |                      |                          |                   |              |
| <b>31 December 2010 (audited)</b>                  | <b>31</b>            | <b>298</b>               | <b>-</b>          | <b>329</b>   |
| Additions  | -                    | 134                      | -                 | 134          |
| Additions from acquisition of subsidiaries         | -                    | 173                      | 1 593             | 1 766        |
| Disposals  | -                    | (19)                     | -                 | (19)         |
| Effect from translation into presentation currency | -                    | -                        | (3)               | (3)          |
| <b>30 June 2011 (unaudited)</b>                    | <b>31</b>            | <b>586</b>               | <b>1 590</b>      | <b>2 207</b> |
| <b>Initial cost</b>                                |                      |                          |                   |              |
| <b>31 December 2011 (audited)</b>                  | <b>32</b>            | <b>618</b>               | <b>2 842</b>      | <b>3 492</b> |
| Additions  | -                    | 127                      | -                 | 127          |
| Additions from acquisition of subsidiaries         | -                    | -                        | 4 439             | 4 439        |
| Disposals  | -                    | (82)                     | -                 | (82)         |
| Effect from translation into presentation currency | -                    | -                        | (2)               | (2)          |
| <b>30 June 2012 (unaudited)</b>                    | <b>32</b>            | <b>663</b>               | <b>7 279</b>      | <b>7 974</b> |
| <b>Accumulated amortisation</b>                    |                      |                          |                   |              |
| <b>31 December 2010 (audited)</b>                  | <b>(15)</b>          | <b>(8)</b>               | <b>-</b>          | <b>(23)</b>  |
| Amortisation for the period                        | (3)                  | -                        | (24)              | (27)         |
| Additions from acquisition of subsidiaries         | -                    | -                        | -                 | -            |
| Effect from translation into presentation currency | -                    | -                        | -                 | -            |
| <b>30 June 2011 (unaudited)</b>                    | <b>(18)</b>          | <b>(8)</b>               | <b>(24)</b>       | <b>(50)</b>  |
| <b>Accumulated amortisation</b>                    |                      |                          |                   |              |
| <b>31 December 2011 (audited)</b>                  | <b>(20)</b>          | <b>(8)</b>               | <b>(170)</b>      | <b>(198)</b> |
| Amortisation for the period                        | (2)                  | -                        | (350)             | (352)        |
| Additions from acquisition of subsidiaries         | -                    | -                        | -                 | -            |
| Disposal   | -                    | -                        | -                 | -            |
| Effect from translation into presentation currency | -                    | -                        | -                 | -            |
| <b>30 June 2012 (unaudited)</b>                    | <b>(22)</b>          | <b>(8)</b>               | <b>(520)</b>      | <b>(550)</b> |
| <b>Net book value</b>                              |                      |                          |                   |              |
| <b>As at 31 December 2010 (audited)</b>            | <b>16</b>            | <b>290</b>               | <b>-</b>          | <b>306</b>   |
| <b>As at 30 June 2011 (unaudited)</b>              | <b>13</b>            | <b>578</b>               | <b>1 566</b>      | <b>2 157</b> |
| <b>As at 31 December 2011 (audited)</b>            | <b>12</b>            | <b>610</b>               | <b>2 672</b>      | <b>3 294</b> |
| <b>As at 31 June 2012 (unaudited)</b>              | <b>10</b>            | <b>655</b>               | <b>6 759</b>      | <b>7 424</b> |

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

**20. Non-current biological assets**

|  | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--|---------------------|---------------------|
|  | Unaudited           | Unaudited           |
| <b>Non-current biological assets - animal-breeding</b>         |                     |                     |
| Cattle   | 9 122               | 6 859               |
| Pigs   | 10                  | -                   |
| <b>Total non-current biological assets - animal - breeding</b> | <b>9 132</b>        | <b>6 859</b>        |
| <b>Non-current biological assets - plant-breeding</b>          |                     |                     |
| Perennial grasses  | 108                 | 66                  |
| <b>Total non-current biological assets</b>                     | <b>9 240</b>        | <b>6 925</b>        |

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

|                 | <b>30 June 2012</b> | <b>30 June 2011</b> |
|-----------------|---------------------|---------------------|
|                 | Unaudited           | Unaudited           |
| <b>Cattle</b>   |                     |                     |
| Cattle, units   | 3 997               | 3 912               |
| Live weight, kg | 1 625 779           | 1 607 643           |
| Book value      | 9 122               | 6 859               |
| <b>Pigs</b>     |                     |                     |
| Pigs, units     | 22                  | -                   |
| Live weight, kg | 3 102               | -                   |
| Book value      | 10                  | -                   |

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

|                          | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--------------------------|---------------------|---------------------|
|                          | Unaudited           | Unaudited           |
| <b>Perennial grasses</b> |                     |                     |
| Area, ha                 | 1 506               | 2 285               |
| Book value               | 108                 | 66                  |

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Following changes took place in the non-current biological assets of animal-breeding for the 6-month period ended 30 June 2012 and 2011:

|  | <b>Cattle</b> | <b>Pigs</b> | <b>Total</b> |
|--|---------------|-------------|--------------|
| <b>31 December 2010 (audited)</b>                  | <b>4 607</b>  | <b>-</b>    | <b>4 607</b> |
| Additions from acquisition of subsidiaries         | 601           | -           | <b>601</b>   |
| Transfer (from (to) current biological assets)     | 250           | -           | <b>250</b>   |
| Change in fair value                               | 1 409         | -           | <b>1 409</b> |
| Effect from translation into presentation currency | (8)           | -           | <b>(8)</b>   |
| <b>30 June 2011 (unaudited)</b>                    | <b>6 859</b>  | <b>-</b>    | <b>6 859</b> |
| <b>31 December 2011 (audited)</b>                  | <b>8 947</b>  | <b>24</b>   | <b>8 971</b> |
| Acquisitions for the period                        | 23            | -           | <b>23</b>    |
| Transfer (from (to) current biological assets)     | 675           | (14)        | <b>661</b>   |
| Change in fair value                               | (519)         | -           | <b>(519)</b> |
| Effect from translation into presentation currency | (4)           | -           | <b>(4)</b>   |
| <b>30 June 2012 (unaudited)</b>                    | <b>9 122</b>  | <b>10</b>   | <b>9 132</b> |

Due to the absence of an active market for cattle in Ukraine, to determine the fair value of biological assets, the Group used the discounted value of net cash flows expected from assets. As a discount rate, the rate of 21,3% prevailing as at 30 June 2012 was applied for cattle.

Following changes took place in the non-current biological assets of plant-breeding for the half of years ended 30 June 2012 and 2011:

|  | <b>Perennial grasses</b> |
|--|--------------------------|
| <b>31 December 2010 (audited)</b>                  | <b>50</b>                |
| Capitalized expenses                               | 16                       |
| Harvesting   | -                        |
| Effect from translation into presentation currency | -                        |
| <b>30 June 2011 (unaudited)</b>                    | <b>66</b>                |
| <b>31 December 2011 (audited)</b>                  | <b>86</b>                |
| Additions from acquisition of subsidiaries         | 19                       |
| Capitalized expenses                               | -                        |
| Harvesting   | 4                        |
| Effect from translation into presentation currency | (1)                      |
| <b>30 June 2012 (unaudited)</b>                    | <b>108</b>               |

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### 21. Deferred tax assets and liabilities

Deferred tax assets

|   | Tax losses | Allowances for<br>recognized tax<br>assets | Prepayments<br>and accounts<br>receivable | Provisions | Total |
|---|------------|--|---|------------|-------|
| <b>31 December 2010 (audited)</b>                     | -          | -  | 121                                       | 82         | 203   |
| Considering profit (loss)                             | -          | -  | (66)                                      | (3)        | (69)  |
| <b>30 June 2011 (unaudited)</b>                       | -          | -  | 55  | 79         | 134   |
| <b>31 December 2011 (audited)</b>                     | 439        | (439)                                      | 42  | 78         | 120   |
| Considering profit (loss)                             | (439)      | 439  | (42)                                      | (17)       | (59)  |
| Effect from translation into<br>presentation currency | -          | -  | -   | -          | -     |
| <b>30 June 2012 (unaudited)</b>                       | -          | -  | -   | 61         | 61    |

Deferred tax liabilities

|  | Property, plant<br>and equipment | Inventories | Prepayments<br>and accounts<br>payable | Other | Total   |
|--|----------------------------------|-------------|--|-------|---------|
| <b>31 December 2010 (audited)</b>      | (3 308)                          | (3)         | (10)                                   | (1)   | (3 322) |
| Considering profit (loss)              | -                                | -           | 9                                      | -     | 9       |
| Considering equity                     | 60                               | -           | -                                      | -     | 60      |
| Effect of foreign currency translation | -                                | 3           | -                                      | -     | 3       |
| <b>30 June 2011 (unaudited)</b>        | (3 248)                          | -           | (1)                                    | (1)   | (3 250) |
| <b>31 December 2011 (audited)</b>      | (3 120)                          | -           | (1)                                    | -     | (3 121) |
| Considering profit (loss)              | 74                               | -           | 1                                      | -     | 75      |
| Considering equity                     | 113                              | -           | -                                      | -     | 113     |
| Effect of foreign currency translation | 1                                | -           | -                                      | -     | 1       |
| <b>30 June 2012 (unaudited)</b>        | (2 932)                          | -           | -                                      | -     | (2 932) |

### 22. Other non-current assets

|   | 30 June 2012 | 30 June 2011 |
|---|--------------|--------------|
|   | Unaudited    | Unaudited    |
| Prepayments for property, plant and equipment | 991          | 387          |

### 23. Inventories

|                        | Note | 30 June 2012  | 30 June 2011 |
|------------------------|------|---------------|--------------|
|                        |      | Unaudited     | Unaudited    |
| Work-in-progress       | a)   | 219           | 105          |
| Agricultural produce   | b)   | 6 193         | 1 645        |
| Agricultural materials |      | 2 937         | 1 085        |
| Raw materials          |      | 516           | 257          |
| Spare parts            |      | 1 180         | 732          |
| Fuel                   |      | 556           | 364          |
| Other inventories      |      | 282           | 118          |
|                        |      | <b>11 883</b> | <b>4 306</b> |

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

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

|           | <b>30 June 2012</b> | <b>30 June 2011</b> |
|-----------|---------------------|---------------------|
|           | Unaudited           | Unaudited           |
| Corn      | 377                 | 286                 |
| Wheat     | 4 209               | 16                  |
| Sunflower | 40                  | 11                  |
| Potato    | 127                 | -                   |
| Lupin     | 5                   | -                   |
| Hay       | 861                 | 775                 |
| Silage    | 236                 | 396                 |
| Soya      | 40                  | 26                  |
| Other     | 298                 | 135                 |
|           | <b>6 193</b>        | <b>1 645</b>        |

**24. Current biological assets**

|  | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--|---------------------|---------------------|
|  | Unaudited           | Unaudited           |
| <b>Current biological assets of animal-breeding</b>      |                     |                     |
| Cattle   | 6 440               | 4 704               |
| Pigs   | 8                   | -                   |
| Other  | 45                  | 39                  |
|  | <b>6 493</b>        | <b>4 743</b>        |
| <b>Current biological assets of plant-breeding</b>       |                     |                     |
| Corn   | 50 724              | 19 010              |
| Wheat  | 5 509               | 6 336               |
| Rye  | 1 027               | 276                 |
| Grasses  | 994                 | 1 028               |
| Sunflower  | 13 294              | 5 996               |
| Soya   | 3 400               | 1 541               |
| Lupin  | 438                 | 792                 |
| Potato   | 1 275               | 3 246               |
| Other  | 136                 | 556                 |
| <b>Total current biological assets of plant-breeding</b> | <b>76 797</b>       | <b>38 781</b>       |
| <b>Total current biological assets</b>                   | <b>83 290</b>       | <b>43 524</b>       |

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

|                          | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--------------------------|---------------------|---------------------|
|                          | Unaudited           | Unaudited           |
| <b>Cattle</b>            |                     |                     |
| Cattle, units            | 3 549               | 3 780               |
| Live weight, kg          | 867 495             | 875 805             |
| Book value               | 6 440               | 4 704               |
| <b>Pigs</b>              |                     |                     |
| Pigs, units              | 48                  | -                   |
| Live weight, kg          | 2 280               | -                   |
| Book value               | 8                   | -                   |
| <b>Other</b>             |                     |                     |
| Number of animals, units | 74                  | 76                  |
| Live weight, kg          | 28 844              | 27 169              |
| Book value               | 45                  | 39                  |
| <b>Total book value</b>  | <b>6 493</b>        | <b>4 743</b>        |

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

|                         | <b>30 June 2012</b> | <b>30 June 2011</b> |
|-------------------------|---------------------|---------------------|
|                         | Unaudited           | Unaudited           |
| <b>Corn</b>             |                     |                     |
| Area, ha                | 40 162              | 15 705              |
| Book value              | 50 724              | 19 010              |
| <b>Wheat</b>            |                     |                     |
| Area, ha                | 5 973               | 7 748               |
| Book value              | 5 509               | 6 336               |
| <b>Rye</b>              |                     |                     |
| Area, ha                | 1 730               | 771                 |
| Book value              | 1 027               | 276                 |
| <b>Grasses</b>          |                     |                     |
| Area, ha                | 4 374               | 4 370               |
| Book value              | 994                 | 1 028               |
| <b>Sunflower</b>        |                     |                     |
| Area, ha                | 18 092              | 5 544               |
| Book value              | 13 294              | 5 996               |
| <b>Soya</b>             |                     |                     |
| Area, ha                | 5 282               | 2 828               |
| Book value              | 3 400               | 1 541               |
| <b>Lupin</b>            |                     |                     |
| Area, ha                | 999                 | 2 172               |
| Book value              | 438                 | 792                 |
| <b>Potato</b>           |                     |                     |
| Area, ha                | 691                 | 659                 |
| Book value              | 1 275               | 3 246               |
| <b>Other</b>            |                     |                     |
| Area, ha                | 413                 | 1 155               |
| Book value              | 136                 | 556                 |
| <b>Total book value</b> | <b>76 797</b>       | <b>38 781</b>       |



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Following changes took place in the current biological assets of animal-breeding for the 6-month periods ended 30 June 2012 and 2011:

|  | Cattle       | Pigs     | Other     | Total        |
|--|--------------|----------|-----------|--------------|
| <b>31 December 2010 (audited)</b>                  | <b>3 082</b> | <b>-</b> | <b>21</b> | <b>3 103</b> |
| Additions from acquisition of subsidiaries         | 370          | -        | 20        | 390          |
| Capitalized expenses                               | 1 252        | -        | -         | 1 252        |
| Transfer (from (to) non-current biological assets) | (250)        | -        | -         | (250)        |
| Sale   | (1 059)      | -        | 1         | (1 058)      |
| Slaughter  | (83)         | -        | -         | (83)         |
| Change in fair value                               | 1 392        | -        | 1         | 1 393        |
| Effect from translation into presentation currency | -            | -        | (4)       | (4)          |
| <b>30 June 2011 (unaudited)</b>                    | <b>4 704</b> | <b>-</b> | <b>39</b> | <b>4 743</b> |
| <b>31 December 2011 (audited)</b>                  | <b>6 907</b> | <b>8</b> | <b>43</b> | <b>6 958</b> |
| Acquisitions for the period                        | 2            | -        | 1         | 3            |
| Capitalized expenses                               | 1 842        | 17       | 0         | 1 859        |
| Transfer (from (to) non-current biological assets) | (675)        | 14       | -         | (661)        |
| Sale   | (2 473)      | (27)     | (2)       | (2 502)      |
| Slaughter  | (158)        | (4)      | -         | (162)        |
| Change in fair value                               | 997          | -        | 3         | 1 000        |
| Effect from translation into presentation currency | (2)          | 0        | (0)       | (2)          |
| <b>30 June 2012 (unaudited)</b>                    | <b>6 440</b> | <b>8</b> | <b>45</b> | <b>6 493</b> |

Following changes took place in the current biological assets of plant-breeding for the 6-month periods ended 30 June 2012 and 2011:

|  | Corn          | Wheat        | Rye          | Grasses      | Sunflower     | Soya         | Lupin      | Potato       | Other      | Total         |
|--|---------------|--------------|--------------|--------------|---------------|--------------|------------|--------------|------------|---------------|
| <b>31 December 2010 (audited)</b>                  | <b>-</b>      | <b>2 445</b> | <b>54</b>    | <b>187</b>   | <b>-</b>      | <b>-</b>     | <b>-</b>   | <b>-</b>     | <b>311</b> | <b>2 997</b>  |
| Additions from acquisitions of subsidiaries        | 655           | 292          | 70           | 120          | 432           | 22           | -          | -            | 27         | 1 618         |
| Capitalized expenses                               | 7 172         | 1 851        | 48           | 1 274        | 1 950         | 824          | 379        | 1 662        | 205        | 15 365        |
| Harvesting   | -             | -            | -            | (508)        | -             | -            | -          | -            | -          | (508)         |
| Harvest failure                                    | (1)           | (25)         | (1)          | (45)         | (83)          | -            | -          | -            | (29)       | (184)         |
| Change in fair value                               | 11 184        | 1 772        | 105          | -            | 3 697         | 696          | 413        | 1 584        | 41         | 19 492        |
| Effect from translation into presentation currency | -             | 1            | -            | -            | 1             | (1)          | -          | -            | -          | 1             |
| <b>30 June 2011 (unaudited)</b>                    | <b>19 010</b> | <b>6 336</b> | <b>276</b>   | <b>1 028</b> | <b>5 997</b>  | <b>1 541</b> | <b>792</b> | <b>3 246</b> | <b>555</b> | <b>38 781</b> |
| <b>31 December 2011 (audited)</b>                  | <b>-</b>      | <b>3 150</b> | <b>741</b>   | <b>173</b>   | <b>-</b>      | <b>-</b>     | <b>-</b>   | <b>-</b>     | <b>71</b>  | <b>4 135</b>  |
| Additions from acquisitions of subsidiaries        | 6 778         | 399          | -            | -            | 3 318         | -            | -          | -            | -          | 10 495        |
| Capitalized expenses                               | 17 831        | 1 361        | 191          | 1 669        | 5 200         | 1 699        | 209        | 1 468        | 70         | 29 698        |
| Harvesting   | -             | (7)          | -            | (847)        | -             | -            | -          | -            | (4)        | (858)         |
| Harvest failure                                    | -             | (23)         | (5)          | (1)          | (12)          | (0)          | -          | -            | (1)        | (42)          |
| Change in fair value                               | 26 117        | 630          | 100          | -            | 4 789         | 1 701        | 229        | (193)        | -          | 33 373        |
| Effect from translation into presentation currency | (2)           | (1)          | -            | -            | (1)           | -            | -          | -            | -          | (4)           |
| <b>30 June 2012 (unaudited)</b>                    | <b>50 724</b> | <b>5 509</b> | <b>1 027</b> | <b>994</b>   | <b>13 294</b> | <b>3 400</b> | <b>438</b> | <b>1 275</b> | <b>136</b> | <b>76 797</b> |

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*(in thousand USD, unless otherwise stated)*

**25. Trade accounts receivable, net**

|                                       | Notes | 30 June 2012 | 30 June 2011 |
|---------------------------------------|-------|--------------|--------------|
|                                       |       | Unaudited    | Unaudited    |
| Trade accounts receivable             |       | 3 140        | 1 111        |
| Allowances for accounts receivable    | 27    | (1 108)      | (305)        |
| <b>Trade accounts receivable, net</b> |       | <b>2 032</b> | <b>806</b>   |

Trade accounts receivable as at 30 June 2012 amounting to th USD 2 032 comprise th USD 850 according to the contract concluded with Nibulon S.A., th USD 316 according to the contract concluded with Molochnuy Soyuz-Agro, Ltd.

**26. Prepayments and other current assets, net**

|  | Notes | 30 June 2012 | 30 June 2011 |
|--|-------|--------------|--------------|
|  |       | Unaudited    | Unaudited    |
| Advances to suppliers                            | a)    | 2 775        | 380          |
| Allowances for advances to suppliers             | 27    | (30)         | (36)         |
| VAT for reimbursement                            |       | 6 367        | 3 291        |
| Non-bank accommodations interest free short-term |       | 153          | 154          |
| Other accounts receivable                        |       | 469          | 310          |
| Allowances for other accounts receivable         | 27    | (18)         | (24)         |
| <b>Prepayments and other current assets, net</b> |       | <b>9 716</b> | <b>4 075</b> |

a) Advances to suppliers as at 30 June 2012 amounting to th USD 2 775 comprise th USD 2 298 according to the contract concluded with Fudero, Ltd.

**27. Changes in allowances made**

|  | Notes | 30 June 2012   | 30 June 2011 |
|--|-------|----------------|--------------|
|  |       | Unaudited      | Unaudited    |
| Allowances for trade accounts receivable | 25    | (1 108)        | (305)        |
| Allowances for advances to suppliers     | 26    | (30)           | (36)         |
| Allowances for other accounts receivable | 26    | (18)           | (24)         |
|  |       | <b>(1 156)</b> | <b>(365)</b> |

The movements of the allowances was as follows:

|  |    | For the six months ended 30 June 2012 | For the six months ended 30 June 2011 |
|--|----|---------------------------------------|---------------------------------------|
|  |    | Unaudited                             | Unaudited                             |
| <b>As at the beginning of the period</b>           |    | <b>(821)</b>                          | <b>(378)</b>                          |
| Accrual  | 13 | (521)                                 | -                                     |
| Additions from acquisition of subsidiaries         |    | (177)                                 | (10)                                  |
| Use of allowances                                  |    | 28                                    | 13                                    |
| Return of allowances                               |    | 334                                   | -                                     |
| Effect from translation into presentation currency |    | 1                                     | 10                                    |
| <b>As at the end of the period</b>                 |    | <b>(1 156)</b>                        | <b>(365)</b>                          |

**INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES**  
**Condensed Consolidated Interim Financial Statements**

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

*(in thousand USD, unless otherwise stated)*

**28. Cash and cash equivalents**

|                       | Currency | 30 June 2012  | 30 June 2011  |
|-----------------------|----------|---------------|---------------|
|                       |          | Unaudited     | Unaudited     |
| Cash in bank and hand | USD      | 1 581         | 17 012        |
| Cash in bank and hand | UAH      | 16 682        | 111           |
| Cash in bank and hand | EUR      | 13            | 30            |
| Cash in bank and hand | PLN      | 3             | 3             |
|                       |          | <b>18 279</b> | <b>17 156</b> |

**29. Share capital**

|  | 30 June 2012 |           | 30 June 2011 |           |
|--|--------------|-----------|--------------|-----------|
|  | %            | Amount    | %            | Amount    |
|  |              | Unaudited |              | Unaudited |
| AGROVALLEY LIMITED   | 59           | 33        | 68           | 38        |
| Russian Commercial Bank (Cyprus) Ltd                               | 9            | 5         | -            | -         |
| Amplico Powszechne Towarzystwo Emerytalne S.A. (with subsidiaries) | 5            | 3         | -            | -         |
| Other shareholders (each one less than 5% of the share capital)    | 27           | 15        | 32           | 18        |
| <b>Total share capital</b>   | <b>100</b>   | <b>56</b> | <b>100</b>   | <b>56</b> |

A transfer of shares to Russian Commercial Bank (Cyprus) Ltd (a member of VTB Group) took place under the commitment of the Group to take out these shares during the 6 months since 26 June 2012. The transfer was made to secure receipt of financing from VTB Bank to the amount of th USD 3 771 (see Note 31).

As at 30 June 2012 share capital of Industrial Milk Company SA is divided into 31 300 000 shares. Par value of one share is 0,0018 USD.

As at 30 June 2011 share capital of Industrial Milk Company SA is divided into 31 300 000 shares. Par value of one share is 0,0018 USD.

**Legal reserve**

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

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

|   | Currency | 30 June 2012   | 30 June 2011  |
|---|----------|----------------|---------------|
|   |          | Unaudited      | Unaudited     |
| <b>Secured</b>                                    |          |                |               |
| Long-term bank loans                              | UAH      | -              | 57            |
| Long-term bank loans                              | USD      | 24 157         | 11 213        |
| Finance lease liabilities                         | UAH      | 22             | 65            |
| Bonds issued                                      | UAH      | 22 771         | -             |
|   |          | <b>46 950</b>  | <b>11 335</b> |
| <b>Unsecured</b>                                  |          |                |               |
| Long-term loans from related parties              | UAH      | 51             | 27            |
|   |          | <b>51</b>      | <b>27</b>     |
|   |          | <b>47 001</b>  | <b>11 362</b> |
| Current portion of long-term loans and borrowings | UAH      | -              | (49)          |
| Current portion of long-term loans and borrowings | USD      | (5 585)        | (473)         |
| Current portion of finance lease liabilities      | UAH      | (22)           | (22)          |
|   |          | <b>(5 607)</b> | <b>(544)</b>  |
| <b>Total long-term loans</b>                      |          | <b>41 394</b>  | <b>10 818</b> |

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### **Amount of long-term loans and borrowings outstanding as at 30 June 2012 comprises following loans:**

— credit line amounting to th USD 3 811 received by Burat-Agro, Ltd., Ltd in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 4 285. Annual interest rate is 1Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd., financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

— credit line amounting to th USD 9 592 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 9 660. Annual interest rate is 1Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd., financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC Mlibor, Petrov A.L.

— credit line amounting to th USD 2 000 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 2 000. Annual interest rate is 3M Libor+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd., financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC Mlibor, Petrov A.L. The current portion of long-term obligation equals to th USD 2 000.

— credit line amounting to th USD 2 000 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 2 000. Annual interest rate is 3M Libor+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd., financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L. The current portion of long-term obligation equals to th USD 2 000.

— credit amounting to th USD 1 866 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with OJSC "Credit Agricole Bank" with credit limit equaling to th USD 1 910 thousand. Annual interest rate is 8,75%. Maturity date is 01 March 2017. Obligations under the contract are guaranteed by property rights of Burat-Agro Co, Ltd. The current portion of long-term obligation equals to th USD 338.

— credit amounting to th USD 518 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with OJSC "Credit Agricole Bank" with credit limit equaling to th USD 648 thousand. Annual interest rate is 9%. Maturity date is 01 March 2016. Obligations under the contract are guaranteed by movable property of Burat-Agro Co, Ltd. The current portion of long-term obligation equals to th USD 130.

— credit amounting to th USD 4 070 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with PJSC "Credit Agricole Bank" with credit limit equaling to th USD 4 070 thousand. Annual interest rate is 8,75%. Maturity date is 01 March 2017. Obligations under the contract are guaranteed by property rights of Chernihiv Industrial Milk Company, Ltd. The current portion of long-term obligation equals to th USD 814.

— credit amounting to th USD 300 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Privatbank" with credit limit equaling to th USD 1 502. Annual interest rate is 11,5%. Maturity date is 15 February 2013. Obligations under credit contract are guaranteed by movable property of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 300.

— long-term liabilities under bonds issued includes obligations under unsecured bonds of series A at nominal value of th USD 22 771 (equivalent in currency of issue comprises th UAH 182 000). Annual interest rate is 14%. Circulation period of the series A bonds is completed by 26 June 2014. Obligations under credit contract are guaranteed by the suretyships Industrial Milk Company, S.A. and Chernihiv Industrial Milk Company, Ltd. There are some financial covenants under the bonds issued.

### **Amount of long-term loans and borrowings as at 30 June 2011 comprises following loans:**

— credit line amounting to th USD 6 136 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 9 660. Annual interest rate – 1 Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by transport vehicle, equipment, property rights of Chernihiv Industrial Milk Company, Ltd., shares of PJSC Mlibor; financial warranty of Burat, Ltd., Burat-Agro, Ltd., CJSC Mlibor, Petrov A.L.

— credit line amounting to th USD 3 785 received by Burat-Agro, Ltd., Ltd in USD according to the credit contract concluded with "PJSC Prominvestbank" with credit limit equaling to th USD 4 285. Annual interest rate is 1 Y Libor+10%. Maturity date is 29 April 2016. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, property rights of Burat-Agro, Ltd., shares of OJSC Poltava Kombilormoviy Zavod; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., CJSC Mlibor, Petrov A.L.

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— credit amounting to th USD 601 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Privatbank" with credit limit equaling to th USD 1 502. Annual interest rate is 11,5%. Maturity date is 15 February 2013. Obligations under credit contract are movable property of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 300.

— credit amounting to th USD 40 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Privatbank" with credit limit equaling to th USD 200. Annual interest rate is 11%. Maturity date is 15 June 2012. Obligations under the contract are guaranteed by movable property of Burat-Agro, Ltd. The current portion of long-term obligation equals to th USD 40.

— credit amounting to th USD 3 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with "PJSC Prominvestbank" in Poltava with credit limit equaling to th USD 53 thousand. Annual interest rate is 13,5%. Maturity date is 20 September 2011. Obligations under the contract are guaranteed by transport vehicle of Burat-Agro Co, Ltd.. The current portion of long-term obligation equals to th USD 3.

— credit amounting to th USD 648 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with PJSC "Credit Agricole Bank" with credit limit equaling to th USD 648 thousand. Annual interest rate is 9%. Maturity date is 01 March 2016. Obligations under the contract are guaranteed by movable property of Burat-Agro Co, Ltd.. The current portion of long-term obligation equals to th USD 130.

— credit amounting to th USD 38 received by Promin, Ltd. in UAH according to the credit contract concluded with "PJSC Prominvestbank" in Poltava with credit limit equaling to th USD 132 thousand. Annual interest rate is 16%. Maturity date is 12 January 2012. Obligations under the contract are guaranteed by movable property of Promin, Ltd.. The current portion of long-term obligation equals to th USD 38.

— credit amounting to th USD 19 received by Slavutych, Ltd. in UAH according to the credit contract concluded with PJSC "Derzhavniy Oschadniy Bank Ukrainy" in Chernihiv with credit limit equaling to th USD 53 thousand. Annual interest rate is 18%. Maturity date is 23 June 2013. Obligations under the contract are guaranteed by movable property of Promin, Ltd.. The current portion of long-term obligation equals to th USD 11.

Essential terms of credit contracts:

|                             | Currency | 30 June 2012  | Nominal interest rate | Effective interest rate |
|-----------------------------|----------|---------------|-----------------------|-------------------------|
| OJSC "Prominvestbank"       | USD      | 3 811         | 1Y Libor+10%          | -                       |
| OJSC "Prominvestbank"       | USD      | 9 592         | 1Y Libor+10%          | -                       |
| OJSC "Prominvestbank"       | USD      | 2 000         | 3M Libor+10%          | -                       |
| OJSC "Prominvestbank"       | USD      | 2 000         | 1Y Libor+10%          | -                       |
| OJSC "Credit Agricole Bank" | USD      | 1 866         | 8,75%                 | 9,18%                   |
| OJSC "Credit Agricole Bank" | USD      | 518           | 9,00%                 | 9,45%                   |
| OJSC "Credit Agricole Bank" | USD      | 4 070         | 8,75%                 | 9,18%                   |
| OJSC "Privatbank"           | USD      | 300           | 11,50%                | 12,07%                  |
|                             | -        | <b>24 157</b> | -                     | -                       |
| Bonds issued                | UAH      | 22 771        | 14,00%                | 14,69%                  |
|                             | -        | <b>46 928</b> | -                     | -                       |

|  | Currency | 30 June 2011  | Nominal interest rate | Effective interest rate |
|--|----------|---------------|-----------------------|-------------------------|
| OJSC "Prominvestbank"                    | UAH      | 6 136         | 1Y Libor+10%          | -                       |
| OJSC "Prominvestbank"                    | USD      | 3 785         | 1Y Libor+10%          | -                       |
| OJSC "Privatbank"                        | USD      | 601           | 11,50%                | 12,13%                  |
| OJSC "Privatbank"                        | USD      | 40            | 11,00%                | 11,57%                  |
| OJSC "Prominvestbank"                    | UAH      | 3             | 13,50%                | 14,37%                  |
| OJSC "Credit Agricole Bank"              | USD      | 648           | 9,00%                 | 9,38%                   |
| OJSC "Prominvestbank"                    | USD      | 38            | 16,00%                | 17,23%                  |
| OJSC "Derzhavniy Oschadniy Bank Ukrainy" | UAH      | 19            | 18,00%                | 19,56                   |
|  |          | <b>11 270</b> |                       |                         |

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Long-term loans and borrowings outstanding as of 30 June 2012 and 2011 were repayable as follows:

|                                       | <b>30 June 2012</b> | <b>30 June 2011</b> |
|---------------------------------------|---------------------|---------------------|
|                                       | Unaudited           | Unaudited           |
| Within 1 year                         | 5 607               | 544                 |
| In the second to fifth year inclusive | 41 394              | 10 818              |
| Later than fifth year                 | -                   | -                   |
|                                       | <b>47 001</b>       | <b>11 362</b>       |

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

|  | <b>Currency</b> | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--|-----------------|---------------------|---------------------|
|  |                 | Unaudited           | Unaudited           |
| <b>Secured</b>                             |                 |                     |                     |
| Short-term bank loans                      | UAH             | -                   | 9                   |
| Short-term bank loans                      | USD             | 14 352              | 3 415               |
|  |                 | <b>14 352</b>       | <b>3 424</b>        |
| <b>Unsecured</b>                           |                 |                     |                     |
| Short-term borrowings from related parties | USD             | -                   | 111                 |
|  |                 | <b>-</b>            | <b>111</b>          |
| <b>Total short-term borrowings</b>         |                 | <b>14 352</b>       | <b>3 535</b>        |

**Amount of the largest short-term loans and borrowings outstanding as at 30 June 2012 comprises following loans:**

— credit line amounting to th USD 1 915 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 1 915. Annual interest rate is 3M Libor+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., PJSC Mlibor, Petrov A.L.

— credit amounting to th USD 1 500 received by Burat-Agro, Ltd. in USD according to the credit contract concluded with JSC "UkrSibbank" with credit limit equaling to th USD 5 345. Annual interest rate is 3M Libor+8,5%. Maturity date is 31 March 2013. Obligations under credit contract are guaranteed by property rights of Vyrivske HPP, OJSC, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Chernihiv Industrial Milk Company, Ltd., corporate warranty of Industrial Milk Company S.A., future harvest of corn of Chernihiv Industrial Milk Company, Ltd. and Burat-Agro, Ltd.

— credit line amounting to th USD 1 500 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 1 500. Annual interest rate is 3M Libor+8,5%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC, Petrov A.L.

— credit line amounting to th USD 3 900 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 3 900. Annual interest rate is 3M Libor+10,1%. Maturity date is 30 November 2012. Obligations under credit contract are guaranteed by transport vehicle, equipment, mortgage, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Burat-Agro, Ltd.; financial warranty of Burat, Ltd., Burat-Agro, Ltd., PJSC, Petrov A.L.

— credit amounting to th USD 1 766 received by Chernihiv Industrial Milk Company, Ltd. in USD according to the credit contract concluded with JSC "UkrSibbank" with credit limit equaling to th USD 5 345. Annual interest rate is 3M Libor+8,5%. Maturity date is 31 March 2013. Obligations under credit contract are guaranteed by property rights of Vyrivske HPP, OJSC, property rights of Chernihiv Industrial Milk Company, Ltd., property rights of Burat-Agro, Ltd., corporate rights of Chernihiv Industrial Milk Company, Ltd., corporate warranty of Industrial Milk Company S.A., future harvest of corn of Chernihiv Industrial Milk Company, Ltd. and Burat-Agro, Ltd.

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— credit amounting to th USD 3 771 received by Unigrain Holding Limited in USD according to the credit contract concluded with Russian Commercial Bank Limited with credit limit equaling to th USD 3 771. Annual interest rate is 3M Libor+12%. Maturity date is 24 December 2012. Obligations under credit contract are guaranteed by corporate rights of Industrial Milk Company S.A.

**Amount of the largest short-term loans and borrowings outstanding as at 30 June 2011 comprises following loans:**

— creditline amounting to th USD 1 500 received by Chernihiv Industrial Milk Company, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 3 500. Annual interest rate is 11%. Maturity date is 30 November 2011. Obligations under credit contract are guaranteed by transport vehicle, equipment, property rights of Chernihiv Industrial Milk Company, Ltd., shares of PJSC Mlibor; financial warranty of Burat, Ltd., Burat-Agro, Ltd., CJSC Mlibor, Petrov A.L.

— creditline amounting to th USD 1 915 received by Burat-Agro, Ltd. In USD according to the credit contract concluded with OJSC "Prominvestbank" with credit limit equaling to th USD 3 915. Annual interest rate is 11%. Maturity date is 30 November 2011. Obligations under credit contract are guaranteed by goods, transport vehicle, equipment, property rights of Burat-Agro, Ltd., shares of OJSC Poltava Kombilormoviy Zavod; financial warranty of Burat, Ltd., Chernihiv Industrial Milk Company, Ltd., CJSC Mlibor, Petrov A.L.

**32. Trade accounts payable**

|                        | <b>30 June 2012</b> | <b>30 June 2011</b> |
|------------------------|---------------------|---------------------|
|                        | Unaudited           | Unaudited           |
| Trade accounts payable | 10 614              | 4 502               |

Trade accounts payable as at 30 June 2012 amounting to th USD 10 614 comprise th USD 3 019 according to the contract concluded with Ukrainian agro-chemical company, Ltd, th USD 2 332 according to the contract concluded with Pioneer Seeds Ukraine, Ltd, th USD 1 691 according to the contract concluded with Servisahro-Poltava, Ltd.

Trade accounts payable as at 30 June 2011 amounting to th USD 4 502 comprise th USD 782 according to the contract concluded with Ukrainian agro-chemical company, Ltd, th USD 823 according to the contract concluded with Pioneer Seeds Ukraine, Ltd, th USD 904 according to the contract concluded with Servisahro-Poltava, Ltd.

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

|  | <b>30 June 2012</b> | <b>30 June 2011</b> |
|--|---------------------|---------------------|
|  | Unaudited           | Unaudited           |
| Advances from clients                                      | 1 333               | 245                 |
| Interest payable on bank loans                             | 48                  | -                   |
| Interest payable on bonds                                  | 44                  | -                   |
| Accounts payable for the lease of land and property rights | 1 761               | 1 528               |
| Accounts payable for property, plant and equipment         | 644                 | 758                 |
| Taxes payable  | 59                  | 25                  |
| Wages, salaries and related charges payable                | 675                 | 438                 |
| Accruals for unused vacations                              | 507                 | 305                 |
| Other accounts payable                                     | 81                  | 146                 |
|  | <b>5 152</b>        | <b>3 445</b>        |

Advances from clients as at 30 June 2012 amounting to th USD 1 333 comprise th USD 1 072 according to the contract concluded with Agrarian Fund.



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**34. Related party disclosures**

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

- a) Entities - related parties under common control with the Companies of the Group;
- b) Entities- related parties, in equity of which Companies of the Group have an interest;

The information on total amounts of transactions with related parties for the corresponding reporting periods is presented below:

|   | <b>30 June 2012</b> | <b>30 June 2011</b> |
|---|---------------------|---------------------|
|   | Unaudited           | Unaudited           |
| <b>Trade accounts receivable, net</b>   |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | 316                 | 318                 |
| b) Entities-related parties, in equity of which Companies of the Group have an interest | 9                   | 14                  |
|   | <b>325</b>          | <b>332</b>          |
| <b>Advances to suppliers</b>  |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | 3                   | -                   |
| b) Entities-related parties, in equity of which Companies of the Group have an interest | 4                   | -                   |
|   | <b>7</b>            | <b>-</b>            |
| <b>Non-bank accommodations interest free short-term</b>                                 |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | 15                  | 15                  |
| b) Entities-related parties, in equity of which Companies of the Group have an interest | 89                  | 89                  |
|   | <b>104</b>          | <b>104</b>          |
| <b>Other accounts receivable</b>  |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | -                   | 20                  |
| b) Entities-related parties, in equity of which Companies of the Group have an interest | -                   | 3                   |
|   | <b>-</b>            | <b>23</b>           |
| <b>Short-term borrowings from related parties</b>                                       |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | (51)                | -                   |
| <b>Trade accounts payable</b>   |                     |                     |
| a) Entities - related parties under common control with the Companies of the Group      | (25)                | (23)                |
| b) Entities-related parties, in equity of which Companies of the Group have an interest | (158)               | (230)               |
|   | <b>(183)</b>        | <b>(253)</b>        |

During the reporting period the Group did not perform any related parties transactions made outside the market conditions (non market basis related parties transactions).

Remuneration of key management personnel:

|                    | <b>For the six months<br/>ended 30 June 2012</b> | <b>For the six months<br/>ended 30 June 2011</b> |
|--------------------|--|--|
|                    | Unaudited  | Unaudited  |
| Wages and salaries | 191  | 191  |
| Related charges    | 68   | 68   |
|                    | <b>259</b>                                       | <b>259</b>                                       |

|  |   |   |
|--|---|---|
| The average number of employees, persons | 7 | 7 |
|--|---|---|

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

### 35. Information on segments

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

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

Farming division - a segment, which deals with cultivation and sale of such basic agricultural crops as corn and wheat.

Live-stock breeding - a segment which deals with breeding and sale of biological assets and agricultural products of live farming. Basic agricultural product of live farming for sale in this segment is milk.

Storage and processing- a segment which deals with processing of agricultural produce, and also with production of finished goods. Principal goods produced and sold within this segment are flour and fodder.

The Group carries out its economic and financial activity in Ukraine.

Information on business segments for the 6-month period ended 30 June 2012 was follow:

|  | Farming<br>division | Live-stock<br>breeding | Storage and<br>processing | Adjustments    | Total         |
|--|---------------------|------------------------|---------------------------|----------------|---------------|
| Revenue  | 42 795              | 4 127                  | 2 845                     | -              | 49 767        |
| Intra-group elimination  | (15 482)            | (8)                    | (2 134)                   | -              | (17 624)      |
| <b>Revenue from external buyers</b>  | <b>27 313</b>       | <b>4 119</b>           | <b>711</b>                | <b>-</b>       | <b>32 143</b> |
| Income from changes in fair value of<br>biological assets and agricultural<br>produce, net | 33 437              | 481                    | -                         | -              | 33 918        |
| Cost of sales  | (30 564)            | (4 460)                | (697)                     | -              | (35 720)      |
| <b>Gross income</b>  | <b>30 186</b>       | <b>140</b>             | <b>14</b>                 | <b>-</b>       | <b>30 341</b> |
| Administrative expenses  | -                   | -                      | -                         | (2 205)        | (2 205)       |
| Selling and distribution expenses  | -                   | -                      | -                         | (1 064)        | (1 064)       |
| Other income   | -                   | -                      | -                         | 1 943          | 1 943         |
| Other expenses   | -                   | -                      | -                         | (3 609)        | (3 609)       |
| <b>Operating income of a segment</b>   | <b>30 186</b>       | <b>140</b>             | <b>14</b>                 | <b>(4 934)</b> | <b>25 406</b> |
| Financial expenses   | -                   | -                      | -                         | (1 221)        | (1 221)       |
| <b>Profit before tax</b>   | <b>30 186</b>       | <b>140</b>             | <b>14</b>                 | <b>(6 155)</b> | <b>24 185</b> |
| Income tax   | -                   | -                      | -                         | (5)            | (5)           |
| <b>Net profit</b>  | <b>30 186</b>       | <b>140</b>             | <b>14</b>                 | <b>(6 161)</b> | <b>24 180</b> |
| <b>Other segment information:</b>  |                     |                        |                           |                |               |
| Depreciation and amortisation  | 2 484               | 311                    | 49                        | 454            | 3 297         |
| Additions to non-current assets:   |                     |                        |                           |                |               |
| Property, plant and equipment  | 11 888              | 94                     | 857                       | -              | 12 839        |
| Intangible assets  | 4 566               | -                      | -                         | -              | 4 566         |
| Non-current biological assets  | 22                  | 23                     | -                         | -              | 45            |

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

*(in thousand USD, unless otherwise stated)*

Information on business segments for the 6-month period ended 30 June 2011 was follow:

|  | Farming division | Live-stock breeding | Storage and processing | Adjustments    | Total         |
|--|------------------|---------------------|------------------------|----------------|---------------|
| Revenue  | 13 695           | 3 201               | 1 937                  | -              | 18 833        |
| Intra-group elimination  | (7 014)          | (6)                 | (836)                  | -              | (7 856)       |
| <b>Revenue from external buyers</b>  | <b>6 681</b>     | <b>3 195</b>        | <b>1 101</b>           | -              | <b>10 977</b> |
| Income from changes in fair value of biological assets and agricultural produce, net | 19 616           | 2 801               | -                      | -              | 22 417        |
| Cost of sales  | (9 456)          | (2 795)             | (868)                  | -              | (13 119)      |
| <b>Gross income</b>  | <b>16 841</b>    | <b>3 201</b>        | <b>233</b>             | -              | <b>20 275</b> |
| Administrative expenses  | -                | -                   | -                      | (1 414)        | (1 414)       |
| Selling and distribution expenses  | -                | -                   | -                      | (501)          | (501)         |
| Other income   | -                | -                   | -                      | 573            | 573           |
| Other expenses   | -                | -                   | -                      | (1 222)        | (1 222)       |
| <b>Operating income of a segment</b>   | <b>16 841</b>    | <b>3 201</b>        | <b>233</b>             | <b>(2 564)</b> | <b>17 711</b> |
| Financial expenses   | -                | -                   | -                      | (783)          | (783)         |
| <b>Profit before tax</b>   | <b>16 841</b>    | <b>3 201</b>        | <b>233</b>             | <b>(3 347)</b> | <b>16 928</b> |
| Income tax   | -                | -                   | -                      | (60)           | (60)          |
| <b>Net profit</b>  | <b>16 841</b>    | <b>3 201</b>        | <b>233</b>             | <b>(3 407)</b> | <b>16 868</b> |
| <b>Other segment information:</b>  |                  |                     |                        |                |               |
| Depreciation and amortisation  | 1 572            | 285                 | 318                    | 175            | 2 350         |
| Additions to non-current assets:   |                  |                     |                        |                |               |
| Property, plant and equipment  | 3 317            | 329                 | 273                    | -              | 3 919         |
| Intangible assets  | 1 900            | -                   | -                      | -              | 1 900         |
| Non-current biological assets  | 16               | 601                 | -                      | -              | 617           |

**36. Lease of land**

The Group leases land for agricultural purposes from private individuals. Lease payments are calculated on the basis of monetary valuation of the land considering the inflation factor. The average interest rate for lease of land of the Group is 2-5% and depends on validity of the contract.

Future minimum lease payments for operating leases of land of agricultural designation as at 30 June considering existing at that date the inflation factor are as follows:

|                                       | 30 June 2012  | 30 June 2011  |
|---------------------------------------|---------------|---------------|
|                                       | Unaudited     | Unaudited     |
| Within 1 year                         | 6 734         | 14            |
| In the second to fifth year inclusive | 22 219        | 2 000         |
| Later than fifth year                 | 16 867        | 13 618        |
|                                       | <b>45 820</b> | <b>15 632</b> |

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

*(in thousand USD, unless otherwise stated)*

Areas of operating leased land as at 30 June 2012 and 2011 were as follows:

| Location of land                      | 30 June 2012  | 30 June 2011  |
|---------------------------------------|---------------|---------------|
|                                       | Unaudited     | Unaudited     |
|                                       | Hectare       | Hectare       |
| <b>Poltava region</b>                 |               |               |
| Land under processing                 | 31 295        | 22 353        |
| Land for grazing, construction, other | 2 009         | 1 637         |
| <b>Chernihiv region</b>               |               |               |
| Land under processing                 | 26 759        | 23 346        |
| Land for grazing, construction, other | 1 269         | 1 171         |
| <b>Sumy region</b>                    |               |               |
| Land under processing                 | 24 584        | -             |
| Land for grazing, construction, other | 113           | -             |
|                                       | <b>86 029</b> | <b>48 507</b> |

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

In July 2012 Nibulon S.A. settled thUSD 850 of trade accounts receivable due to the Group as at 30 June 2012.

In July - August 2012 short-term loans were received in the amount of thUSD 1 485.

In July 2012 the Group has entered into a contract of finance lease in the amount of thUSD 682 for 3 years. The current portion of long-term obligation equals to thUSD 228.

There were no other essential subsequent events that should be disclosed in these condensed consolidated interim financial statements according to the standards or prevailing practice.