



Industrial Milk Company S.A. and its subsidiaries

**Consolidated Financial Statements
For the year ended 31 December 2013**

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Statement of management responsibilities for preparation and approval of consolidated financial statements for the year ended 31 December 2013

Management of the Group of companies "IMC S.A." (Group) is responsible for preparing the consolidated financial statements which reflect in all material aspects the financial position of the Group as at 31 December 2013, as well as the results of its activities, cash flows and changes in equity for the year ended in accordance with International Financial Reporting Standards (IFRS).

In preparing consolidated 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 consolidated financial statements;
- preparing consolidated financial statements of the Group on the going concern basis, except for the cases when such assumption is illegal.
- accounting and disclosing in the consolidated financial statements all the relations and transactions between related parties;
- accounting and disclosing in the consolidated 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 consolidated 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 consolidated financial statements as at 31 December 2013 prepared in compliance with IFRS are approved on behalf of the Group's Management on 17 April 2014.

On behalf of the Management:

Chief Executive Officer

ALEX LISSITSA

Chief Financial Officer

DMYTRO MARTYNIUK

Consolidated management report

1. Business and General Conditions
2. Operational and Financial Results
3. Events after the Balance sheet Date
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1 .Business and General Conditions

Macro-economic development

- **World economy**

According to the estimations of the World Bank (Jan 2014) the global economy in 2013 transitioned toward a period of more stable, but slower growth, with Real GDP growth of 2.4% vs 2.5% in 2012.

Financial conditions in high-income countries have improved and risks are down, but growth remains subdued, especially in Europe. Although acute risks have diminished, real-side activity remains sluggish. Among high-income countries, the challenges are especially difficult in high-income Europe, where growth is being held back by weak confidence and continued banking-sector and fiscal restructuring (in 2013 GDP declined by 0.4%). The recovery is on more solid ground in the United States (GDP growth in 2013 1.8%), where a fairly robust private sector recovery is being held back, but not extinguished, by fiscal tightening. Meanwhile, in Japan, a dramatic relaxation of macroeconomic policy has sparked an uptick in activity, at least over the short term (GDP growth in 2013 1.7%). Overall, growth in high-income countries was only 1.3%.

In developing countries Real GDP growth in 2013 remained at the same level as in 2012 - 4.8%, but conditions vary widely across economies. GDP in the East Asia & Pacific region increased by 7.2 percent in 2013 vs 7.4 percent in 2012, with China continued to demonstrate the highest growth rate in the region 7.7%. GDP in Europe and Central Asia grew by 3.4% in 2013 vs 2% in 2012. Many countries in developing Europe have still not recovered from the crisis. Unemployment and spare capacity remain high, because activity has been weighed down by banking-sector, household, and fiscal restructuring (much like high-income Europe). In Latin America GDP growth slightly decreased from 2.6% in 2012 to 2.5% in 2013 caused by considerable deceleration of growth in Mexico from 3.9% in 2012 to 1.4% in 2013. Growth in the Middle East & North Africa has been disrupted by political and social tensions and Euro Area weakness and GDP of the region declined by 0.1% in 2013. GDP in South Asia increased by 4.6% in 2013 vs 4.2% in 2012 with slowing India, Pakistan and Bangladesh.

CORN, MY 2013/2014

A record corn crop in the United States and large exportable supplies in Brazil, Argentina, and Ukraine are hanging over the world market—causing export prices to tumble from peaks seen last summer. Prices decreased by 35-40%.

Lower prices are stimulating global import demand. With a record crop, record exports are forecast. Global corn trade is boosted because of strong feed grain demand.

WHEAT, MY 2013/2014

According to USDA forecast (Feb 2014) in MY 2013/2014 global production rose by 8%, global consumption increased by 3.6%, ending stock increased by 4.5%, global trade increased by 5.6%. Larger exports from the EU, the United States, Russia and Ukraine are expected to offset smaller shipments from Argentina, Kazakhstan, Australia, and India. The season-average price dropped by 10-15%.

SOYBEAN, MY 2013/2014

According to USDA forecast (Feb 2014) in MY 2013/2014 global production rose by 7%, global crush increased by 4.3%, ending stock increased significantly by 24.5%, global trade increased by 10%. Prices decreased by 15-20%.

China continues to be the main importer of the soybean in the world trade. The crush sector has been expanding almost entirely on imported soybeans, since much of domestic crop is used for food or purchased by the State Reserve. Rising feed production and the greater incorporation of higher-protein ingredients in feed rations have further stimulated expansion.

The widening gap between China's crush capacity and current use reflects investors' confidence in the potential demand for protein meal and vegetable oil. It also implies that oilseed imports, particularly soybeans, could be larger as crushing plants would attempt to optimize their operations.

Meanwhile, demand for vegetable oil in food remains insatiable, spurred by steady economic growth, rising incomes, and changing tastes.

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- **Ukrainian economy**

According to the State Statistic Committee Real GDP growth in Ukraine in 2013 was 0%.

In 2013 the agrarian sector in Ukraine demonstrated the highest growth of GDP among all sectors of the economy (+13.8%) compensating decline in industry sector.

The agrarian sector in Ukraine positively influences the balance of payments and is the filler of the national budget. The share of agriculture in the GDP of Ukraine continues to occupy one of the leading positions in its structure – 9% in 2013.

Over recent years, the agricultural products traditionally have occupied a considerable part in the Ukrainian foreign trade.

In 2013 Ukraine harvested record crop of grain and oilseeds of 63 mln tonnes, making pressure on market prices. Prices for grain and oilseeds crops dropped by 10-40%.

In marketing year 2013/2014 Ukraine is forecast to become # 3 exporter of corn in the world following the United States and Brazil and leaving behind Argentine.

2013 was a good year for potato producers. The weather in some regions of Ukraine wasn't favorable for potato production. As a result supply of potato decreased and market prices rose more than 3 times vs previous year.

In 2013 growth of domestic consumption of milk products as well as reactivation of cheese export to Russia stimulated increase of demand for high quality raw milk. Prices for raw milk rose by 30-35%.

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

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 12-month period ended 31 December 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
- Bluerice Limited

In November 2013 owing to increase of volumes of export sales of the Group Industrial Milk Company S.A. established Negoce Agricole S.A. (Luxembourg).

In December 2013 Industrial Milk Company S.A. purchased (indirectly, through its subsidiary companies Unigrain Holding Limited and PAC Slobozhanschina Agro) the agrarian company AgroKIM Ltd.

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• Group strategy

In 2013 the Group of companies “Industrial Milk Company” (hereinafter “the Group”) actively implemented its development strategy announced during IPO

Strategy	Strategy implementation results in 2013
Land bank expansion - Focus on land bank expansion via acquisition of agricultural entities with land lease rights as well as on organic growth through attracting new land owners - Development of land bank as land cluster model, which assumes highly concentrated location of fields and self-sufficiency in farming infrastructure of each cluster - Land bank expansion in prime quality agricultural areas, in the so-called black earth belt, with favourable weather conditions adding to its operational efficiency	In 2013 the Group increased its Land Bank under processing by 13%, from 120.69 ths ha as of 31.12.2012 to 136.69 ths ha as of 31.12.2013 via acquisition of agricultural company as well as via concluding the direct land lease agreements with land plots owners. The Land Bank under processing expansion was in Chernihiv region. New land is located in regions which are rich in black soil, warmth and moisture which last years has become one of the determinant factors of high crop yield. Based on newly acquired agricultural company (its land bank and storage capacities) the new cluster was formed – Pryluky cluster. The Group’s Land Bank under processing is logistically concentrated that enables to maintain high level of operational efficiency.
Operational efficiency - Specialization in limited number of high marginal crops, which are optimal for effective crop rotation and suitable for land and climate specifics - 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 - Sustaining sufficient level of grain and potato storage capacities with purpose to get optimal prices and have control over processing and storing process	The Group continued its specialization in 4 crops: corn, sunflower, soybean, wheat. In 2013 the Group’s yields were higher than Ukraine average: - wheat +44% vs. Ukraine average - sunflower +23% vs. Ukraine average - corn +27% vs. Ukraine average - potato+127% vs. Ukraine average Following the strategic focus on sustaining sufficient level of grain storage capacities The Group increased the storage capacities by 64% from 338 ths tonnes in 2012 to 554 ths tonnes in 2013 via acquisition of silo and flat storage capacities in Chernihiv and Sumy regions as well as via construction of own new silo in Sumy region.
Diversification - Diversification of operations with purpose to reduce risk exposure related to crop farming. In line with this strategy, the Group support and develops dairy farming segment - Sales geography diversification	In 2013 the Group increased milk production by 14% vs. 2012. The Group’s milk yields were 18% higher than Ukraine average. Sales geography diversification was supported.

• 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.

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• 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 31 December

	2013	2012	Change in %
Total number of employees	3 353	2 180	53,8
operating personnel	2 646	1 705	55,2
administrative personnel	660	437	51,0
sales personnel	33	27	22,2
non-operating personnel	14	11	27,3
Wages and salaries and related charges per employee (USD, for 12 months ended 31 December)	5 466	4 850	12,7

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2. Operational and Financial Results

The following table sets forth the Company's results of operations for the 12-month period ended 31 December 2013 and 2012 derived from the Consolidated Financial Statements:

(in thousand USD)

		For the year ended		
	Notes	31 December 2013	31 December 2012	Change in %
CONTINUING OPERATIONS				
Revenue	6	114 767	75 249	53%
Gain (loss) from changes in fair value of biological assets and agricultural produce, net	7	55 507	33 038	68%
Cost of sales	8	(116 269)	(73 480)	58%
GROSS PROFIT		54 005	34 807	55%
Administrative expenses	9	(6 667)	(4 723)	41%
Selling and distribution expenses	10	(4 384)	(2 002)	119%
Other operating income	11	6 363	2 621	143%
Income from the exchange of property certificates	12	-	202	-100%
Other operating expenses	13	(10 918)	(6 153)	77%
Write-offs of property, plant and equipment		(748)	(1 010)	-26%
OPERATING PROFIT		37 651	23 742	59%
Financial expenses, net	16	(11 477)	(5 112)	125%
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		26 174	18 630	40%
Income tax benefit (expenses)	17	(359)	85	-522%
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		25 815	18 715	38%
Normalised EBITDA		49 477	32 014	55%
Normalised EBIT		38 399	24 550	56%
Normalised Net profit		26 563	19 523	36%
Depreciation and amortization		(11 078)	(7 465)	48%
Income from the exchange of property certificates		-	202	-100%
Write-offs of property, plant and equipment		(748)	(1 010)	-26%

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 53% primarily as a consequence of the increase in sales volume (tonnes) in 2013 due to increase in in arable land of the Group.

The following table sets forth the Company's sales revenue by products for the 12-month periods indicated:

(in thousand USD)

	For the year ended		Change in %
	31 December 2013	31 December 2012	
Cattle	1 727	1 416	22%
Milk	9 616	6 381	51%
Corn	46 113	30 815	50%
Wheat	10 191	9 772	4%
Sunflower	20 902	19 190	9%
Soy beans	4 472	1 849	142%
Potatoes	4 251	1 418	200%
Other	15 131	2 606	481%
	112 403	73 447	53%

The most significant portion of the Company's revenue comes from selling corn, which represented 41% and 42% of total revenue for the 12-month periods ended 31 December 2013 and 2012, 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 year ended	
	31 December 2013	31 December 2012
Corn		
Sales of produced corn (<i>in tonnes</i>)	205 988	128 246
Realization price (U.S. \$ per ton)	224	240
Revenue from produced corn (<i>U.S. \$ in thousands</i>)	46 113	30 815
Wheat		
Sales of produced wheat (<i>in tonnes</i>)	46 302	46 218
Realization price (U.S. \$ per ton)	220	211
Revenue from produced wheat (<i>U.S. \$ in thousands</i>)	10 191	9 772
Rye		
Sales of produced rye (<i>in tonnes</i>)	2 423	4 551
Realization price (U.S. \$ per ton)	127	163
Revenue from produced rye (<i>U.S. \$ in thousands</i>)	308	742
Soy beans		
Sales of produced soy beans (<i>in tonnes</i>)	10 405	4 390
Realization price (U.S. \$ per ton)	430	421
Revenue from produced soy beans (<i>U.S. \$ in thousands</i>)	4 472	1 849
Sunflower		
Sales of produced sunflower (<i>in tonnes</i>)	62 524	41 433
Realization price (U.S. \$ per ton)	334	463
Revenue from produced sunflower (<i>U.S. \$ in thousands</i>)	20 902	19 190
Rape seed		
Sales of produced rape seed (<i>in tonnes</i>)	-	36
Realization price (U.S. \$ per ton)	-	390
Revenue from produced rape seed (<i>U.S. \$ in thousands</i>)	-	14

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Lupin

Sales of produced lupin (<i>in tonnes</i>)	69	3 962
Realization price (U.S. \$ per ton)	314	248
Revenue from produced lupin (U.S. \$ <i>in thousands</i>)	22	985

Potatoes

Sales of produced potatoes (<i>in tonnes</i>)	21 734	16 773
Realization price (U.S. \$ per ton)	196	85
Revenue from produced potatoes (U.S. \$ <i>in thousands</i>)	4 251	1 418

Other (produced only)

Total sales volume (<i>in tonnes</i>)	28 768	2 282
Total revenues (U.S. \$ <i>in thousands</i>)	14 801	864

Total sales volume (*in tonnes*) **378 212** **247 891**

Total revenue from sale of crops (U.S. \$ *in thousands*) **101 060** **65 650**

Revenue relating to sales of corn increased by 50% to USD 46,1 million for the 12-month period ended 31 December 2013 from USD 30,8 million for the 12-month period ended 31 December 2012, due to an increase in sales volume (tonnes) in 2013.

Revenue relating to sales of other products increased by 481% to USD 15,1 million for the 12-month period ended 31 December 2013 from USD 2,6 million for the 12-month period ended 31 December 2012, primarily due to sales of sugar in 2013.

Cost of sales

The Company's cost of sales increased by 58% to USD 116,3 million for the 12-month period ended 31 December 2013 from USD 73,5 million for the 12-month period ended 31 December 2012. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

(in thousand USD)

	For the year ended		
	31 December 2013	31 December 2012	Change in %
Raw materials	(80 069)	(46 689)	71%
Change in inventories and work-in-progress	27 749	9 206	201%
Wages and salaries of operating personnel and related charges	(13 853)	(7 946)	74%
Depreciation and amortization	(9 776)	(6 511)	50%
Third parties' services	(10 522)	(4 717)	123%
Fuel and energy supply	(17 122)	(8 598)	99%
Rent	(11 241)	(7 416)	52%
Repairs and maintenance	(904)	(692)	31%
Taxes and other statutory charges	(415)	(88)	372%
Other expenses	(116)	(29)	300%
	(116 269)	(73 480)	58%

Raw materials increased by 71% to USD 80,1 million for the 12-month period ended 31 December 2013 from USD 46,7 million for the 12-month period ended 31 December 2012. This increase was primarily due to an increase in arable land in 2013.

Wages and salaries of operating personnel and related charges increased by 74% to USD 13,8 million for the 12-month period ended 31 December 2013 from USD 7,9 million for the 12-month period ended 31 December 2012. This increase was primarily due to an increase in arable land in 2013.

Depreciation and amortisation increased by 50% to USD 9,8 million for the 12-month period ended 31 December 2013 from USD 6,5 million for the 12-month period ended 31 December 2012. This increase was primarily due to effect of acquisition of subsidiaries.

Third parties' services increased by 123% to USD 10,5 million for the 12-month period ended 31 December 2013 from USD 4,7 million for the 12-month period ended 31 December 2012. This increase was primarily due to an increase in arable land in 2013.

Fuel and energy supply increased by 99% to USD 17,1 million for the 12-month period ended 31 December 2013 from USD 8,6 million for the 12-month period ended 31 December 2012. This increase was primarily due to an increase in arable land in 2013.

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Rent increased by 52% to USD 11,2 million for the 12-month period ended 31 December 2013 from USD 7,4 million for the 12-month period ended 31 December 2012. This increase was primarily due to an increase in arable land in 2013.

Gross profit

The Company's gross profit increased to USD 54,0 million for the 12-month period ended 31 December 2013 from USD 34,8 million for the 12-month period ended 31 December 2012, an 55% year-on-year increase. In relative terms, the total revenue went up 53% year-on-year.

Administrative expenses

Administrative expenses increased year-on-year to USD 6,7 million for the 12-month period ended 31 December 2013 from USD 4,7 million for the 12-month period ended 31 December 2012, reflecting an increase in the wages and salaries of administrative personnel year-on-year to USD 3,8 million from USD 2,4 million, and professional services to USD 1,0 million from USD 0,6 million.

Selling and distribution expenses

Selling and distribution expenses increased year-on-year to USD 4,4 million for the 12-month period ended 31 December 2013 from USD 2,0 million for the 12-month period ended 31 December 2012, reflecting an increase in the volume of realization in 2013.

Other operating income

The Company's other operating income increased by 143% to USD 6,4 million for the 12-month period ended 31 December 2013 from USD 2,6 million for the 12-month period ended 31 December 2012 due to increase in income from subsidized VAT.

Financial expenses, net

The Company's financial expenses, net increased by 125% to USD 11,5 million for the 12-month period ended 31 December 2013 from USD 5,1 million for the 12-month period ended 31 December 2012. 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 12-month period ended 31 December 2013.

Cash flows

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

(in thousand USD)

	For the year ended	
	31 December 2013	31 December 2012
Net cash flows from operating activities	4 189	10 565
Net cash flows from investing activities	(19 801)	(58 297)
Net cash flows from financing activities	30 283	44 752
Net increase in cash and cash equivalents	14 671	(2 980)

Net cash flow from operating activities

The Company's net cash inflow from operating activities decreased to USD 4,2 million for the 12-month period ended 31 December 2013 compared to net cash inflow of USD 10,6 million for the 12-month period ended 31 December 2012. The decrease in 2013 was primarily attributable changes in stock of inventories and interest paid.

Net cash flow from investing activities

The Company's net cash outflow from investing activities decreased to USD 19,8 million for the 12-month period ended 31 December 2013 compared to net cash outflow of USD 58,3 million for the 12-month period ended 31 December 2012. The decrease in 2013 was primarily attributable to repayment payables for investment (acquisition of subsidiaries).

Net cash flow from financing activities

Net cash inflow from financing activities decreased to USD 30,3 million for the 12-month period ended 31 December 2013 from a net cash inflow of USD 44,8 million for the 12-month period ended 31 December 2012. The decrease in 2013 was primarily due to repayment of long-term and short-term borrowings.

3. Events after the Balance sheet Date

The following essential subsequent events took place after the Balance Sheet Date:

Deposit in the amount of th USD 15 000 are removed from the pledge.

Loans and borrowings are repaid in the amount of th USD 28 456.

Loans and borrowings are received in the amount of th USD 46 949.

Bonds were reissued as short-term in the amount of th USD 15 000 and long-term in the amount of th USD 10 000.

Accounts payable for investments are repaid in the amount of th USD 7 635 of accounts payable for acquisition of Bluerice Limited and th USD 14 970 of accounts payable for acquisition of AgroKIM Ltd.

4. 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.

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5. 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 177 million by 2019.

6. Selected Financial Data

(in thousand USD)

	For the year ended 31 December	2013	2012
I.	Revenue	114 767	75 249
II.	Operating profit/(loss)	37 651	23 742
III.	Profit/(loss) before income tax	26 174	18 630
IV.	Net profit/(loss)	25 815	18 715
V.	Net cash flow from operating activity	4 189	10 565
VI.	Net cash flow from investing activity	(19 801)	(58 297)
VII.	Net cash flow from financing activity	30 283	44 752
VIII.	Total net cash flow	14 671	(2 980)
IX.	Total assets	361 869	244 497
X.	Share capital	56	56
XI.	Total equity	153 922	128 013
XII.	Non-current liabilities	51 132	48 091
XIII.	Current liabilities	156 815	68 393
XIV.	Weighted average number of shares	31 300 000	31 300 000
XV.	Profit/(loss) per ordinary share (in USD)	0,82	0,60
XVI.	Book value per share (in USD)	4,86	4,02

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INDUSTRIAL MILK COMPANY S.A.

Société anonyme

Registered office: 26-28 Rue Edward Steichen
L-2540 Luxembourg, Grand Duchy of Luxembourg
R.C.S Luxembourg: B 157843
(the Company)

Corporate governance statement

Corporate governance

Corporate governance within the Company is based on the Luxembourg law and the listing requirements of the Warsaw Stock exchange where the trading in the company shares takes place. The Company follows the "Code of Best practice" of the Warsaw Stock Exchange (the "Code of best practice"), as amended on October 2012.

The Company's corporate governance rules are based on the Company's articles of Association (the "Articles"), and the corporate governance charter (the "Corporate Governance Charter"), and the Company's internal regulations.

Board of directors

According to the Articles of Association ("STATUTS COORDONNES") The Company shall be managed by the Board of Directors composed of at least five members, their number being determined by the general meeting of shareholders. Directors need not be shareholders of the Company. The Board of Directors composed of executive and non-executive directors. At least two directors shall be independent non-executive directors.

The directors shall be elected by the general meeting of shareholders for a period not exceeding six (6) years and until their successors are elected, provided, however, that any director may be removed at any time by a resolution taken by the general meeting of shareholders. The directors shall be eligible for reappointment.

In the event of vacancy in the office of a director because of death, resignation or otherwise, the remaining directors elected by the general meeting of shareholders may elect a director to fill such vacancy until the next general meeting of shareholders.

Directors:

Name	Date of appointment	Date of resignation
1. Mr Alex Lissitsa, executive director CEO	29 March 2012	2016
2. Mr Dmytro Martyniuk, executive director CFO	09 March 2011	2016
3. Mr Oleksandr Petrov, executive director	09 March 2011	2016
4. Alfons Balman non-executive director	10 September 2013	2016
5. Karen Fisher non-executive director	10 September 2013	2016
6. Mr Ievgen Osypov, executive director	09 March 2011	17 May 2013
7. Mr Carl Olof Richard Sturen, non-executive director	09 March 2011	01 June 2013
8. Mr Michael Peter Lee, non executive director	09 March 2011	29 March 2012

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association (hereafter referred Articles of Association and Luxembourg Companies Law 1915. The Articles of Association may be amended from time to time by a general meeting of the shareholders under the quorum and majority requirement provided for by the law of 10 August 1915 on commercial companies in Luxembourg, as amended.

The present Board is composed of two independent directors and three directors who either are employed by Subsidiaries of the Company or hold over 5% of votes in the Company.

Independency is assessed taking into consideration the criteria stated in Annex II of the European Commission Recommendation of 15 February 2005

Powers of Directors

The board is responsible for managing the business affairs of the Company within the clauses of the Article of Association. The directors may only act at duly convened meetings of the board of Directors or by written consent in accordance with article 10 of Articles of Association.

The Board of Directors is vested with the broadest powers to act on behalf of the Company and to perform or authorize all acts of administrative or disposal nature, necessary or useful for accomplishing the Company's object. All powers not expressly reserved by the Law to the sole shareholder or, as the case may be, to the general meeting of shareholders, fall within the competence of the Board of Directors.

Meetings of the Board of Directors

The Board of Directors meets upon notice given by the Chairman. A meeting of the Board of Directors must be convened if any two directors so require. The Chairman presides at all meetings of the Board of Directors. In her/his absence the Board of Directors may appoint another director as chairman pro tempore by vote of the majority present or represented at such meeting. Except in cases of urgency or with the prior consent of all those entitled to attend, at least twenty-four hours' written notice of board meetings shall be given. Any such notice shall specify the place, the date, time and agenda of the meeting. The notice may be waived by unanimous written consent by all the directors at the meeting or otherwise. No separate notice is required for meetings held at times and places specified in a time schedule previously adopted by resolution of the Board of Directors.

Every board meeting shall be held in Luxembourg or at such other place indicated in the notice.

Decisions will be taken by a majority of the votes of the directors present or represented at the relevant meeting. Each director has one vote. In case of a tied vote, the Chairman has a casting vote.

One or more directors may participate in a meeting by means of a conference call, by videoconference or by any similar means of communication enabling several persons participating therein to simultaneously communicate with each other. Such methods of participation are to be considered equivalent to a physical presence at the meeting.

A written decision passed by circular means and transmitted by cable, facsimile or any other similar means of communication, signed by all the directors, is proper and valid as though it had been adopted at a meeting of the Board of Directors which was duly convened and held. Such a decision can be documented in a single document or in several separate documents having the same content and each of them signed by one or several directors. Except as far as a written decision passed by circular means is concerned, the minutes of the meeting of the Board of Directors shall be signed by the Chairman of the relevant meeting or any two directors or as resolved at the relevant board meeting or a subsequent board meeting. Any proxies will remain attached thereto.

The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. These include appointing an independent administrator (the "Administrator") to maintain the accounting records of the Company independent of IMC S. A. The Administrator has a duty of care to maintain proper books and records and prepare for review and approval by the Board the financial statements intended to give a true and fair view. The Board has appointed Totalserve Management (Luxembourg) S.a.r.l. as Administrator.

Committees

Audit Committee.

The Audit committee has been established by the Board to assist the Board of directors with independent verifying and safeguard of the integrity of the company's financial reporting; and oversee the independence of the external auditors

The Committee has responsibility for the following:

- (a) Monitoring the establishment of an appropriate internal control framework;
- (b) Monitoring corporate risk assessment and compliance with internal controls;
- (c) Overseeing business continuity planning and risk mitigation arrangements;
- (d) Reviewing reports on any material defalcations, frauds and thefts from the Group;
- (e) Monitoring compliance with relevant legislative and regulatory requirements (including continuous disclosure obligations) and declarations by the Secretary in relation to those requirements;
- (f) Reviewing the nomination, performance and independence of the external auditors;
- (g) Liaising with the external auditors and ensuring that the annual audit is conducted in an effective manner that is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- (h) Reviewing management processes supporting external reporting;
- (i) Reviewing financial statements and other financial information distributed externally; and
- (j) Reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

Consolidated Financial Statements

The Committee has an advisory role, consistent with its purpose of assisting the Board in relation to the matters with which it is charged with responsibility, and does not have any power to commit the Board to any recommendation or decision made by it except for matters relating to the appointment, oversight, remuneration and replacement of the external auditors.

The Committee has unrestricted access to management and the external auditors as it may consider appropriate for the proper performance of its function.

The Board of Directors shall appoint the chairman and members of the Audit Committee from among the non-executive directors and external members which must be independent. The Audit Committee will comprise a minimum of two members. In any case the chairman of the Audit Committee must be appointed from among non-executive directors.

Remuneration committee

The role of the Committee is to advise on remuneration and issues relevant to remuneration policies and practices for senior management.

The Responsibility of the Remuneration Committee includes issues regarding salaries, bonus programs and other employments terms of the CEO and senior management in conjunction with the Board.

Notably, the Remuneration Committee is in charge of:

- submitting proposals to the Board regarding the remuneration of directors and managers, ensuring that these proposals are in accordance with the remuneration policy adopted by the Company;
- discussing with the chief executive officer the performance of executive management and of the individual executives at least once a year based on evaluation criteria clearly defined. The chief executive officer should not be present at the discussion of his own evaluation;
- ensuring that the remuneration of non-executive directors is proportional to their responsibilities and the time devoted to their functions.

The Board of Directors shall appoint the chairman and members of the Remuneration Committee from among the non-executive directors and external members which must be independent. The Audit Committee will comprise a minimum of two members. In any case the chairman of the Audit Committee must be appointed from among non-executive directors.

Internal control and risk management

The company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of financial records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Luxembourg legal and regulatory requirements, are that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposals of the company's assets that could have a material effect on the financial statements.

In order to ensure, that established controls over financial reporting system worked effectively during 2013, a summary of the work performed by the internal audit department was reviewed by the Audit Committee.

Besides, the Internal Audit plan for 2014 was also analyzed and approved by the Board of Directors, in order to make sure, that

- Existing information system is able to identify and manage risk of misstatement in financial data once occurred, including override of controls and fraud;
- Information is communicated to management regularly and timely;
- No person has any special rights of control over the Company's share capital.

External audit

In accordance with the Luxembourg law on commercial companies, the Company's annual and consolidated accounts are certified by an external auditor appointed by the annual general meeting of shareholders. The external audit functions being carried by INTERAUDIT S.à r.l.

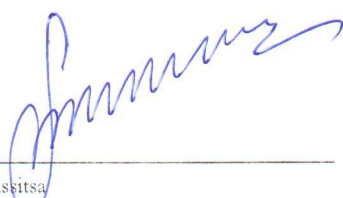
Takeover bids Law statement

- The structure of the capital of the company is represented on a page 59. The company is a publicly-listed company whose shares are owned primarily by institutional investors and Agrovalley Limited whose beneficial owner is Mr. Olexandr Petrov, chairman of the board of directors. As of 31 December 2013, Agrovalley Limited held 21 490 899 shares in the Company, what is equal to 68,66%.
- The company has no securities which are not admitted to trading on a regulated market.
- The company has no restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to article 46 of Directive 2001/34/EC
- The details of those shareholders with an interest of 5% or more in the issued share capital of the Company, as notified to the Company, are set out on the page 59. The company has no other significant direct or/and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings)

- The company has no holders of any securities with special control rights. Transfer of shares is governing by the Articles of Association of the Company
- The company has no adopted system of control of any employee share scheme where the control rights are not exercised directly by the employees
- The company has no adopted restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities
- All of the issued and outstanding shares in the Company have equal voting rights and there are no special control rights attaching to the shares
- The company didn't receive the information about existence of any agreements between shareholders that may result any restrictions within the meaning of Directive 2004/19/EC
- The company has no any agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company;
- The company grants non-availability of any agreements between the company and its board members or/and employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid

Insider Dealing

The Company follows Luxembourg Stock Exchange, Warsaw Stock Exchange and insider trading policy rules in regards to the disclosure of insider dealing, which require all Board Members to notify the Company with regards to all transaction in the shares in the Company. Following the rules of the notification, the Company notifies both stock exchanges via appropriate regulatory filings.



Alex Lissitsa
Chief Executive Officer



Dmytro Martyniuk
Chief Financial Officer

To the Shareholders of
Industrial Milk Company S.A.
26-28, rue Edward Steichen
L-2540 Luxembourg

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

Report on the consolidated financial statements

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

Board of directors' responsibility for the consolidated financial statements

The Board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the independent auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

37, rue des Scillas
L-2529 Howald
Luxembourg

Tél. +(352) 47 68 461
Fax +(352) 47 47 72

INTERAUDIT société à responsabilité limitée au capital de 31 250 €
RCS Luxembourg B 29. 501 Identification TVA LU 139 871 52
Autorisation d'établissement 103 200/A



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2013, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

The accompanying Corporate Governance Statement which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Howald, April 17, 2014

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



Edward KOSTKA
Managing partner

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013
(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
CONTINUING OPERATIONS			
Revenue	6	114 767	75 249
Gain (loss) from changes in fair value of biological assets and agricultural produce, net	7	55 507	33 038
Cost of sales	8	(116 269)	(73 480)
GROSS PROFIT		54 005	34 807
Administrative expenses	9	(6 667)	(4 723)
Selling and distribution expenses	10	(4 384)	(2 002)
Other operating income	11	6 363	2 621
Income from the exchange of property certificates	12	-	202
Other operating expenses	13	(10 918)	(6 153)
Write-offs of property, plant and equipment		(748)	(1 010)
OPERATING PROFIT		37 651	23 742
Financial expenses, net	16	(11 477)	(5 112)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		26 174	18 630
Income tax benefit (expenses)	17	(359)	85
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		25 815	18 715
Net profit for the period attributable to:			
Owners of the parent company		26 103	18 750
Non-controlling interests		(288)	(35)
Weighted average number of shares			
		31 300 000	31 300 000
Profit per ordinary share (in USD)			
		0,83	0,60
OTHER COMPREHENSIVE INCOME			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:			
Deferred tax charged directly to revaluation reserve		98	163
Effect on deferred tax from revaluation due to the change in income tax rate		-	86
Effect of foreign currency translation		-	(65)
TOTAL OTHER COMPREHENSIVE INCOME		98	184
TOTAL COMPREHENSIVE INCOME		25 913	18 899
Comprehensive income attributable to:			
Owners of the parent company		26 201	18 934
Non-controlling interests		(288)	(35)

Alex Lissitsa
Chief Executive Officer

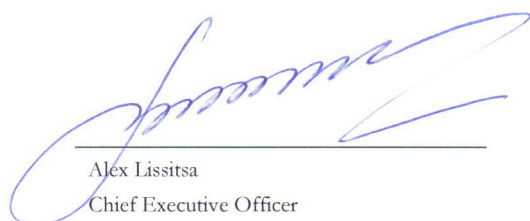
Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

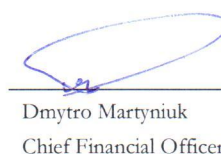
As at 31 December 2013

(in thousand USD, unless otherwise stated)

	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	18	129 304	92 149
Intangible assets	19	27 802	23 264
Non-current biological assets	20	15 084	10 879
Deferred tax assets	21	158	266
Other non-current assets	22	2 125	1 100
Total non-current assets		174 473	127 658
Current assets			
Inventories	23	139 050	63 533
Current biological assets	24	17 706	38 598
Trade accounts receivable, net	25	2 296	2 471
Prepayments and other current assets, net	26	11 802	10 460
Prepayments for income tax		111	17
Cash and cash equivalents	28	16 431	1 760
Total current assets		187 396	116 839
TOTAL ASSETS		361 869	244 497
LIABILITIES AND EQUITY			
Equity attributable to the owners of parent company			
Share capital	29	56	56
Share premium		24 387	24 387
Revaluation reserve		10 732	11 820
Retained earnings		133 537	106 164
Effect of foreign currency translation		(16 473)	(16 473)
Total equity attributable to the owners of parent company		152 239	125 954
Non-controlling interests		1 683	2 059
Total equity		153 922	128 013
Non-current liabilities			
Long-term loans and borrowings	30	48 011	45 099
Deferred tax liabilities	21	3 121	2 992
Total non-current liabilities		51 132	48 091
Current liabilities			
Current portion of long-term borrowings	30	39 881	4 751
Short-term loans and borrowings	31	52 095	30 793
Trade accounts payable	32	25 943	8 603
Other current liabilities and accrued expenses	33	38 896	24 207
Income tax payable		-	39
Total current liabilities		156 815	68 393
TOTAL LIABILITIES AND EQUITY		361 869	244 497



Alex Lissitsa
Chief Executive Officer



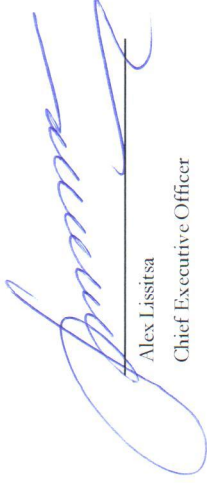
Dmytro Martyniuk
Chief Financial Officer

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



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013
(in thousand USD, unless otherwise stated)

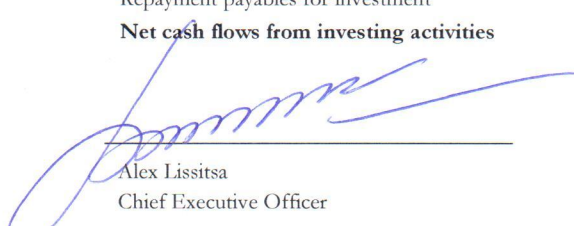
	Share capital	Share premium	Revaluation reserve	Retained earnings	Effect of foreign currency translation	Total	Non-controlling interests	Total equity
31 December 2011	56	24 387	13 862	85 123	(16 408)	107 020	1 968	108 988
Profit for the period	-	-	-	18 750	-	18 750	(35)	18 715
Amortization of revaluation reserve	-	-	(2 291)	2 291	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	163	-	-	163	-	163
Effect on deferred tax from revaluation due to the change in income tax rate	-	-	86	-	-	86	-	86
Other comprehensive income	-	-	-	-	(65)	(65)	-	(65)
Total comprehensive income	-	-	(2 042)	21 041	(65)	18 934	(35)	18 899
Changes in equity as a result of acquisition of subsidiaries	-	-	-	-	-	-	126	126
31 December 2012	56	24 387	11 820	106 164	(16 473)	125 954	2 059	128 013
31 December 2012	56	24 387	11 820	106 164	(16 473)	125 954	2 059	128 013
Profit for the period	-	-	-	26 103	-	26 103	(288)	25 815
Amortization of revaluation reserve	-	-	(1 203)	1 203	-	-	-	-
Deferred tax charged directly to amortization of revaluation reserve	-	-	98	-	-	98	-	98
Total comprehensive income	-	24 387	10 715	133 470	(16 473)	152 155	1 771	153 926
Changes in equity as a result of change in ownership share in the subsidiary	-	-	17	67	-	84	(88)	(4)
31 December 2013	56	24 387	10 732	133 537	(16 473)	152 239	1 683	153 922


Alex Lissitsa
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013
(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax from continuing operations		26 174	18 630
Adjusted to reconcile profit before tax with net cash used in operating activities:			
Gain (loss) from changes in fair value of biological assets and agricultural produce, net	7	(55 507)	(33 038)
Disposal of revaluation of biological assets and agricultural produce in the cost of sales, net	8	35 285	23 338
Depreciation and amortization	14	11 078	7 466
Gain on disposal of inventories	11	(39)	(1)
Income from the exchange of property certificates	12	-	(202)
Income from write-offs of accounts payable	11	(403)	-
Write-offs of VAT	13	102	357
Shortages and losses due to impairment of inventories	13	2 854	425
Allowance for doubtful accounts receivable	13	53	539
Loss from VAT on export operations	13	4 849	2 801
Lost crops	13	426	556
Loss on disposal of property, plant and equipment	13	31	12
Write-offs of property, plant and equipment		748	1 010
Accruals for unused vacations		62	494
Accruals for audit services		49	43
Interest income	16	(131)	(506)
Interest expenses and other financial expenses	16	12 818	5 536
Foreign currency exchange gain on loans and borrowings	16	(1 210)	23
Cash flows from operating activities before changes in working capital		37 239	27 483
Decrease / increase in trade accounts receivable		2 142	(469)
Increase in prepayments and other current assets		(4 934)	(749)
Increase in inventories		(59 891)	(14 893)
Decrease in current biological assets		29 362	3 392
Decrease / increase in trade accounts payable		13 081	(2 367)
Decrease in other current liabilities and accrued expenses		63	3 630
Cash flows from operations		17 062	16 027
Interest paid		(12 716)	(5 410)
Income tax paid		(157)	(52)
Net cash flows from operating activities		4 189	10 565
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(18 433)	(13 104)
Purchase of non-current biological assets		(66)	(943)
Purchase of intangible assets		(56)	(112)
Proceeds from disposal of property, plant and equipment		53	20
Decrease/ increase in other non-current assets		231	(18)
Cash (acquisition of the subsidiary)		15 001	366
Repayment payables for investment		(16 531)	(44 506)
Net cash flows from investing activities		(19 801)	(58 297)


Alex Lissitsa
Chief Executive Officer


Dmytro Martyniuk
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

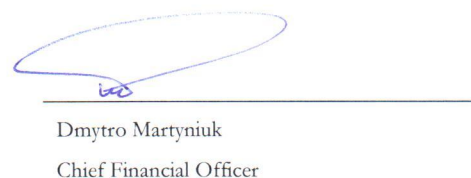
For the year ended 31 December 2013

(in thousand USD, unless otherwise stated)

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term and short-term borrowings		83 154	49 491
Repayment of long-term and short-term borrowings		(52 871)	(4 739)
Net cash flows from financing activities		30 283	44 752
NET CASH FLOWS		14 671	(2 980)
Cash and cash equivalents as at the beginning of the period	28	1 760	4 595
Effect of translation into presentation currency		-	145
Cash and cash equivalents as at the end of the period	28	16 431	1 760



Alex Lissitsa
Chief Executive Officer



Dmytro Martyniuk
Chief Financial Officer

INDUSTRIAL MILK COMPANY S.A. AND ITS SUBSIDIARIES

Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousand USD, unless otherwise stated)

1. Description of formation and business.

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

IMC and its subsidiaries (the "Group" or the "IMC") is an integrated agricultural company in Ukraine. The main areas of Group's activities are:

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

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

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

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

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

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

In August 2011 trading company Aristo Eurotrading was formed.

In December 2011 Unigrain Holding Limited acquired 100% of the voting shares in the company AF Kalynivska 2005, Ltd, AF Govtneva, Ltd, AF Shid 2005, Ltd, APP Virynske, Ltd, Pisky, Ltd., SE "Viry-Agro" and 80,61% of the voting shares in the company OJSC "Virynske HPP".

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

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

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

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

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

In December 2013 Losinovka-Agro Ltd was joined to Agroprogress PE (noted * in the column Cumulative ownership ratio, % as at 31 December 2013).

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

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

Operating entity	Principal activity	Country of registration	Year established /acquired	Cumulative ownership ratio, %	
				31 December 2013	31 December 2012
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

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Operating entity	Principal activity	Country of registration	Year established /acquired	Cumulative ownership ratio, %	
				31 December 2013	31 December 2012
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
Zemelniy 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	100,00
OJSC "Vyryvske HPP"	Agricultural products processing	Ukraine	28.12.2011	80,61	80,61
Ukragrosouz KSM Ltd	Agricultural production	Ukraine	29.03.2012	100,00	100,00
PAC Slobozhanschina Agro	Agricultural production	Ukraine	26.06.2012	100,00	100,00
Bluerice Limited	Subholding company	Cyprus	28.12.2012	100,00	100,00
Agroprogress Holding Ltd	Subholding company	Ukraine	28.12.2012	100,00	100,00
Agroprogress PE	Agricultural and farming production	Ukraine	28.12.2012	99,90	99,90
Bobrovitsky Hlebzavod Ltd	Bakery production	Ukraine	28.12.2012	99,90	99,90
Plemzavod Noviy Trostyanets Ltd	Agricultural and farming production	Ukraine	28.12.2012	99,90	99,90
PJSC "Bobrovitske HPP"	Flour grinding	Ukraine	28.12.2012	92,74	92,74
Losinovka-Agro Ltd	Agricultural and farming production	Ukraine	28.12.2012	*	99,80
Parafiyivka-Progress Ltd	Agricultural production	Ukraine	28.12.2012	99,80	99,80
Nosovsky Saharny Zavod Ltd	Sugar mill	Ukraine	28.12.2012	99,80	99,80
Negoce Agricole S.A.	Trading company	Luxembourg	19.11.2013	100,00	-
AgroKIM Ltd	Agricultural production	Ukraine	30.12.2013	100,00	-

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

The Group controls 140,4 thousand ha (136,6 thousand ha under processing of high quality arable land). As at 31 December 2013 the Group operates in three segments: crop farming, dairy and beef farming and grain and oilseed storage.

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 136,6 thousand ha to 285 thousand ha in 2019.

The financial year of the Group begins on 1 January of each year and terminates on 31 December of each year.

The Group's consolidated financial statements 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.

2. Basis of preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union. These consolidated financial statements are based on principal accounting policies and critical accounting estimates and judgments that are set out below. These accounting policies and assumptions have been applied consistently to all periods presented in these consolidated financial statements.

Companies comprising the Group which are incorporated in Ukraine maintain their accounting records in accordance with Ukrainian regulations. Ukrainian statutory accounting principles and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated 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.

In preparation of these consolidated 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.

Going concern

These consolidated 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 consolidated financial statements do not include any adjustments should the Group be unable to continue as going concern.

Basis of measurement

The consolidated 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 consolidated financial statements in United States Dollars ("USD") for the purposes of convenience of users of these financial statements.

Use of estimates

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

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

Foreign currency transactions and balances

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

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

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

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

Currency	31 December 2013	Average for the year ended 31 December 2013	31 December 2012	Average for the year ended 31 December 2012	31 December 2011
UAH/USD	7,9930	7,9930	7,9930	7,9910	7,9898
EUR/USD	1,3814	1,3278	1,3183	1,2854	1,2889

Translation into presentation currency

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

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

Principles of consolidation

Subsidiaries

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

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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 consolidated financial statements, should be prepared as at the same date on the basis of consistent application of accounting policy for all companies of the Group.

3. Summary of significant accounting policies

Property, plant and equipment

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

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

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

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

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

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

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

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

Depreciation of an asset begins when it is available for use, 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.

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

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

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

Land is not depreciated.

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

Intangible assets

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

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

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

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

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

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

Impairment of property, plant and equipment and intangible assets

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

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

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

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

Biological assets

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

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

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

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

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

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

- Biological assets of plant-breeding

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

- Biological assets of animal-breeding

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

All expenses related to the non-current biological assets of cattle breeding are included into the cost of milk. Respectively the note 20 of non-current biological assets does not include any capitalized costs.

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

Agricultural produce

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

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

Inventories

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

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

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

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

The cost of inventories is assigned by using FIFO method.

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

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

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Financial assets

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

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

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

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

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

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

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

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

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

Prepayments and other non-financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

The Group classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method.

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

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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.

Leases

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

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

Government grants

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

- **Government grants related to plant-breeding**
 Amount of such benefit is determined based on the number of hectares planted for the future harvest, taking into account the crop expected to be bred. The Group of companies recognizes this type of benefits upon the receipt of funds as other operating income in the statement of comprehensive income.
- **Government grants related to cattle-breeding**
 Agricultural producers of poultry and livestock are eligible for government grants, depending on quantity of meat in live weight delivered to processing enterprises. The Group of companies recognizes these grants upon entitlement to them as other operating income.
 Agricultural producers of poultry and livestock are also eligible for government grants for each animal unit of poultry and livestock, including slaughter for own needs or transfer to slaughter. The Group recognizes these grants upon the receipt of funds due to the uncertainty in amounts and timeframes of receipt.
- **Government grants related to VAT**
 According to the Ukrainian tax legislation, the agricultural enterprises (whose income from sale of agricultural products is not less than 75% of the total gross income, or enterprises which sell meat and milk products irrespective of the volume of such transactions) receive benefits regarding VAT payment on agricultural operations. Correspondingly above, VAT amounts payable are not transferred into the budget by the entities, but credited to the entity's separate special account to support the agriculture; the amount of tax credit is used as a reduction in tax liabilities of the next period. As a result of these operations tax amounts are recognized in the statements of comprehensive income as other operating income.
 Management of the Group is confident that confirmed by tax declaration as at 31 December VAT payable should be recognized as other operating income in December although it will be credited to the entity's separate special account in January.

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Taxation

- **Income tax**

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

Income tax expenses are recorded as expenses or income in the 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.

- 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.

- **Fixed agricultural tax**

According to effective legislation, the Ukrainian consolidated companies of the Group involved in production, processing and sale of agricultural products may opt for paying fixed agricultural tax (FAT) in lieu of income tax, land tax and some other local taxes if the revenues from sale of their own agricultural products constitute not less than 75% of their total (gross) revenues. The FAT is assessed at 0,15% on the deemed value of the land plots owned or leased by the entity (as determined by the relevant State authorities). As at 31 December 2013, 8 of the companies comprising the Group were elected to pay FAT (2012: 8).

- **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.

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

Provisions

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

Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. The Group discloses information about contingent liabilities in the Notes to financial statements, 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.

Share capital

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

Dividends

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

Earnings per share

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

Revenue recognition

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

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

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

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Income from the exchange of property certificates

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

Borrowing costs

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

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

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

4. Critical accounting estimates and judgments

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

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

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

Fair value of property, plant and equipment

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

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

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

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

The fair value of property, plant and equipment of all the Group's companies has been measured as at 31 December 2010 by an independent appraiser FDI "Bureau Veritas Ukraine". The difference between measurement of property, plant and equipment at fair value and at cost presented in note 18.

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Useful lives of property, plant and equipment

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

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

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

There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2013.

Impairment of property, plant and equipment and intangible assets

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

As at 31 December 2013 and 2012 impairment of property, plant and equipment and intangible assets was not identified. The key assumptions used in impairment test described in note 18.

Fair value of acquisition of subsidiaries

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

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

The fair values as at the date of acquisition of new subsidiary were determined by an independent appraisers FDI "Bureau Veritas Ukraine" (note 5).

Fair value of biological assets

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

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

The income from recognition of biological assets at fair value at the reporting date amounted to th USD 12 804 in 2013 (note 7). The key assumptions used to determine the fair value of biological assets presented in note 24.

Fair value of agricultural produce

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

The income from recognition of agricultural produce at fair value at the date of harvesting amounted to th USD 42 703 in 2013 (note 7). The key assumptions used to determine the fair value of agricultural produce presented in note 23.

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Inventories

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

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

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

As at 31 December 2013 the impairment of inventories in the amount of th USD 2 483 were recognized (note 23).

Fair value of financial instruments

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

Fair value measurement

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

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

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

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

Impairment of trade and other accounts receivable

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

As at 31 December 2013 allowances for accounts receivable were recognized in the amount of th USD 172 (note 27).

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Impairment of other financial and non-financial assets

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

As at 31 December 2013 allowances for other financial and non-financial assets were recognized in the amount of th USD 88 (note 27).

Long-term VAT recoverable

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

As at 31 December 2013 the part of VAT recoverable in the amount of th USD 1 240 was classified as long-term VAT recoverable (note 22).

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 countries 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.

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

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

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Legal proceedings

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

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

New and amended standards and interpretations

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

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

Improvements to IFRSs 2009-2011 Cycle:

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

New IFRS standards and interpretations applicable from 2014 onward:

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

Standards and Interpretations adopted by the EU:

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

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5. Business combination

Acquisition of AgroKIM Ltd

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

AgroKIM Ltd is located in Ukraine, Chernigiv region. The subsidiary owns the books of lease contracts for 15 923 hectares of land under processing.

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

	Fair value at the date of acquisition	Balance value at the date of acquisition
Non-current assets		
Property, plant and equipment	26 640	7 846
Intangible assets	8 470	66
Other non-current assets	15	15
Current assets		
Inventories	10 974	10 974
Current biological assets	282	114
Trade accounts receivable, net	2 021	2 021
Prepayments and other current assets, net	2 473	2 473
Cash and cash equivalents	15 001	15 001
Non-current liabilities		
Long-term loans and borrowings	(28 428)	(28 428)
Current liabilities		
Current portion of long-term borrowings	(1 843)	(1 843)
Trade accounts payable	(4 259)	(4 259)
Other current liabilities and accrued expenses	(1 006)	(1 006)
Net assets	30 340	2 974
Non-controlling interests	-	
Owners of the parent company	30 340	
Cost of acquisition	30 340	
Excess of the Group's share in the fair value of the net assets acquired over the cost of acquisition	-	

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6. Revenue

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Revenue from sales of finished products	a	112 403	73 447
Revenue from services rendered	b	2 364	1 802
		114 767	75 249

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

	For the year ended 31 December 2013	For the year ended 31 December 2012
Cattle	1 727	1 416
Milk	9 616	6 381
Corn	46 113	30 815
Wheat	10 191	9 772
Sunflower	20 902	19 190
Soy beans	4 472	1 849
Potatoes	4 251	1 418
Other	15 131	2 606
	112 403	73 447

Revenue from sales of other finished good included revenue from sales of sugar in the amount of th USD 12 307.

b) Revenue from services rendered was as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Storage	523	558
Processing	310	291
Transport	500	342
Other	1 031	611
	2 364	1 802

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

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Non-current biological assets	20	3 292	474
Current biological assets	24	9 512	15 708
Agricultural produce		42 703	16 856
		55 507	33 038

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8. Cost of sales

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Raw materials		(80 069)	(46 689)
Change in inventories and work-in-progress	a	27 749	9 206
Wages and salaries of operating personnel and related charges	15	(13 853)	(7 946)
Depreciation and amortization	14	(9 776)	(6 511)
Third parties' services		(10 522)	(4 717)
Fuel and energy supply		(17 122)	(8 598)
Rent		(11 241)	(7 416)
Repairs and maintenance		(904)	(692)
Taxes and other statutory charges		(415)	(88)
Other expenses		(116)	(29)
		(116 269)	(73 480)

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.

Item raw materials for the year ended 31 December 2013 includes disposal of the gain recorded on initial recognition of realized agriculture produce and biological assets (both of current and non-current) in the amount of th USD 35 285 (th USD 23 338 for the year ended 31 December 2012).

9. Administrative expenses

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Wages and salaries of administrative personnel and related charges	15	(3 842)	(2 399)
Third parties' services		(246)	(199)
Repairs and maintenance		(256)	(198)
Depreciation and amortisation	14	(205)	(210)
Bank services		(275)	(336)
Professional services	a	(945)	(647)
Transport expenses		(516)	(388)
Other expenses		(382)	(346)
		(6 667)	(4 723)

a) Professional services include the following audit and related fees:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Audit fees	(158)	(170)
Audit related fees	(10)	(18)
	(168)	(188)

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10. Selling and distribution expenses

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Delivery costs		(3 449)	(1 570)
Wages and salaries of sales personnel and related charges	15	(468)	(138)
Depreciation	14	(152)	(81)
Other expenses		(315)	(213)
		(4 384)	(2 002)

11. Other operating income

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Income from subsidized VAT	b	4 290	874
Government grants and subsidies recognised as income	a	637	736
Income from write-offs of accounts payable		403	-
Gain on disposal of inventories		39	1
Other income		994	1 010
		6 363	2 621

a) Government grants and subsidies recognized as income for the year ended 31 December 2013 amounting to th USD 637 comprise th USD 16 of grants related to the farming division and th USD 621 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.

12. Income from the exchange of property certificates

	For the year ended 31 December 2013	For the year ended 31 December 2012
Income from the exchange of property certificates	-	202

Income from the acquisition of property certificates represents the difference between the price paid for property certificates and the fair value of received items of property, plant and equipment and recognized as income in the period of the exchange operation.

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13. Other operating expenses

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Loss from VAT on export operations	a	(4 849)	(2 801)
Shortages and losses due to impairment of inventories		(2 854)	(425)
Depreciation	14	(945)	(642)
Lost crops		(426)	(556)
Write-offs of VAT		(102)	(357)
Allowance for doubtful accounts receivable	27	(53)	(539)
Wages and salaries of non-operating personnel and related charges	15	(68)	(33)
Loss on disposal of property, plant and equipment		(31)	(12)
Other expenses		(1 590)	(788)
		(10 918)	(6 153)

a) Loss from VAT on export operations for the year ended 31 December 2013 amounting to th USD 4 849 (th USD 2 081 in 2012) related to changes in Ukrainian tax legislation. According to the Tax Code temporarily till 01 January 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.

14. Depreciation and amortisation

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Depreciation			
Cost of sales	8	(5 797)	(5 359)
Administrative expenses	9	(201)	(206)
Selling and distribution expenses	10	(152)	(81)
Other operating expenses	13	(945)	(642)
Depreciation as a part of article "Lost crops"		-	(22)
		(7 095)	(6 310)
Amortisation			
Cost of sales	8	(3 979)	(1 152)
Administrative expenses	9	(4)	(4)
		(3 983)	(1 156)
		(11 078)	(7 466)

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15. Wages and salaries expenses

	Note	For the year ended 31 December 2013	For the year ended 31 December 2012
Wages and salaries		(13 474)	(7 756)
Related charges		(4 855)	(2 816)
		(18 329)	(10 572)
The average number of employees, persons		3 353	2 180
Remuneration of management		445	519
Wages and salaries of operating personnel and related charges	8	(13 853)	(7 946)
Wages and salaries of administrative personnel and related charges	9	(3 842)	(2 399)
Wages and salaries of sales personnel and related charges	10	(468)	(138)
Wages and salaries of non-operating personnel and related charges	13	(68)	(33)
Wages and salaries as a part of article "Lost crops" and related charges		(71)	(14)
Wages and salaries as a part of article "Construction in progress" and related charges		(27)	(42)
		(18 329)	(10 572)

16. Financial (expenses)/income, net

	For the year ended 31 December 2013	For the year ended 31 December 2012
Interest income on bank deposits	131	506
Foreign currency exchange gain, net	1 210	(82)
Interest expenses on loans and borrowings	(7 800)	(3 432)
Bond interest expenses	(3 870)	(1 833)
Other expenses	(1 148)	(271)
	(11 477)	(5 112)

17. Income tax expenses

The corporate income tax rate in Ukraine was 19% as at 31 December 2013 and 21% as at 31 December 2012.

The new Tax Code of Ukraine effective as of 1 January 2011, introduced gradual decreases in income tax rates over the future years (from 19% effective from 1 January 2013 to 18% effective from 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

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The components of income tax expenses were as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Current income tax	(24)	(53)
Deferred tax	(335)	138
Income tax benefit (expenses) reported in the statement of comprehensive income	(359)	85

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	98	249
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A reconciliation between tax expenses and the product of accounting multiplied by Ukrainian domestic tax rate was as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
01 January	(2 726)	(3 001)
Income tax benefit (expenses) for the period recognized in profit or loss	(335)	138
Income tax benefit (expenses) for the period recognized in other comprehensive income	98	249
Changes due to the acquisition of subsidiaries	-	(115)
Effect of foreign currency translation	-	3
31 December	(2 963)	(2 726)

	For the year ended 31 December 2013	For the year ended 31 December 2012
Profit before tax from continuing operations	26 174	18 630
Profit before tax from continuing operations of companies non-payers of income tax	(28 831)	(19 230)
Loss before tax from continuing operations of companies payers of income tax	(2 657)	(600)
Tax in statutory tax rate 19% (2012: 21%)	(505)	(126)
Allowances for unrecognized tax assets	-	(195)
Non-taxable items	864	236
Income tax (benefit) expenses	359	(85)

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18. Property, plant and equipment

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
Initial cost						
31 December 2011	44 345	21 857	8 250	1 133	1 087	76 672
Additions	656	6 763	4 036	191	1 572	15 218
Additions from acquisition of subsidiaries	11 430	6 522	2 910	113	3 817	24 792
Disposals	(857)	(520)	(135)	(130)	-	(1 642)
Transfer	55	378	1		(435)	-
Effect from translation into presentation currency	(18)	(12)	(4)	-	-	(34)
31 December 2012	55 611	34 988	15 058	1 308	6 041	113 006
31 December 2012	55 611	34 988	15 058	1 308	6 041	113 006
Additions	763	7 623	4 930	438	4 679	18 433
Disposals	(624)	(922)	(389)	(69)	-	(2 004)
Transfer	-	1 347	119	-	(1 466)	-
Additions from acquisition of subsidiary	18 500	7 414	624	27	86	26 651
31 December 2013	74 250	50 450	20 342	1 704	9 340	156 086
Accumulated depreciation						
31 December 2011	(4 569)	(6 792)	(2 734)	(970)	-	(15 065)
Depreciation for the period	(2 025)	(2 845)	(1 169)	(271)	-	(6 310)
Additions from acquisition of subsidiaries	-	-	-	(2)	-	(2)
Disposals	107	236	55	115	-	513
Effect from translation into presentation currency	2	3	1	1	-	7
31 December 2012	(6 485)	(9 398)	(3 847)	(1 127)	-	(20 857)
31 December 2012	(6 485)	(9 398)	(3 847)	(1 127)	-	(20 857)
Depreciation for the period	(2 595)	(2 966)	(1 378)	(156)	-	(7 095)
Disposals	124	698	284	75	-	1 181
Additions from acquisition of subsidiary	-	-	-	(11)	-	(11)
31 December 2013	(8 956)	(11 666)	(4 941)	(1 219)	-	(26 782)
Net book value						
As at 31 December 2011	39 766	15 065	5 516	163	1 087	61 607
As at 31 December 2012	49 126	25 590	11 211	181	6 041	92 149
As at 31 December 2013	65 294	38 784	15 401	485	9 340	129 304

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). The fair values as at the date of acquisition of new subsidiaries were determined by an independent appraisers FDI "Bureau Veritas Ukraine".

As at 31 December 2013, 2012 and 2011 an impairment review was conducted by the management of the Group. Impairment test has been performed for the following Cash Generating Units: Farming division, Live-stock breeding, Storage and processing. Impairment of PPE was not identified.

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

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

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If property, plant and equipment are measured at cost their book value would be the following:

	Land and buildings	Machinery	Motor vehicles	Other	Construction in progress	Total
As at 31 December 2011	7 324	9 031	2 983	308	1 087	20 733
As at 31 December 2012	12 671	19 721	8 029	202	6 041	46 664
As at 31 December 2013	14 238	31 895	12 694	690	9 340	68 857

The amount of property, plant and equipment pledged to secure bank loans was as follows:

	As at 31 December 2013	As at 31 December 2012
Land and buildings	31 112	18 498
Machinery	14 032	12 473
Motor vehicles	6 240	5 017
Other	89	75
Construction in progress	2 071	-
	53 544	36 063

Leased assets, where the Group is a lessee under finance lease agreements, comprise the following items:

	As at 31 December 2013	As at 31 December 2012
Machinery	11 681	2 949
Motor vehicles	3 347	260
	15 028	3 209

There were no borrowing costs capitalized as a part of costs of property, plant and equipment during the year ended 31 December 2013 and 2012.

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19. Intangible assets

	Computer software	Property certificates	Land lease rights	Total
Initial cost				
31 December 2011	32	618	2 842	3 492
Additions	3	270	-	273
Additions from acquisition of subsidiaries	-	-	21 013	21 013
Disposals	-	(160)	-	(160)
31 December 2012	35	728	23 855	24 618
31 December 2012	35	728	23 855	24 618
Additions	18	38	-	56
Additions from acquisition of subsidiary	-	66	8 404	8 470
Disposals	-	(11)	-	(11)
31 December 2013	53	821	32 259	33 133
Accumulated amortisation				
31 December 2011	(20)	(8)	(170)	(198)
Amortisation for the period	(4)	-	(1 152)	(1 156)
Effect from translation into presentation currency	-	-	-	-
31 December 2012	(24)	(8)	(1 322)	(1 354)
31 December 2012	(24)	(8)	(1 322)	(1 354)
Amortisation for the period	(4)	-	(3 979)	(3 983)
Disposal	-	6	-	6
31 December 2013	(28)	(2)	(5 301)	(5 331)
Net book value				
As at 31 December 2011	12	610	2 672	3 294
As at 31 December 2012	11	720	22 533	23 264
As at 31 December 2013	25	819	26 958	27 802

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.

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20. Non-current biological assets

	31 December 2013	31 December 2012
Non-current biological assets - animal-breeding		
Cattle	14 934	10 688
Pigs	-	39
Other	-	2
Total non-current biological assets - animal - breeding	14 934	10 729
Non-current biological assets - plant-breeding		
Perennial grasses	150	150
Total non-current biological assets	15 084	10 879

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

	31 December 2013	31 December 2012
Cattle		
Cattle, units	4 430	4 484
Live weight, kg	1 808 108	1 823 240
Book value	14 934	10 688
Pigs		
Pigs, units	-	107
Live weight, kg	-	15 758
Book value	-	39
Other		
Other, units	-	21
Live weight, kg	-	1 037
Book value	-	2

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

	Cattle	Pigs	Other	Total
31 December 2011	8 947	24	-	8 971
Acquisitions for the period	25	-	-	25
Additions from acquisition of subsidiaries	354	30	2	386
Transfer (from (to) current biological assets)	893	(15)	-	878
Change in fair value	474	-	-	474
Effect from translation into presentation currency	(5)	-	-	(5)
31 December 2012	10 688	39	2	10 729
31 December 2012	10 688	39	2	10 729
Capitalized expenses	-	11	5	16
Transfer (from (to) current biological assets)	954	(50)	(7)	897
Change in fair value	3 292	-	-	3 292
31 December 2013	14 934	-	-	14 934

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 21,25% prevailing as at 31 December 2013 (2012: 22,92%) was applied for cattle.

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

	31 December 2013	31 December 2012
Perennial grasses		
Area, ha	1 479	1 407
Book value	150	150

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

	Perennial grasses
31 December 2011	86
Additions from acquisition of subsidiaries	19
Capitalized expenses	41
Harvesting	7
Harvesting failure	(3)
31 December 2012	150
31 December 2012	150
Capitalized expenses	45
Harvesting	4
Harvesting failure	(49)
Effect from translation into presentation currency	-
31 December 2013	150

21. Deferred tax assets and liabilities

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

Deferred tax assets

	Property, plant and equipment	Tax losses	Allowances for recognized tax assets	Prepayments and accounts payable	Provisions	Total
31 December 2011	-	439	(439)	42	78	120
Considering profit (loss)	-	(195)	195	71	(57)	14
Acquisition of subsidiaries	132	-	-	-	-	132
31 December 2012	132	244	(244)	113	21	266
31 December 2012	132	244	(244)	113	21	266
Considering profit (loss)	(8)	(91)	91	(113)	13	(108)
31 December 2013	124	153	(153)	-	34	158

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Deferred tax liabilities

	Property, plant and equipment	Prepayments and accounts payable	Total
31 December 2011	(3 120)	(1)	(3 121)
Considering profit (loss)	123	1	124
Considering equity	249	-	249
Acquisition of subsidiaries	(247)	-	(247)
Effect of foreign currency translation	3	-	3
31 December 2012	(2 992)	-	(2 992)
31 December 2012	(2 992)	-	(2 992)
Considering profit (loss)	(227)	-	(227)
Considering equity	98	-	98
31 December 2013	(3 121)	-	(3 121)

22. Other non-current assets

	31 December 2013	31 December 2012
Prepayments and other non-financial assets:		
Prepayments for property, plant and equipment	885	1 100
Long-term VAT recoverable	1 240	-
	2 125	1 100

As at 31 December 2013 an amount of th USD 702 or 79% of the total amount of prepayments for property, plant and equipment is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 1 010 or 92%).

As at 31 December 2013 the long-term VAT recoverable amounting th USD 1 240 was accumulated on capital expenses.

23. Inventories

	Note	31 December 2013	31 December 2012
Work-in-progress	a	54 729	7 281
Agricultural produce	b	75 571	43 019
Finished goods	c	521	8 034
Agricultural materials		4 088	1 891
Raw materials		805	981
Spare parts		876	758
Fuel		1 224	724
Other inventories		1 236	845
		139 050	63 533

a) 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.

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

	31 December 2013	31 December 2012
Corn	68 849	32 064
Wheat	70	582
Sunflower	327	55
Potato	3 824	1 930
Lupin	4	19
Hay	234	217
Silage	912	4 033
Soya	582	2 313
Other	769	1 806
	75 571	43 019

As at the reporting dates agricultural produce was impaired as follows:

	Initial amount	Amount of impairment	Book value
Corn	71 200	(2 351)	68 849
Wheat	70	-	70
Sunflower	398	(71)	327
Potato	3 824	-	3 824
Lupin	4	-	4
Hay	234	-	234
Silage	912	-	912
Soya	641	(59)	582
Other	771	(2)	769
	78 054	(2 483)	75 571

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

c) As at 31 December 2012 finished goods was include sugar in the amount of th USD 7 946.

As at 31 December 2013 long-term loans (note 30) and short-term loans (note 31) were secured by agricultural produce and finished goods:

	31 December 2013	31 December 2012
Corn	36 665	18 469
Sugar	-	3 436
	36 665	21 905

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24. Current biological assets

	31 December 2013	31 December 2012
Current biological assets of animal-breeding		
Cattle	11 872	8 642
Pigs	26	215
Other	46	50
	11 944	8 907
Current biological assets of plant-breeding		
Corn	-	22 953
Wheat	5 657	6 689
Grasses	105	27
Rye	-	22
Total current biological assets of plant-breeding	5 762	29 691
Total current biological assets	17 706	38 598

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

	31 December 2013	31 December 2012
Cattle		
Cattle, units	3 525	5 700
Live weight, kg	940 491	1 355 429
Book value	11 872	9 642
Pigs		
Pigs, units	85	1 713
Live weight, kg	7 695	80 109
Book value	26	215
Other		
Number of animals, units	120	151
Live weight, kg	30 352	31 073
Book value	46	50
Total book value	11 944	8 907

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

	Cattle	Pigs	Other	Total
31 December 2011	6 907	8	43	6 958
Acquisitions for the period	2	-	3	5
Additions from acquisition of subsidiaries	972	204	6	1 182
Capitalized expenses	3 576	28	1	3 605
Transfer (from (to) non-current biological assets)	(893)	15	-	(878)
Sale	(4 639)	(32)	(5)	(4 676)
Slaughter	(364)	(8)	-	(372)
Change in fair value	3 086	-	2	3 088
Effect from translation into presentation currency	(5)	-	-	(5)
31 December 2012	8 642	215	50	8 907

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31 December 2012	8 642	215	50	8 907
Capitalized expenses	4 266	231	8	4 505
Transfer (from (to) non-current biological assets)	(954)	50	7	(897)
Sale	(6 189)	(479)	(21)	(6 689)
Slaughter	(494)	(44)	(3)	(541)
Change in fair value	6 601	53	5	6 659
31 December 2013	11 872	26	46	11 944

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

	31 December 2013	31 December 2012
Corn		
Area, ha	-	14 234
Book value	-	22 953
Wheat		
Area, ha	8 529	9 927
Book value	5 657	6 689
Rye		
Area, ha	-	556
Book value	-	22
Grasses		
Area, ha	1 270	2 140
Book value	105	27
Total book value	5 762	29 691

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

	Corn	Wheat	Rye	Grasses	Sunflower	Other	Total
31 December 2011	-	3 150	741	173	-	71	4 135
Additions from acquisitions of subsidiaries as at 31 March 2012	-	396	-	3	-	-	399
Additions from acquisitions of subsidiaries as at 30 June 2012	6 778	-	-	-	3 318	-	10 096
Capitalized expenses (harvesting 2012)	23 446	1 740	177	2 297	6 581	4 468	38 709
Revaluation at fair value at the date of harvest	12 850	146	85	2 598	20	1 157	16 856
Harvesting (2012)	(33 960)	(5 408)	(998)	(5 040)	(9 781)	(5 642)	(60 829)
Harvest failure (harvesting 2012)	(235)	(24)	(5)	(31)	(138)	(54)	(487)
Additions from acquisitions of subsidiaries as at 31 December 2012	4 297	1 908	22	18	-	-	6 245
Capitalized expenses (harvesting 2013)	-	1 940	-	10	-	-	1 950
Harvest failure (harvesting 2013)	-	-	-	-	-	-	-
Change in fair value (harvesting 2013)	9 778	2 842	-	-	-	-	12 620
Effect of foreign currency translation	(1)	(1)	-	(1)	-	-	(3)
31 December 2012	22 953	6 689	22	27	-	-	29 691

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31 December 2012	22 953	6 689	22	27	-	-	29 691
Capitalized expenses (harvesting 2013)	46 165	3 787	75	1 525	12 970	5 639	70 161
Revaluation at fair value at the date of harvest	20 434	(512)	(22)	148	12 859	9 796	42 703
Harvesting (2013)	(89 367)	(9 924)	(75)	(1 576)	(25 826)	(15 416)	(142 184)
Harvest failure (harvesting 2013)	(185)	(40)	-	(19)	(3)	(19)	(266)
Additions from acquisitions of subsidiaries as at 31 December 2013	-	282	-	-	-	-	282
Capitalized expenses (harvesting 2014)	-	2 522	-	-	-	-	2 522
Change in fair value (harvesting 2014)	-	2 853	-	-	-	-	2 853
31 December 2013	-	5 657	-	105	-	-	5 762

As at 31 December 2013 long-term loans (note 30) were secured by current biological assets of wheat amounting th USD 1 321.

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

Description	Fair value as at 31 December 2013	Valuation technique	Unobservable inputs	Range of unobservable inputs
			Crops yield - tonnes per hectare	4,7
Crops in fields - wheat	5 657	Discounted cash flows	Crops price	225,2 per tonne
			Discount rate	22,92%
			Milk yield - kg per cow	4500-6750 per year
Cattle	26 806	Discounted cash flows	Milk price	USD 0,5 per liter
			Discount rate	21,25%

25. Trade accounts receivable, net

	Note	31 December 2013	31 December 2012
Trade accounts receivable		2 468	2 880
Allowances for accounts receivable	27	(172)	(409)
		2 296	2 471

As at 31 December 2013 an amount of th USD 1 666 or 73% of the total amount of trade accounts receivable is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 1 924 or 78%).

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Distribution of trade accounts receivable on time frames is the following:

	Total	Past due, not impaired			
		Neither past due nor impaired	Within 90 days	From 90 to 360 days	More than 1 year
As at 31 December 2013	2 296	2 095	2	39	160
As at 31 December 2012	2 471	2 145	31	43	252

On the basis of analysis of payments for the current period Financial Directorate of the Group considers that there is no need to form provision for overdue, but not impaired trade accounts receivable.

26. Prepayments and other current assets, net

	Note	31 December 2013	31 December 2012
Prepayments and other non-financial assets:			
Advances to suppliers	a	1 878	827
Allowances for advances to suppliers	27	(41)	(81)
VAT for reimbursement		4 471	3 650
		6 308	4 396
Other financial assets:			
Non-bank accommodations interest free	b	4 912	5 613
Allowances for non-bank accommodations interest free	27	(17)	-
Other accounts receivable		629	476
Allowances for other accounts receivable	27	(30)	(25)
		5 494	6 064
		11 802	10 460

- a) As at 31 December 2013 an amount of th USD 858 or 47% of the total amount of advances to suppliers is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 378 or 51%).
- b) As at 31 December 2013 an amount of th USD 4 872 or 99% of the total amount of non-bank accommodations interest free is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 5 503 or 98%).

27. Changes in allowances made

	Note	31 December 2013	31 December 2012
Allowances for trade accounts receivable	25	(172)	(409)
Allowances for advances to suppliers	26	(41)	(81)
Allowances for other accounts receivable	26	(30)	(25)
Allowances for non-bank accommodations interest free	26	(17)	-
		(260)	(515)

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The movements of the allowances were as follows:

		For the year ended 31 December 2013	For the year ended 31 December 2012
As at the beginning of the period	Note	(515)	(821)
Accrual	13	(53)	(539)
Additions from acquisition of subsidiaries		-	(224)
Use of allowances		269	721
Return of allowances		39	347
Effect from translation into presentation currency		-	1
As at the end of the period		(260)	(515)

28. Cash and cash equivalents

	Currency	31 December 2013	31 December 2012
Cash in bank and hand	USD	1 280	1 385
Cash in bank and hand	UAH	142	367
Cash in bank and hand	EUR	8	7
Cash in bank and hand	PLN	1	1
Short-term deposit in bank	USD	15 000	-
		16 431	1 760

As at 31 December 2013 the deposit in the amount of th USD 15 000 is pledged to secure bank loans amounting th USD 15 000. The Group can use this deposit according to the agreed schedule. The interest rate of the deposit is 10%.

There were no other restrictions on the use of cash and cash equivalents during the year ended 31 December 2013 and 2012.

29. Equity

Share capital

Industrial Milk Company S.A. has one class of ordinary shares. The number of authorized, issued and fully paid shares as at 31 December 2013 is th 31 300 (31 December 2012 – th 31 300). All shares have equal voting rights. Par value of one share is USD 0,0018.

Shareholders structure was as follows:

	31 December 2013		31 December 2012	
	%	Amount	%	Amount
AGROVALLEY LIMITED	68	38	59	33
Russian Commercial Bank (Cyprus) Ltd	-	-	9	5
Amplico Powszechne Towarzystwo Emerytalne S.A. (with subsidiaries)	5	3	5	3
Other shareholders (each one less than 5% of the share capital)	27	15	27	15
	100	56	100	56

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 since 19 December 2013. The transfer was made to secure receipt of financing from VTB Bank in the amount of th USD 5 078 (see Note 31). As at 31 December 2013 the loan from Russian Commercial Bank (Cyprus) Ltd (a member of VTB Group) was repaid in the full amount, all the shares were transferred back to AGROVALLEY LIMITED.

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

	For the year ended 31 December 2013	For the year ended 31 December 2012
number of authorized, issued and fully paid shares		
As at the beginning of the period	31 300 000	31 300 000
As at the end of the period	31 300 000	31 300 000

Share premium

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

Revaluation reserve

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

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

Effect of foreign currency translation

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

Dividend policy

The Group's policy is to pay dividends at a level consistent with the Group's growth and development plans, while maintaining a reasonable level of liquidity. The current intention of the Management is to recommend to the General Meeting of Shareholders not to declare dividends for the year ended 31 December 2013 and 2012.

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

	Note	Currency	31 December 2013	31 December 2012
Secured				
Long-term bank loans	a	USD	51 076	25 235
Finance lease liabilities	b	UAH, USD, EUR	11 959	2 329
Bonds issued	a	UAH	24 857	22 286
Total long-term loans including current portion			87 892	49 850
Current portion of long-term bank loans	a	USD	(11 866)	(3 575)
Current portion of finance lease liabilities	b	UAH, USD, EUR	(3 158)	(1 176)
Current portion of bonds issued	a	UAH	(24 857)	-
Total current portion			(39 881)	(4 751)
Total long-term loans and borrowings			48 011	45 099

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Essential terms of credit contracts

Creditor	Year of maturity	Currency	Nominal interest rate	As at 31 December 2013	
				Long-term liabilities	Including current portion
Ukrainian bank	2015	USD	9,00%	4 000	-
Ukrainian bank	2015	USD	10,00%	500	-
Ukrainian bank	2016	USD	11,50%	27 000	5 000
Ukrainian bank	2016	USD	1Y Libor+10%	8 030	3 212
Ukrainian bank	2016	USD	1Y Libor+10%	3 571	1 428
Ukrainian bank	2016	USD	9,00%	324	130
Ukrainian bank	2017	USD	8,75%	4 186	1 196
Ukrainian bank	2017	USD	9,00%	1 050	300
Ukrainian bank	2018	USD	1Y Libor+8,7%	2 415	600
				51 076	11 866
Bonds issued	2014	UAH	14,00%	24 857	24 857
				75 933	36 723

Creditor	Year of maturity	Currency	Nominal interest rate	As at 31 December 2012	
				Long-term liabilities	Including current portion
Ukrainian bank	2013	USD	11,50%	150	150
Ukrainian bank	2015	USD	9,00%	4 000	-
Ukrainian bank	2015	USD	10,00%	500	-
Ukrainian bank	2016	USD	1Y Libor+10%	9 590	1 560
Ukrainian bank	2016	USD	1Y Libor+10%	3 809	240
Ukrainian bank	2016	USD	9,00%	454	130
Ukrainian bank	2017	USD	8,75%	3 663	813
Ukrainian bank	2017	USD	8,75%	1 719	382
Ukrainian bank	2017	USD	9,00%	1 350	300
				25 235	3 575
Bonds issued	2014	UAH	14,00%	22 286	-
				47 521	3 575

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

	31 December 2013	31 December 2012
Within one year	36 723	3 575
In the second to fifth year inclusive	39 210	43 946
Later than fifth year	-	-
	75 933	47 521

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Finance lease liabilities were presented as follows:

	As at 31 December 2013		As at 31 December 2012	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	4 289	3 158	1 314	1 176
In the second to fifth year inclusive	10 423	8 719	1 410	1 153
Later than fifth year	89	82	-	-
	14 801	11 959	2 724	2 329
Less future finance charges	(2 842)		(395)	
Present value of minimum lease payments	11 959	11 959	2 329	2 329

31. Short-term loans and borrowings

	Currency	31 December 2013	31 December 2012
Secured			
Short-term bank loans	USD	52 095	24 287
Short-term bank loans	UAH	-	6 506
		52 095	30 793

Essential terms of credit contracts

Creditor	Currency	Nominal interest rate	As at 31 December 2013
Ukrainian bank	USD	9,00%	13 750
Ukrainian bank	USD	13,00%	11 915
Ukrainian bank	USD	13,00%	9 258
Ukrainian bank	USD	1M Libor+8%	5 000
Ukrainian bank	USD	3M Libor+8,5%	5 000
Ukrainian bank	USD	12,00%	3 700
Non-residential bank	USD	9,65%	2 928
Ukrainian bank	USD	10,00%	544
			52 095

Creditor	Currency	Nominal interest rate	As at 31 December 2012
Ukrainian bank	USD	10,50%	5 500
Non-residential bank	USD	3M Libor+12%	5 078
Ukrainian bank	USD	3M Libor+8,5%	3 500
Ukrainian bank	USD	3M Libor+8,5%	2 612
Ukrainian bank	USD	3M Libor+10,1%	2 525
Ukrainian bank	USD	3M Libor+8,5%	2 415
Ukrainian bank	USD	3M Libor+8,5%	2 123
Ukrainian bank	USD	10,00%	534
			24 287
Ukrainian bank	UAH	19,50%	6 506
			30 793

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32. Trade accounts payable

	31 December 2013	31 December 2012
Trade accounts payable	25 943	8 603

As at 31 December 2013 an amount of th USD 20 286 or 78% of the total amount of trade accounts payable is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 4 515 or 52%).

The table below summarizes the maturity profile of Group's liabilities on contractual payments on trade accounts payable:

	On demand	Within 30 days	From 30 to 90 days	From 90 to 180 days	From 180 to 360 days	From 1 to 5 years	Total
As at 31 December 2013	400	13 008	12 352	150	33	-	25 943
As at 31 December 2012	4 228	4 188	133	11	43	-	8 603

33. Other current liabilities and accrued expenses

	31 December 2013	31 December 2012
Other liabilities:		
Advances from clients	8 068	4 991
	8 068	4 991
Other accounts payable:		
Interest payable on bank loans	220	85
Interest payable on bonds	21	54
Accounts payable for the lease of land and property rights	4 156	5 931
Accounts payable for non-current tangible assets	844	581
Taxes payable	85	105
Wages, salaries and related charges payable	1 571	2 211
Accruals for unused vacations	967	904
Accruals for audit services	49	43
Accounts payable for investments	22 605	8 796
Other accounts payable	310	506
	30 828	19 216
	38 896	24 207

As at 31 December 2013 an amount of th USD 8 010 or 99% of the total amount of advances from clients is due from the 10 most significant counterparties (as at 31 December 2012 – th USD 4 948 or 99%).

As at 31 December 2013 Accounts payable for investments amounting to th USD 22 605 comprise th USD 7 635 accounts payable for acquisition of Bluerice Limited (as at 31 December 2012 - th USD 8 796) and th USD 14 970 accounts payable for acquisition of AgroKIM Ltd.

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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;
- c) Key management personnel.

The Group performs transactions with related parties in the ordinary course of business. During the reporting period the Group did not perform any related parties transactions made outside the market conditions (non market basis related parties transactions).

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

	Note	31 December 2013	31 December 2012
Trade accounts receivable, net			
a) Entities - related parties under common control with the Companies of the Group		316	316
b) Entities-related parties, in equity of which Companies of the Group have an interest		-	9
Total trade accounts receivable from related parties, net		316	325
Total trade accounts receivable, net	25	2 296	2 471
Advances to suppliers			
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		-	-
Total other accounts receivable to related parties		-	20
Total other accounts receivable	26	1 837	746
Non-bank accommodations interest free			
a) Entities - related parties under common control with the Companies of the Group		-	15
b) Entities-related parties, in equity of which Companies of the Group have an interest		-	89
Total non-bank accommodations interest free to related parties		-	104
Total non-bank accommodations interest free	26	4 895	5 613
Trade accounts payable			
a) Entities - related parties under common control with the Companies of the Group		8	20
b) Entities-related parties, in equity of which Companies of the Group have an interest		-	239
Total trade accounts payable to related parties		8	259
Total trade accounts payable	32	25 943	8 603

Remuneration of key management personnel was as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2012
Wages and salaries	328	383
Related charges	117	136
	445	519
The average number of employees, persons	6	7

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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.

Information on business segments for the year ended 31 December 2013 was the follow:

	Farming division	Live-stock breeding	Storage and processing	Unallocated	Total
Revenue	137 070	11 353	17 254	-	165 677
Intra-group elimination	(36 010)	(10)	(14 890)	-	(50 910)
Revenue from external buyers	101 060	11 343	2 364	-	114 767
Gain (loss) from changes in fair value of biological assets and agricultural produce, net	45 556	9 951	-	-	55 507
Cost of sales	(101 156)	(13 841)	(1 272)		(116 269)
Gross income	45 460	7 453	1 092	-	54 005
Administrative expenses	-	-	-	(6 667)	(6 667)
Selling and distribution expenses	-	-	-	(4 384)	(4 384)
Other operating income	-	-	-	6 363	6 363
Other operating expenses	-	-	-	(10 918)	(10 918)
Write-offs of property, plant and equipment	-	-	-	(748)	(748)
Operating income of a segment	45 460	7 453	1 092	(16 354)	37 651
Financial expenses, net	-	-	-	(11 477)	(11 477)
Profit before tax	45 460	7 453	1 092	(27 831)	26 174
Income tax benefit (expenses)	-	-	-	(359)	(359)
Net profit	45 460	7 453	1 092	(28 190)	25 815
Other segment information:					
Depreciation and amortisation	9 412	473	1 193	-	11 078
Additions to non-current assets:					
Property, plant and equipment	25 436	5	19 632	-	45 073
Intangible assets	8 508	-	-	18	8 526

For the year ended 31 December 2013 revenue from external buyers of farming division includes revenue from transactions with the single customer amounting 11% of the Group's revenue.

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Information on business segments for the year ended 31 December 2012 was the follow:

	Farming division	Live-stock breeding	Storage and processing	Adjustments	Total
Revenue	96 857	7 821	8 926	-	113 604
Intra-group elimination	(31 207)	(24)	(7 124)	-	(38 355)
Revenue from external buyers	65 650	7 797	1 802	-	75 249
Gain (loss) from changes in fair value of biological assets and agricultural produce, net	29 476	3 562		-	33 038
Cost of sales	(61 061)	(10 696)	(1 723)	-	(73 480)
Gross income	34 065	663	79	-	34 807
Administrative expenses	-	-	-	(4 723)	(4 723)
Selling and distribution expenses	-	-	-	(2 002)	(2 002)
Other income	-	-	-	2 823	2 823
Other expenses	-	-	-	(7 163)	(7 163)
Operating income of a segment	34 065	663	79	(11 065)	23 742
Financial expenses	-	-	-	(5 112)	(5 112)
Profit before tax	34 065	663	79	(16 177)	18 630
Income tax benefit (expenses)	-	-	-	85	85
Net profit	34 065	663	79	(16 092)	18 715
Other segment information:					
Depreciation and amortisation	5 606	780	126	954	7 466
Additions to non-current assets:					
Property, plant and equipment	21 461	2 581	9 502	4 466	38 010
Intangible assets	21 286	-	-	-	21 286
Non-current biological assets	60	411	-	-	471

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 considering existing at that date the inflation factor are as follows:

	31 December 2013	31 December 2012
Within one year	13 350	11 415
In the second to fifth year inclusive	42 121	37 476
Later than fifth year	30 368	30 791
	85 839	79 682

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Areas of operating leased land were as follows:

Location of land	31 December 2013	31 December 2012
	Hectare	Hectare
Poltava region		
Land under processing	30 079	30 079
Land for grazing, construction, other	2 009	2 009
Chernihiv region		
Land under processing	81 938	66 015
Land for grazing, construction, other	1 681	1 681
Sumy region		
Land under processing	24 584	24 584
Land for grazing, construction, other	113	113
	140 404	124 481

37. Financial instruments

Financial instruments as at 31 December 2013 and 2012 were represented by the following categories:

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

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

The Group's non-derivative financial instruments included cash and cash equivalents, accounts receivable, other financial assets, accounts payable, other financial liabilities, loans and borrowings. At 31 December 2013 and 2012, the carrying value of these financial instruments, excluding long-term debt, approximates fair value because of the short-term maturities of these instruments. The major part of the long-term loans and borrowings has floating interest rates and other has fixed interest rates but they are corresponded to the market rate level, so the Management of the Group believes that book value of long-term loans and borrowings approximates their fair value.

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38. Management of financial risks

One of the principal responsibilities of the Financial Department of the Group is to manage the financial risks arising from the Group's underlying operations. On an annual basis, the Financial Department approves a strategic plan that takes into account the opportunities and major risks of our business and mitigation factors to reduce these risks. The Financial Department also reviews risk management policies and procedures on an annual basis and sets upper limits on the transactional exposure to be managed and the time periods over which exposures may be managed. The objective of the policy is to reduce volatility in cash flow and earnings. Risks are managed include:

Type of risk	Affected by	Risk management policies
Credit risk	Ability of counterparties to financial instrument to fulfill their contractual obligations	Credit approval and monitoring practices; counterparties policies
Liquidity risk	Balance of cash flow	Preparation of detailed forecasts of cash flow
Market risk	- Market prices on products sold, materials and services for production - Changes in interest rates - Fluctuation of foreign currency exchange rates	- Foreign currency forward contracts; Long-term cooperation with reliable suppliers - Maintaining a combination of fixed and floating interest rates; USD and UAH interest rates - Foreign currency forward contracts; USD and UAH interest rates

Depending on the type of risks faced by the Group, it is possible to use a single or several methods of minimizing or levelling their negative impact on Group.

The use of the following risk management methods is possible at the Group's companies:

- 1) risk pooling is a method aimed at reducing the risk by transferring accidental losses into the relatively small fixed expenses (this method is a basis for insurance);
- 2) limitation is a method involving the development of detailed strategic documentation, which sets the boundary level of risk in each area of the company's activities, as well as clear allocation of functions and responsibilities of personnel;
- 3) diversification is a method of risk control through the selection of assets, profit on which slightly correlates, if possible;
- 4) hedging is a balancing transaction, minimizing the negative impact of risk (e.g., selection of assets and liabilities by timing, by currency).

- Credit risk

Credit risk is a risk of financial loss to the Group, which results from failure of a buyer or a contractor under the financial instrument to fulfill its contractual obligations. The risk is primarily related to the Group's accounts receivable and cash and cash equivalent.

Book value of financial assets reflects maximal extent that is subject to credit risk of the Group. Maximal level of credit risk is the following:

	31 December 2013	31 December 2012
Trade accounts receivable, net	2 296	2 471
Other financial assets:		
Non-bank accommodations interest free	4 895	5 613
Other accounts receivable, net	599	451
Cash and cash equivalents	16 431	1 760
	24 221	10 295

The Group manages credit risk through rigorous credit approval and monitoring practices. Financial and Economic Department has developed the credit policy. In accordance with it, all contractors are subjected to careful analysis on ability to pay before the Group offers its standard terms of payment and delivery. If the Group sells goods to a contractor it has never dealt before, transactions are performed on terms of prepayment. Deferred payment is offered only to contractors with work experience with the Group more than 1 year without delays in payment terms established in sale contracts.

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Group's management believes that companies comprising the Group are free in their choice of the customers, have close contacts with the leading global and Ukrainian traders, and may switch without risk to other customer offering better conditions of collaboration.

The Financial Directorate of the Group constantly carries out monitoring over payment terms' deadlines according to goods selling contracts. In case of delay in payment, the personnel of the commercial department deals up with the customer and the decision whether to apply penalties or slightly extend the terms (within 90 days) is taken.

The Group forms estimated provision for trade and other accounts receivable and investments. It corresponds with estimation of amount of already suffered credit losses. The main element of the provision is an element of certain loss, determined for assets considering already suffered but not fixed losses. Estimated amount of losses is determined on the basis of statistical data for previous periods for similar financial assets.

Distribution of trade accounts receivable on time-frames is the following:

	Total	Neither past due nor impaired	Within 90 days	Past due, not impaired		More than 1 year
				From 90 to 360 days		
As at 31 December 2013	2 296	2 088	2	39		167
As at 31 December 2012	2 471	2 145	31	43		252

On the basis of analysis of payments for the current period Financial Directorate of the Group considers that there is no need to form provision for overdue, but not impaired trade accounts receivable.

- **Liquidity risk**

Risk of liquidity - is the risk of inability to meet financial obligations of the Group in due time.

The way the Group manages the liquidity lies in providing the Group with constant availability of liquid facilities, enough to meet the obligation in due time, avoiding unforeseen losses and not to expose the reputation of the Group to risk.

There is system of management accounting and budgeting, which allows to plan and control covering all the expenses from operating activity and related with it financial expenses by means of profit.

The table below summarizes the maturity profile of Group's financial liabilities based on contractual payments at 31 December 2013:

	On demand	Within 30 days	From 30 to 90 days	From 90 to 180 days	From 180 to 360 days	From 1 to 5 years	Total
Bank loans	-	1 310	26 795	12 060	21 046	41 960	103 171
Bonds issued	-	-	-	24 857	-	-	24 857
Finance lease liabilities	-	966	893	77	1 223	8 800	11 959
Trade accounts payable	400	13 008	12 352	150	33	-	25 943
Other current liabilities and accrued expenses	967	11 402	15 484	49	10 994	-	38 896
	1 367	26 686	55 524	37 193	36 046	48 010	204 826

- **Market risk**

Market risk arises from fluctuations in market factors, including exchange rates, interest rates and commodity prices. Movements in these factors may affect the Group's income and expenses, or the value of its financial instruments. The objective of the Group's management of market risk is to maintain this risk within acceptable parameters, whilst optimizing returns.

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Market risk is comprised of:

- Commodity price risk
 - i) Risk of changes in market prices of products for sale

The Group Sales Department makes continuous monitoring of market prices of products sold in order to manage exposure to changes in market prices for the products. According to the results of this analysis and subsequent prediction of prices for products, management pricing policy depending on the dynamics of market prices is formed.

- ii) Risk of changes in prices of materials and services

The Group is exposed to changes in prices of materials and services that are used in the process of production. The Group manages these risks by working with reliable suppliers, business relationships with whom had developed over a long time, and the search for new, more affordable supply of resources.

- Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group's companies manage their foreign currency risk by comparing the volumes of export revenues by currencies and loan portfolio by currencies. The Group avoids borrowing and production sales for export in any currency except for USD. The comparison is carried out as a part of the annual planning and budgeting.

When the amounts of the expected export revenues is below the level of USD borrowing for the financial year, the decrease in foreign currency borrowings by repayment of such loans or conversion of foreign currency loans into national currency is performed.

Group avoided realization of risk transactions that are subject to foreign currency risk.

The table below summaries the Group's exposure to foreign currency risk as at 31 December 2013:

	Note	UAH	USD	EUR	PLN	Total
Trade accounts receivable, net	25	2 189	107	-	-	2 296
Cash and cash equivalents	28	142	16 280	8	1	16 431
Loans and borrowings	30, 31	26 324	113 276	387	-	139 987
Other current liabilities and accrued expenses	33	16 291	22 605	-	-	38 896
		44 496	152 268	395	1	197 610

The Group's exposure to foreign currency risk, based on book value, as at 31 December 2013 was as follows:

	31 December 2013	Increase/decrease in USD exchange rate, %	Effect on profit before tax
Trade accounts receivable, net	107	25 (10)	27 (11)
Cash and cash equivalents	16 280	25 (10)	4 070 (1 628)
Loans and borrowings	113 276	25 (10)	(28 319) 11 328
Other current liabilities and accrued expenses	22 605	25 (10)	(5 651) 2 261
General effect	-	25 (10)	(29 874) 11 950

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	31 December 2013	Increase/decrease in EUR exchange rate, %	Effect on profit before tax
Loans and borrowings	387	25 (10)	(97) 39
General effect	-	25 (10)	(97) 39

- Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Change in interest rates influences the involved loans and borrowings and finance lease transactions. Management of the Group doesn't have formalized policy respecting proportion of interest risk's allocation between the loans with fixed interest rate and floating interest rate. However, when attracting new loans and borrowings, management solves the problem respecting which interest rate, fixed or floating, will be more profitable for the Group during the expected period till the maturity date, based on own professional judgments.

As at 31 December 2013 the Group's interest-bearing financial instruments were formed as follows:

	31 December 2013	31 December 2012
Loans and borrowings		
Fixed rate instruments	105 777	42 485
Variable rate instruments	34 210	38 158
	139 987	80 643

The Group's exposure to interest rate risk, based on book value, as at 31 December 2013 was as follows:

Note	31 December 2013	Increase/decrease in Libor rate, %	Effect on profit before tax
Bank loans	24 016	1 (1)	(240) 240
Finance lease liabilities	10 194	1 (1)	(102) 102
General effect	34 210	1 (1)	(342) 342

Agro-industrial risks

Agro-industrial business is subject to risks of outbreaks of various diseases of cattle or crops. These diseases could result in losses. Disease control measures were adopted by the Group to minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any diseases and related losses.

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39. Capital management

The Group's objectives in the process of capital management are maintaining the Group's ability to follow the going concern principle to provide benefits to interested parties, and also maintaining the optimal structure of involved and own funds.

The management of the Group regularly analyzes the structure of its capital. On basis of results of this analysis the Group takes measures, which are aimed at maintenance of total structure of the capital balance.

The main financial liabilities of the Group are loans and borrowings, trade and other accounts payable. The main aim of these financial instruments is to involve facilities for the Group's activity.

The Group's strategy in managing capital is to maintain the ratio of net debt to net debt plus equity at approximately 60% or lower.

The Group's gearing ratio as at 31 December 2013 and 2012 was as follows:

	Note	31 December 2013	31 December 2012
Long-term loans and borrowings	30	48 011	45 099
Current portion of long-term borrowings	30	39 881	4 751
Short-term loans and borrowings	31	52 095	30 793
Trade accounts payable	32	25 943	8 603
Other current liabilities and accrued expenses	33	38 896	24 207
Cash and cash equivalents	28	(16 431)	(1 760)
Net debt		188 395	111 693
Total equity		153 922	128 013
Total net debt and equity		342 317	239 706
Gearing ratio		55%	47%

The capital structure of the Group is based on management's judgments of the appropriate balancing of all key elements of its financial strategy in order to meet its strategic and day-to-day needs. The Management of the Group considers the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group will take appropriate steps in order to maintain, or if necessary adjust, the capital structure.

40. Events after the balance sheet date

Deposit in the amount of th USD 15 000 are removed from the pledge.

Loans and borrowings are repaid in the amount of th USD 28 456.

Loans and borrowings are received in the amount of th USD 46 949.

Bonds were reissued as short-term in the amount of th USD 15 000 and long-term in the amount of th USD 10 000.

Accounts payable for investments are repaid in the amount of th USD 7 635 of accounts payable for acquisition of Bluerice Limited and th USD 14 970 of accounts payable for acquisition of AgroKIM Ltd.

Since November 2013 Ukraine has been going through a political crisis.

On 22 February 2014, the Parliament of Ukraine voted for return to the 2004 Constitution and dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional Government formation has started. In January-February 2014, the Ukrainian hryvnia devalued against the major world currencies and significant external financing was required to maintain its stability. The National Bank of Ukraine, among other measures, imposed certain temporary restrictions on processing client payments by banks and on purchase of foreign currency on inter-bank market. In February 2014, Ukraine's sovereign rating has been further downgraded to CCC with a negative outlook. The final resolution and impact of the political crisis are difficult to predict and the ongoing crisis may further adversely affect the Ukrainian economy. Subsequent to 31 December 2013 the Group has been operating in the normal course of business and the management of the Group believes that it has undertaken all necessary measures to maintain the economic stability of the Group under these circumstances.

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