GRAIN ALLIANCE

# ANNUAL REPORT 2011

## Restoring the Bread Basket of Europe

# WHO WE ARE

Grain Alliance is a modern farm operator in Ukraine. The company controls 45 000 hectares in Ukraine, out of this area 38 000 is cultivated. Ukraine was once the "bread basket of Europe" and still has one of the most fertile soils in the world. Grain Alliance's overall business strategy is to generate sustainable returns by increasing productivity and efficiency in the Ukrainian agriculture by implementing best agricultural practices, modern equipment and strict financial control. The underlying macroeconomic drivers for the business is the increasing in demand for food, which is fueled by the global economic growth and the changing consumption patterns in the developing world towards a more protein rich diet.

# THE YEAR IN BRIEF

## Q1

- Investments in agricultural equipment for 16 MSEK
- Training
- Valuation of assets according to IFRS
- Expansion in the North Poltava region with 2000+ hectares

## Q2

- Seeding campaign delayed due to harsh winter.
- April 2012 first day of seeding
- All new equipment are ready for field work

## Q3

- Sale of 70 000 corn on futures
- Finalization of the first step of the Piryatin elevator
- Expansion of the Piryatin elevator
- Expansion of flatbed warehouse in Ovsyuki
- Harvest of corn
- Successful field drying of corn and sunflower gives enhances harvest speed
- Winter crops seeding and land preparation

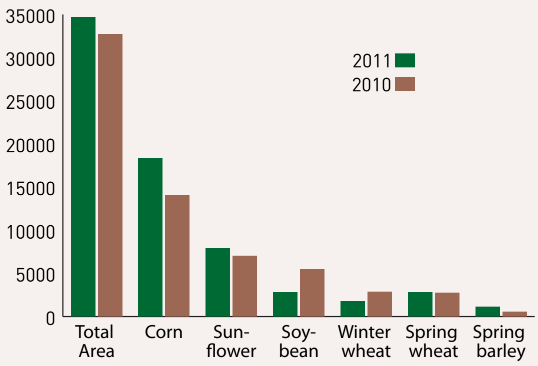
## Q4

- Finalization of second expansion of the Piryatin elevator
- End of harvest
- Transition to IFRS

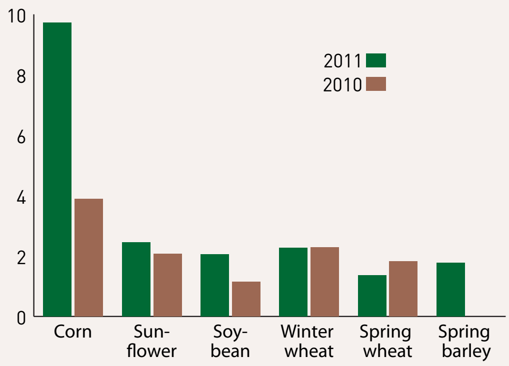
Alex Oronov, Founder and CEO

Sunflower fields, Kiev region

## AREA, HA




## YIELD, TONS/HA



# FINANCIAL STATEMENTS IN BRIEF

| | THOUSANDS OF SEK 2011 | 2010 |
|---|---|---|
| Revenues, including revaluation of biological assets | 238 393 | 154 025 |
| Gross profit | 74 474 | 6 638 |
| EBITDA | 92 903 | 31 877 |
| EBITDA margin | 39% | 21% |
| Net profit/loss | 37 637 | -23 471 |
| Net margin | 16% | n.a. |
| Depreciation of immaterial assets | 23 044 | 23 044 |
| Depreciation, total | -35 182 | -36 191 |
| Total assets | 327 128 | 260 899 |
| Total equity | 243 422 | 79 031 |
| Total liabilities | 83 706 | 181 868 |
| No of shares | 7 807 775 | 4 850 098 |
| Profit/loss per share | 4,8 | -4,8 |
| Equity per share | 31,2 | 16,3 |
| Equity ratio | 74% | 30% |
| Cultivated area | 34 292 | 33 607 |
| Revenues/ha | 6 952 | 4 583 |
| EBITDA/ha | 2 709 | 949 |

CORPORATE IDENTITY NUMBER: 556754-1056

ANNUAL REPORT AND CONSOLIDATED ACCOUNTS
FOR THE FINANCIAL YEAR 1 JANUARY 2011 -31 DECEMBER 2011

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# REPORT ON OPERATIONS

## GRAIN ALLIANCE BACKGROUND

The foundation for Grain Alliance was laid on February 26 1998, when the company The Harvest Moon East Ltd. (HME) was founded by the American entrepreneur Alex Oronov.

Initially, the company was a provider of tillage services for agricultural producers, but already in summer 1998 the company started cultivating two thousand hectares of leased land. The area was gradually increased and in 2008 the total cultivated area reached more than 27000 hectares. In May 2008 the founder of HME joined forces with a Swedish-Ukrainian team of entrepreneurs and founded a new entity - Grain Alliance, which acquired several farms in the Poltava region and during summer 2008 HME was bought out by the remaining partners. After the acquisition the companies were gradually merged into one organizational entity, under the brand name Grain Alliance. The merger was formally finalized in December 2009. By merging the companies, a solid platform for further growth, expansion and development of the company was created.

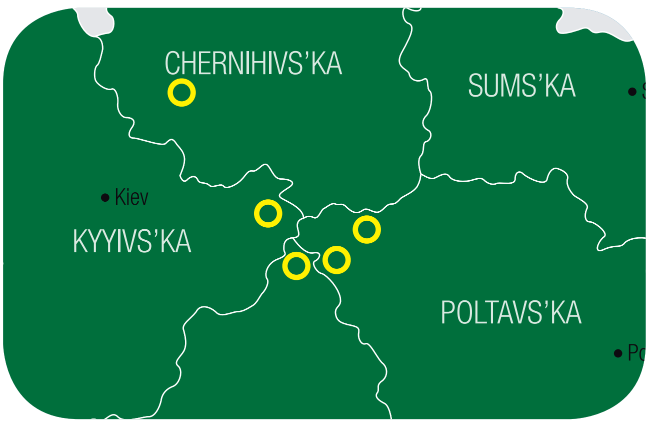
In conjunction with this reorganization a strong financial and organizational expertise was added to the company and many parts of the existing organization were restructured. New modern financial management practices and more efficient agricultural practices were introduced. Moreover, additional capital was injected, which allowed new agricultural equipment to be added to the production process.

## OPERATIONS

Grain Alliance operates in the black earth belt in Ukraine in four regions; Kiev, Poltava, Chernigov and Cherkassy. The operations are divided into four clusters, each cultivating between 8000 to 10000 hectares. Each cluster is equipped with modern agricultural machinery and the short distance between the regions also enables a more efficient usage of the machinery. The harvested grain is transported to one of the company's five grain elevators; three of these have direct railroad access.

## GEOGRAPHY OF OPERATIONS

Grain Alliance's strategy is to cultivate and operate in a concentrated geographical area. The radius between the farms is approximately 80 km. The close proximity of the farms allows for more efficient use of machinery and equipment and more cost-efficient transporting of tractors and harvesters between fields.




The drying and storage facilities can also efficiently service the existing farms. However, there is a need to expand the drying and storage capacities in the Poltava region. Fuel is one of the main costs of the operations. By having a high geographical concentration in the operations Grain Alliance reduces these costs. The long-term strategy is to reduce the overall fuel consumption by creating economies of scale.

## AGRICULTURE OPERATIONS

Producing crops usually involves regular plowing and tilling, that stirs up the soil in various ways. Plowing and tilling is used to remove weeds, mix in soil amendments like fertilizers, shape the soil into rows and prepare the soil for seeding. Yet, it has been proven that this can lead to adverse effects, like making the soil too compact, loss of organic substances, loss or disruption of soil microbes, arthropods, and earthworms, and increased erosion where topsoil is blown or washed away. To avoid these unfavorable effects Grain Alliance uses a modified "no-till" method, the so called "mini-till".

Evidence shows that repeated tillage destroys the soil and could potentially be damaging to the environment in the long run. Regular tilling degrades the fertility of soils, causes air and water pollution, intensifies drought stress, leads to an increased fuel consumption and even contributes to global warming. With the no-till and mini-till method crop residues or other organic substances are kept on the soil surface and seeding/fertilizing is done with minimal soil disturbance. No-till fields often have more beneficial insects, a higher microbial content, and a greater amount of soil organic material.

## SUSTAINABILITY AND ENVIRONMENTAL CONCERNS

Sustainability is a key word in Grain Alliance's overall approach to large scale farming; therefore we strive to grow a balanced mix of crops with an emphasis on crop rotation and soil recovery.

In order to monitor the soil quality and avoid any damage to the environment Grain Alliance invested, despite the then ongoing financial and political crisis, in 2008 in an in-house laboratory, which monitors and measures the quality of our soils. In Ukraine there are only a handful of such laboratories. By continuously analyzing the soil the agronomists scientifically know what kind of fertilizer to use and in which quantities. Grain Alliance can also in time react to problems such as increased acidity of the soil. The information is stored in our management information system and changes in the composition of nutrients can be followed over the years. This systematic approach also provides a clear trace from seed to final plant, allowing Grain Alliance to declare, for each individual field, for instance what fertilizers have been used, in which quantities and in which period, and how they have affected the soil quality. Based on this we can avoid any damages to the environment.

Also, when expanding our territories a thorough analysis of the soil is performed. If the Grain Alliance laboratory detects any deficiencies, measures are immediately taken. Grain Alliance is constantly making long term investments in the soil in order to maintain the biological balance.

In addition to the soil analysis Grain Alliance management information system provides full traceability of all crops grown. From seed to plant, we can monitor with exactness which operations have been carried out, which quantities of fertilizer and pesticides have been used, at what time, by whom, and with which piece of equipment, precipitation levels during the growth period, etcetera. By monitoring in detail all input and all field activities we ensure that we comply with all environmental regulations and recommendations.

## FINANCIAL AND MANAGEMENT CONTROL

Strict financial and management control is a key component for all ongoing activities within Grain Alliance. Right from the start in 2008 the process of modernizing all aspects of the management of the company began, and the foundation for the company's integrated financial management information system, which goes by the name of "Agrido". During 2009 all parts of the operations where computerized and a massive training program was launched. The objective was to measure and monitor all ongoing activities in the company. Based on the data gathered, the management is able to make appropriate decisions and increase the efficiency of the operations. Agrido also contains an interface for gps control of all the company's vehicles. This system makes it possible to control and manage in detail the seeding and harvesting.

## 2011 SEEDING CAMPAIGN

The 2011 seeding campaign was a bit delayed due to the harsh winter and was initiated on April 12. Nevertheless, the solid preparations of the soil carried out during fall 2010 gave us a head start. The weather conditions during the seeding were good and all crops were seeded in due time. Several new pieces of equipment were added and they increased both the speed and the quality of the seeding. Moreover, Grain Alliance initiated during fall 2010 a training program for the agronomists and a new production strategy was developed and implemented in 2011.

## PRODUCTION VOLUME

In 2011 Grain Alliance produced in total 216,745 tons of grains and oil seeds from 35 110 hectares cultivated land, which can be compared with the total production volume of 2010, which was 99,362 tons. The weather conditions were favourable for corn, sunflower and soybeans, unfortunately the winter crops suffered from the harsh winter and a dry spell during spring.

Corn was the main crop during 2011, a total of 18 349 hectares were seeded with corn. The average yield ended upon 9.73 tons per hectare and totally 178 540 tons of corn were harvested. During 2011 Grain Alliance introduced a new type of soybean brought from the U.S., which proved very successful. In total 2 778 hectares were seeded with soybeans and out of this area approximately 800 hectares were seeded with the new breed and the average yields on these fields were 2.5 tons per hectare.

| CROP | AREA (ha) | GROSS YIELD (ton/ha) | BEST FIELD (ton/ha) |
|---|---|---|---|
| **Corn** | 18 349 | 9,73 | 13,00 |
| **Sunflower** | 7 867 | 2,45 | 4,01 |
| **Soybean** | 2 778 | 2,05 | 3,00 |
| **Winter wheat** | 1 773 | 2,27 | 3,75 |
| **Spring wheat** | 2 797 | 1,36 | 1,91 |
| **Spring barley** | 1116 | 1,77 | 2,38 |

## STORAGE

In fall 2010 Grain Alliance initiated the construction of a brand new drying and storage facility in Piryatin in the Poltava region. The first stage of the construction was finalized in July 2011. In August the decision was made to increase the storage capacity by 11 000 tons up to 23 000 tons of storage capacity. The total planned capacity of this elevator is 55 000 tons.

In addition to this elevator Grain Alliance has 3 older elevators with traditional flat bed storage facilities. These elevators has been refurbished and modernized by Grain Alliance.

| | Baryshevka | Berezan | Yagotin | Piryatin |
|---|---|---|---|---|
| **Storage cap.** | 15 000 t | 23 000 t | 15 000 t | 23 000 t |
| **Storage type** | Flat warehouses | Flat warehouses | Concrete silos | Steel silos |
| **Drying cap.** | 400 t/day | 500 t/day | 600 t/day | 1000 t/day |
| **Railroad** | On site | On site | 8 km | On site |
| **Shipment cap.** | 800 t/day | 600 t/day | 400 t/day | 1400 t/day |

## SALES 2011

Already in July the board of directors made the decision to sell 70 000 tons of corn from the upcoming harvest. Since the total storage capacity of Grain Alliance is too small to hold all the produced corn the company needed to secure immediate shipment. The shortage of railroad wagons and capacity related problems in the ports could cause severe logistical problems during harvest. Grain Alliance sells the majority of the production to the large global trading companies and each sale consists of large crop volumes. The local grain prices show a solid correlation with the international commodities markets, but during the peak harvest when the above mentioned logistical problems appear the correlation with the international commodities markets is lost. Instead a local price is forming, which is lower than the international pricing. Grain Alliance's sales strategy is to sell parts of the harvest before season and store and monitor the prices until the correlation has returned and the price level has normalized.

# DIRECTORS' REPORT

## INVESTMENTS 2011

Grain Alliance continued the planned investment program, which aims to increase efficiency and quality of the production. During early spring, February/March, Grain Alliance increased the agricultural machine park with 28 units at a total cost of 16 292 394 SEK. In addition, the storage capacity of the elevator in Piryatin was expanded.

## EMPLOYEES

The number of employees on December 31 2011 amounted to 1 152, broken down on 284 women and 868 men. It is important to bear in mind that the number of employees varies significantly with the season. A large number of seasonal employees assist in seeding and harvesting. The average numbers of employees in 2011 was 1 139 (in 2010: 919).

## SHAREHOLDERS

In November 2011 a decision was made to issue 2 957 677 shares to Ukrainian Investment AB at a total value of 118 307 080 SEK. In total the company has 7 807 775 shares outstanding. The main shareholder, Ukrainian Investment AB, owns 7 437 848 shares, i.e. 95.3%.

## ENVIRONMENT

The company has adopted a balanced crop rotation plan, which aim to avoid soil exhaustion and harm to the environment. The introduction of the mini-till approach and the adding of modern machinery is a central part of the environment protection strategy of the company.

## HUMAN RESOURCES POLICY

Grain Alliance has adopted an active policy which aims to educate and develop the employees. During 2011 key personnel were offered training in the fields of agronomy, agriculture technology, financial and general management.

## RISK

The agricultural operations are entirely conducted in Ukraine. The operations as such are exposed to risks in the form of volatile world prices, adverse weather and other external influences on soil and crops. Ukraine as a country also carries risks, both political and economic. See note 26 for more information about risks and risk management.

## IMPORTANT EVENTS DURING THE PERIOD

The seeding campaign was initiated on 15 April and finished on 17 May. The harvest of the winter crops started on 7 July, sunflower on 30 August and the corn on 2 September. The last of the crops were harvested on 15 December.
A decision on transition to IFRS (International Financial Reporting Standards) was made during the year. The accounting of the company previously complied with the regulations of the Annual Accounts Act and the General Recommendations of the Swedish Accounting Board . See accounting policies for more information.

## IMPORTANT EVENTS AFTER THE PERIOD

On 31 January 2012 the remaining stock of corn, 39 900 tons, was sold at a price of 1710 UAH/CPT. In addition, 4,500 tons of soybeans was sold at a price of 3,500 UAH/EXW.
On 14 February 2012 the board of directors decided to improve the drying capacity at the elevators in Berezan and Yagotin, by replacing the dryers by new, energy efficient dryers with a drying capacity of 900 tons of corn per day.
In April 2012, Grain Alliance expanded the cultivated area in the North Poltava cluster by 1800 hectares.
The share issue of 2 957 677 shares was registered at Euroclear during the first quarter 2012.

## PLANS FOR THE FUTURE

The Company will continue to produce crops in Ukraine and, if possible, increase the cultivated area. Since storage capacity is one of the largest bottlenecks in the production this will also be increased gradually during the coming years. No major change in the allocation of crops is foreseen.

## KEY RATIO

| | 2011 | 2010 |
|---|---|---|
| **Turnover** | 183 026 | 160 969 |
| **Operating profit/loss** | 57 721 | (4 314) |
| **Profit after financial items** | 37 637 | (23 457) |
| **Equity ratio %** | 74,4 % | 30,3 % |
| **Cash Flow** | (3 182) | (4 245) |

## OUTLINE OF THE PARENT COMPANY RESULTS

The following earnings are at the disposal of the Annual General Meeting:

| | |
|---|---|
| **Retained earnings** | **262 868 936 SEK** |
| **Net gain/loss for the year** | **(6 900 163 SEK)** |
| | **255 968 773 SEK** |

The Board proposes that the gain/loss be appropriated as follows:

| | |
|---|---|
| To be carried forward | 255 968 773 SEK |
| | **255 968 773 SEK** |

Results of operations and financial position at year-end are shown in the following Income Statement and Balance Sheet, as well as in the information contained in the Notes to accounts.

Consolidated and Parent Company's statements of comprehensive income (in thousands of SEK)

| | | The Group | | The Parent Company | |
|---|---|---|---|---|---|
| | **Notes** | **2011** | **2010** | **2011** | **2010** |
| Revenue from sales | 5 | 183 026 | 160 969 | - | - |
| Net gain / (loss) on fair value measurement of biological assets and agricultural produce | 16 | 55 367 | (6 944) | - | - |
| Cost of sales | 6 | (163 920) | (147 387) | - | - |
| **Gross profit** | | **74,474** | **6,638** | **-** | **-** |
| | | | | | |
| Other operating income | 7 | 16,754 | 12 984 | - | - |
| Selling, general and administrative expenses | 8 | (25 888) | (19 389) | (5 348) | (2 823) |
| Other operating expenses | 9 | (7 618) | (4 547) | - | - |
| **Operating profit / (loss)** | | **57,721** | **(4,314)** | **(5,348)** | **(2 823)** |
| | | | | | |
| Finance costs | 10 | (23 570) | (19 519) | (5 305) | **(4 193)** |
| Finance income | 11 | 5 | 87 | - | - |
| Foreign exchange gain | | 3 481 | 289 | 3 753 | - |
| **Profit / (loss) before tax** | | **37 637** | **(23 457)** | **(6 900)** | **(7 016)** |
| | | | | | |
| Income tax expense | | | (14) | - | - |
| **Profit / (loss) for the year** | | **37 637** | **(23 471)** | **(6 900)** | **(7 016)** |
| | | | | | |
| Whereof attributed to equity holders of the company | | **37 637** | **(23 471)** | | |
| | | | | | |
| ***Other comprehensive income:*** | | | | | |
| Foreign exchange differences | | 8 447 | (12 636) | - | - |
| Tax effect | | - | - | - | - |
| **Total comprehensive income for the year** | | **46 084** | **(36 107)** | **(6 900)** | **(7 016)** |
| **Whereof attributed to equity holders of the company** | | **46 084** | **(36 107)** | | |

Consolidated and Parent Company's statements of financial position (in thousands of SEK)

| | | The Group | | | The Parent Company | | |
|---|---|---|---|---|---|---|---|
| | **Notes** | **2011** | **2010** | **As at 1 January 2010** | **2011** | **2010** | **As at 1 January 2010** |
| **Non-current assets** | | | | | | | |
| Intangible assets | 12 | 50 840 | 72 539 | 97 317 | - | - | - |
| Property, plant and equipment | 13 | 153 421 | 134 997 | 108 418 | - | - | - |
| Shares in subsidiaries | 14 | - | - | - | 256 551 | 256 367 | 213 485 |
| Biological assets | 16 | 1 860 | 1 333 | 1 269 | - | - | - |
| Other non-current assets | 15 | 2 380 | 3 890 | 2 676 | - | - | - |
| | | **208 501** | **212 759** | **209 680** | **256 551** | **256 367** | 213 485 |
| **Current assets** | | | | | | | |
| Inventories | 17 | 97 467 | 33 361 | 37 066 | - | - | - |
| Biological assets | 16 | 6 953 | 2 454 | 3 607 | - | - | - |
| Trade and other receivables | 18 | 1 627 | 1 529 | 2 378 | - | - | - |
| Receivable subsidiary | 18 | - | - | - | 71 304 | - | - |
| Other current assets | 18 | 10 239 | 5 272 | 11 931 | 1 748 | 1 966 | 2 280 |
| Cash and cash equivalents | 19 | 2 344 | 5 524 | 9 769 | 121 | 111 | 67 |
| | | 118 628 | 48 140 | 64 751 | 73 173 | 2 077 | 2 347 |
| Assets classified as held for sale | | - | - | 28 487 | - | - | - |
| | | 118 628 | 48 140 | 93 238 | 73 173 | 2 077 | 2 347 |
| **Total assets** | | **327 129** | **260 899** | **302 918** | **329 724** | **258 444** | **215 832** |
| | | | | | | | |
| **Equity** | | | | | | | |
| Issued capital | 20 | 11 556 | 7 178 | 6 969 | 11 556 | 7 178 | 6 969 |
| Other contributed capital | | 278 295 | 164 366 | 159 625 | - | - | - |
| Retained earnings | | (30 837) | (68 474) | (45 003) | 255 969 | 148 940 | 151 215 |
| Foreign currency translation reserve | | (15 592) | (24 039) | (11 403) | - | - | - |
| | | **243 422** | **79 031** | **110 188** | **267 525** | **156 118** | **158 184** |
| | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Liability to non-controlling interests | | 3 674 | 1 867 | 1 670 | - | - | - |
| Loans and borrowings | 21 | 51 074 | 83 248 | 80 361 | 55 105 | 82 890 | 55 900 |
| | | **54 748** | **85 115** | **82 031** | **55 105** | **82 890** | **55 900** |
| **Current liabilities** | | | | | | | |
| Loans and borrowings | 21 | 12 255 | 84 020 | 69 146 | 6 927 | 19 199 | 1 501 |
| Trade and other liabilities | 22 | 14 451 | 11 655 | 38 392 | 132 | 96 | 108 |
| Other current liabilities | 22 | 2 253 | 1 078 | 3 161 | 35 | 141 | 139 |
| | | 28 959 | 96 753 | 110 699 | 7 094 | 19 436 | 1 748 |
| **Total liabilities** | | **83 707** | **181 868** | **192 730** | **62 199** | **102 326** | **57 648** |
| **Total equity and liabilities** | | **327 129** | **260 899** | **302 918** | **329 724** | **258 444** | **215 832** |

Consolidated and Parent Company's statements of changes in equity (in thousands of SEK)

## The Group

| | Issued capital | Other contributed capital | Retained earnings | Foreign exchange differences | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2010** | **6 969** | **159 625** | **(45 003)** | **(11 403)** | **110 188** |
| | | | | | |
| Loss for the year | | | (23 471) | | (23 471) |
| Other comprehensive income | | | | (12 636) | (12 636) |
| **Total comprehensive income** | | | **(23 471)** | **(12 636)** | **(36 107)** |
| | | | | | |
| ***Transactions with owners*** | | | | | |
| Issue of capital | 209 | 4 741 | | | 4 950 |
| **Balance at 31 December 2010** | **7 178** | **164 366** | **(68 474)** | **(24 039)** | **79 031** |
| | | | | | |
| Profit for the year | | | 37 637 | | 37 637 |
| Other comprehensive income | | | | 8 447 | 8 447 |
| **Total comprehensive income** | | | **37 637** | **8 447** | **46 084** |
| | | | | | |
| ***Transactions with owners*** | | | | | |
| Issue of capital | 4 378 | 113 929 | | | 118 307 |
| **Balance at 31 December 2011** | **11 556** | **278 295** | **(30 837)** | **(15 592)** | **243 422** |

## The Parent Company

| | Issued capital | Other contributed capital | Retained earnings | Total equity |
|---|---|---|---|---|
| **Balance at 1 January 2010** | **6 969** | **159 625** | **(8 410)** | **158 184** |
| | | | | |
| Loss for the year | - | | (7 016) | (7 016) |
| **Total comprehensive income** | **-** | **159 625** | **(7 016)** | **(7 016)** |
| | | | | |
| ***Transactions with owners*** | | | | |
| Issue of capital | 209 | 4 741 | | 4 950 |
| **Balance at 31 December 2010** | **7 178** | **164 366** | **(15 426** | **156 118** |
| | | | | |
| Loss for the year | | | (6 900) | (6 900) |
| **Total comprehensive income** | | | **(6 900)** | **(6 900)** |
| | | | | |
| ***Transactions with owners*** | | | | |
| Issue of capital | 4 378 | 113 929 | | 118 307 |
| **Balance at 31 December 2011** | **11 556** | **278 295** | **(22 326)** | **267 525** |

Consolidated and Parent Company's statements of cash flows (in thousands of SEK)

| | | The Group | | The Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2011 | 2010 | 2011 | 2010 |
| **Operating activities** | | | | | |
| **Profit / (loss) before tax** | | **37 637** | **(23 457)** | **(5 348)** | **(2 823)** |
| *Non-cash adjustments:* | | | | | |
| Depreciation and amortisation | | 36 191 | 35 182 | - | - |
| Finance income | | (5) | (87) | 3 753 | - |
| Foreign exchange gain | | (3 481) | (289) | - | - |
| Finance costs | | 16 056 | 14 760 | (5 305) | (4 193) |
| Non-controlling interests | | 1 807 | 197 | | |
| Write down of property, plant and equipment | | 1 700 | 303 | - | - |
| | | | | | |
| *Working capital adjustments:* | | | | | |
| Change in biological assets | | (5 026) | 1 089 | - | - |
| Change in trade receivables and other current assets | | (5 065) | 7 508 | (71 087) | 315 |
| Change in agricultural produce and other inventories | | (64 216) | 3 874 | - | - |
| Increase in trade and other payables and other current liabilities | | 3 984 | (28 835) | (11 842) | 17 878 |
| | | **19 582** | **10 245** | **(89 829)** | **11 177** |
| Interest received | | 5 | - | - | - |
| Income tax paid | | (13) | 87 | - | - |
| **Net cash flows from operating activities** | | **19 574** | **10 332** | **(89 829)** | **11 177** |
| | | | | | |
| **Investing activities** | | | | | |
| Purchase of property, plant and equipment | | (27 854) | (46 975) | - | - |
| Prepayments for land lease rights | | (3 422) | - | - | - |
| Proceeds from (payments for) other non-current assets, net | | 1 511 | (1 215) | - | - |
| Proceeds from sale of assets classified as held for sale | | - | 28 488 | - | - |
| Purchase of financial assets | | - | - | (184) | (42 882) |
| **Net cash flows used in investing activities** | | **(29 765)** | **(19 702)** | **(184)** | **(42 882)** |
| | | | | | |
| **Financing activity** | | | | | |
| Proceeds from loans and borrowings | | 90 634 | 124 211 | - | 26 799 |
| Repayment of loans and borrowings | | (191 944) | (116 140) | (28 285) | - |
| Issue of capital | | 118 307 | 4 950 | 118 307 | 4 950 |
| Interest paid | | (10 099) | (7 727) | - | - |
| **Net cash flows from financing activities** | | **6 898** | **5 294** | **90 022** | **31 749** |
| | | | | | |
| Net change in cash and cash equivalents | | (3 293) | (4 076) | 9 | 44 |
| Foreign exchange difference cash | | 113 | (169) | - | - |
| Cash and cash equivalents at 1 January | | 5 522 | 9 769 | 111 | 67 |
| **Cash and cash equivalents at 31 December** | | **2 342** | **5 524** | **120** | **111** |

***»Agricultural production needs to increase by 60% over the next 40 years to meet the rising demand for food«***

OECD Global Agriculture Outlook 2012-2021

# NOTES TO THE ANNUAL REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

# 1. CORPORATE INFORMATION

BZK Grain Alliance AB (hereinafter referred as the “Parent Company” or the “Company”) was incorporated in Sweden on 19 March 2008. The registered office of the Company is located at Vasagatan 38, 4tr, S-111 20, Stockholm, Sweden.

As at 31 December the Company holds ownership interests in the following subsidiaries (hereinafter the Company together with its subsidiaries referred to as the “Group”):

| Name | Location | Function | 2011 | 2010 | 1 January 2010 |
|---|---|---|---|---|---|
| **Baryshevski Grain Company LLC** | Ukraine, Baryshevka | Planting, livestock farming | 100% | 100% | 100% |
| **Ukraine LLC** | Ukraine, Chyutivka | Planting, livestock farming | 94.2% | 94.2% | 94.2% |
| **Ukraine LLC** | Ukraine, Ovsyuki | Planting, livestock farming | 90% | 90% | 90% |
| **TFH Agrospectr LLC** | Ukraine, Pyriatyn | Dormant | 100% | 100% | 100% |
| **Grain Alliance Agroinvest Limited** | Cyprus | Dormant | 100% | - | - |
| **Grain Alliance Holding Limited** | Cyprus | Dormant | 100% | - | - |
| **Harvest Moon East LLC** | Ukraine, Baryshevka | Holding, planting | - | 100% | 100% |
| **Grain Alliance Ltd** | Ukraine, Baryshevka | Planting | - | 100% | 100% |
| **Mayak ALLC** | Ukraine, Sazonivka | Planting, livestock farming | - | 100% | 100% |
| **Richland 2 LLC** | Ukraine, Kharsiki | Planting | - | - | 100% |
| **Druzhba Narodiv-K LLC** | Ukraine, Kukshyn | Planting | - | - | 100% |

The principal activity of the Group is crops cultivation, cattle farming and sale of agricultural production in Ukraine

## 1.1. Group restructuring

The Group has been formed in 2011 and 2010 through numerous legal restructuring transactions, i.e., mergers of legal entities, which were under common control of the ultimate controlling party:

- On 11 May 2010 Richland 2 LLC was merged into Baryshevsky Grain Company LLC, and ceased to exists as a separate legal entity;
- On 9 August 2010 Druzba Narodiv-K LLC was merged into Baryshevsky Grain Company LLC, and ceased to exists as a separate legal entity;
- On 7 April 2011 Grain Alliance Ltd. was merged into Baryshevsky Grain Company LLC, and ceased to exists as a separate legal entity;
- On 11 April 2011 Mayak LLC was merged into Baryshevsky Grain Company LLC, and ceased to exists as a separate legal entity;
- In 2011, the Group started the process of merging Harvest Moon East LLC into Baryshevsky Grain Company LLC. This merger was finalized on 12 January 2012, and Harvest Moon East LLC ceased to exists as a separate legal entity.

Upon completion of the legal restructuring Baryshevsky Grain Company LLC became the intermediary holding company for the Ukrainian subsidiaries of the Group.

## 1.2. Operating environment

The Ukrainian economy, where the Group’s majority of operations are located, while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government’s policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, continued and unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

## 2. BASIS OF PREPARATION

These consolidated financial statements were approved for issue by management on 27 of June 2012.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The legal restructuring transactions, which are described in Note 1.1 above, have been entered to by and between entities, which were under common control of the ultimate controlling party from 1 January 2010 to 31 December 2011. Accordingly, such transactions are outside of the scope of IFRS 3 "Business Combinations". These consolidated financial statements are presented as if the entities were part of the same legal group from 1 January 2010 with the Company being the parent.

The consolidated financial statements have been prepared on a historical cost basis, except for biological assets and agricultural produce, which are measured in accordance with the requirements of IAS 41 Agriculture as disclosed below in Note 3 Summary of significant accounting policies, as well as financial instruments.

The consolidated financial statements are presented in thousand of Swedish Krona ("SEK") and all values are rounded to the nearest thousand ("SEK 000") except when otherwise indicated.

The Group did not previously prepare consolidated financial statements in accordance with IFRS. These consolidated financial statements for the year ended 31 December 2011 are the first set of consolidated financial statements the Group has prepared in accordance with IFRS as adopted by the EU. Refer to Note 2.2 for information how the Group adopted IFRS.

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the local accounting standards. The consolidated financial statements of the Company and its subsidiaries are based on the statutory records and adjusted as necessary to comply with the requirements of IFRS.

### 2.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2011.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

### 2.2 First-time adoption of IFRS

These consolidated financial statements for the year ended 31 December 2011 are the first set of consolidated financial statements the Group has prepared in accordance with IFRS as adopted by the EU. The Group did not previously prepare consolidated financial statements in accordance with IFRS.

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2011, together with the comparative period data as at and for the year ended 31 December 2010, as described in the accounting policies. In preparing these consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of adoption of IFRS.

### Exemptions applied

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain IFRS.

The Group has applied the following exemptions:

- Property and equipment of the Ukrainian subsidiaries were carried in the statement of financial position on the basis of valuations performed as at 1 January 2010. The Group has elected to regard those fair values as deemed cost at the date of the revaluation.
- The Group has applied the transitional provision in IFRIC 4 Determining Whether an Arrangement Contains a Lease and has assessed all arrangements based upon the conditions in place as at the date of adoption.

***»Emerging economies will capture an increasing share of the expanding world trade in agriculture«***

OECD Global Agriculture Outlook 2012-2021

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business combinations

Business acquisitions are accounted for the acquisition method, whereby the cost allocated to the acquired assets and liabilities at fair value at acquisition. If there is a positive difference this is recognized as goodwill. If there is a negative difference this is recognized in the income statement in the period it occurs.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill forms part of a cash-generating unit and that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Any excess of fair value over consideration paid is recognised immediately in the profit and loss and presented therein as the gain from business combinations.

### Functional and presentational currency

The functional currency of the Parent Company is Swedish Krona. The functional currency of the Ukrainian subsidiaries is the Ukrainian Hryvnia ("UAH") as this is the currency which reflects the economic substance of the underlying events and circumstances of the Ukrainian subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies are retranslated into the functional currencies at the statement of the financial position date at the functional currency rate of exchange ruling at that date. All differences are taken to the profit and loss. The income statement is translated at the average annual rate.

These financial statements are presented in SEK. The assets and liabilities of foreign subsidiaries as at 31 December 2011, 2010 and 1 January 2010 are translated into SEK at the end of 2011, 2010 and beginning of 2010 exchange rates of UAH 1,1517, UAH 1.1736 and UAH 1.1121 respectively for one SEK; and profit and loss items and cash flows of the foreign subsidiaries are translated at exchange rates that approximates the exchange rates at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement. The average exchange rate used is 1,1044 UAH per SEK (2010) and 1,2267 (in 2011).

The UAH is not a convertible currency outside the territory of Ukraine. Within Ukraine, official exchange rates are determined daily by the National Bank of Ukraine ("NBU"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the NBU. The translation of UAH denominated assets and liabilities into SEK for the purpose of the consolidated financial statements does not necessarily mean that the Company could realise or settle, in SEK, the reported values of these assets and liabilities. Likewise, it does not necessarily mean that the Company could return or distribute the reported SEK value of capital and retained earnings to its shareholders.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. As at 1 January 2010, the date of the first-time adoption of IFRS, the fair value of property, plant and equipment of the Ukrainian subsidiaries, which was appraised by an independent appraisal, were regarded as deemed cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one year.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

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

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and equipment, with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences on the first day of the month following the date of putting the item into operation.
Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset as follows:

| Asset category | Useful life (years) |
|---|---|
| Buildings | 25-50 |
| Plant and equipment | 7-30 |
| Vehicles | 7-10 |
| Furniture and fittings | 3-5 |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss in the year the item is derecognised.

## Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

## Borrowing costs

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

## Biological assets and agricultural produce

### *Plants*

Biological assets comprise crops that have been planted but have not yet been harvested. In accordance with IAS 41, the Group's biological assets have been recognized and are measured at fair value less cost to sell. Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the point of harvest. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Due to the lack of observable market prices for certain biological assets in their condition (i.e. as a growing crop) at the time of valuation, the Group estimates the fair value of its biological assets by means of the discounted cash flow method (i.e., by calculating the present value of the net cash flows expected to be generated from the assets when sold as a grown crop, discounted at a current market-determined rate). In particular, the Group based its estimates of fair value of certain biological assets on certain key assumptions, including:

- expected crop yield is based on past crop yield adjusted for actual weather conditions;
- production costs expected to be incurred are projected based on the Group's actual, historical information and forecast assumptions;
- discount rate calculated as a weighted current market-determined rate.

A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less cost to sell of a biological asset is included in profit or loss for the period in which it arises. A gain or loss may arise on initial recognition of agricultural produce as a result of harvesting. It is included in profit or loss for the period in which it arises.

After the point of harvest the agricultural produce is measured at the lower of the fair value at the point of harvest less cost to sell and net realizable value. Any losses between the initial recognition of the agricultural produce at the point of harvest and net realizable value are included in profit and loss for the period in which they arise.

Once agricultural produce is sold its carrying value at the date of the sale is transferred to cost of sales.

### *Livestock*

The livestock is measured at fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit based on the most likely market.

## Inventories other than biological assets and agricultural produce

Inventories other than biological assets and agricultural produce are stated at the lower of cost and net realisable value. The cost of inventories includes the expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is determined based on the FIFO method. The cost of preparing and treating land prior to seeding is classified as work in progress. After seeding, costs of field preparation are transferred to biological assets.

## Initial recognition and subsequent measurement of financial instruments

### *Financial assets*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables.

### *Financial liabilities*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

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

### *Subsequent measurement*

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

### *De-recognition*

*Financial assets*

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

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

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

*Financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### *Impairment of financial assets*
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

### *Assets carried at amortised cost*
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs. The amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and operating expenses for receivables.

## Cash and short-term deposits
Cash and short-term deposits are defined as cash on hand, demand deposits, deposits paid as security and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

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

## Net assets of Ukrainian subsidiaries
The net assets of Ukrainian subsidiaries, which are registered as limited liability companies, may be redeemed in cash at the request of the participants. The subsidiaries' obligation to redeem participants' interest gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the subsidiaries. As a practical expedient, the Group measures the liability to non-controlling interests, which are presented within non-current liabilities, at the carrying value of the subsidiaries' net assets that are not controlled by the Group.

## Investments in subsidiaries (Parent Company's separate financial statements)
Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The investments in subsidiaries are initially recognised at cost. The carrying value of the investments is reviewed when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investments are written down to their recoverable amount in accordance with IAS 36. Impairment losses are recognised in the statement of comprehensive income. An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the recoverable amount of the investments. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the investment's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the investment does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years. Such reversal is recognised in the statement of comprehensive income.

## Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects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some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### Pension

The Parent Company reports defined contribution pension plan. The costs for pensions are recognized as an expense in the period incurred. Net pension costs are shown in Note 23.

Wages and salaries, pension costs and other social costs Short-term employee benefits such as salary, social security contributions, withholding taxes, etc. are recognized as an expense in the period incurred. There is no share-based remuneration in the Company.

### Contingent assets and liabilities

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

### Leases

#### *Finance leases*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the 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 charged directly against income.

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

#### *Operating leases*

Operating lease payments, including those made before or at the inception of the lease in order to secure the right to obtain a lease agreement, are recognised as an expense in profit or loss on a straight-line basis over the lease term.

### Intangible assets

Intangible assets are represented by land lease rights. The land lease rights acquired as part of a business combination are initially measured at fair value and amortised over the period of the underlying leases. The period of amortisation is within the range of 5 years. The carrying value of land lease rights is assessed for impairment whenever there is an indication that the lease rights may be impaired.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, and other sales taxes or duty.

#### *Sale of agricultural produce*

Revenue from the sale of agricultural produce is recognised when the significant risks and rewards of ownership of the produce have passed to the buyer, usually on delivery of the produce.

### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

### Taxation

#### *Ukrainian fixed agricultural tax*

According to effective Ukrainian tax legislation, the Group's entities, as 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 2011, all Group's subsidiaries elected to pay the FAT.

#### *Value added tax*

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax ("VAT") except where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable.

The Group's entities in the Ukraine, in frames of their production and sale of agricultural products, met certain quantitative thresholds ("qualifying entities") and are subject to a special VAT regime. The net VAT receivable reported cannot be claimed for refund or carried forward. At the same time, the entity has a right to retain the net VAT payable and use the respective amounts for funding its agricultural activities without making payments to special restricted accounts. Accordingly, the net VAT payables, determined at the level of individual tax payers, are recognized as income in the period in which they arise. The net VAT receivable is charged to profit or loss as incurred or included into carrying amount of assets acquired during the period, whichever is deemed more appropriate and applicable under the circumstances.

### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

The Group intends to adopt these standards when they become effective.

*IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income.* The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

*IAS 12 Income Taxes – Recovery of Underlying Assets.* The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. It would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IAS 19 Employee Benefits (Amendment).* The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. It would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IAS 27 Separate Financial Statements (as revised in 2011).* As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. It would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. It would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements.* The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. It would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IFRS 9 Financial Instruments: Classification and Measurement.* IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected in the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*IFRS 10 Consolidated Financial Statements.* IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements.* IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The adoption of this standard would have no impact on the Group's financial position, performance or disclosures in the financial statements.

*IFRS 12 Disclosure of Involvement with Other Entities.* IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement.* IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

***»The food and agricultural sector has greater economicpotential in Ukrainethan in any other region of the Former Soviet Union«***

World bank

# 4. SIGNIFICANT ACCOUNTING JUDGMENT, ESTIMATES AND ASSUMPTIONS

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

## Judgments

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

### *Classification of lease agreements*

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is for the majority percent of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments almost amount to the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

## Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### *Impairment of non-financial assets*

The Group has made significant investments into property, plant and equipment. These assets are tested, as described below, for impairment annually, or when circumstances indicate there may be a potential impairment.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Estimation of recoverable amounts of assets is based on management's evaluations, including determining appropriate cash generating units, estimates of future performance, revenue generating capacity of the assets and assumptions of the future market conditions. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

### *Fair value of biological assets*

Due to the lack of observable market prices for sowings in their condition at the reporting dates, the fair value of such biological assets was estimated by present valuing the net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

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

- expected crop yield is based on past crop yield adjusted for actual weather conditions;
- production costs expected to be incurred are projected based on the Group's actual, historical information and forecasted assumptions;
- expected selling prices for agricultural produce at the point of harvest less cost to sell;
- discount rate calculated as a weighted current market-determined rate.

### *Weather*

The Group is highly susceptible to changes in growing and weather conditions, which can impact the production of crops, the costs of production and crop yields. The Group must perform key operations at specific times, in particular during the limited autumn and spring planting periods and the narrow summer and autumn harvest periods. As a result, weather conditions during planting or harvest can have a significant impact on the Group's results of operations.

The Group's hiring policy contemplates the employment of the sufficient number of the agricultural experts, whose responsibility also includes the analysis, prognoses and correction of the Group's operating plans with respect to the weather issues. While making weather analysis and prognoses the engaged experts use the reliable external sources specialized in the weather analysis for the agricultural sector.

## 5. REVENUE FROM SALES

| The Group | 2011 | 2010 |
|---|---|---|
| Corn | 122 769 | 58 889 |
| Sunflower | 44 337 | 70 410 |
| Wheat | 6 256 | 11 658 |
| Milk | 4 357 | 3 708 |
| Soy | 694 | 11 831 |
| Barley | 552 | 1 097 |
| Other | 1 589 | 716 |
| | 180 554 | 158 309 |
| | | |
| Auxiliary agricultural services | 2 472 | 2 660 |
| | **183 026** | **160 969** |

Revenues from six major customers, each individually exceeding 10% of total revenue, amounted to SEK 168 288 (2010: three customers – SEK 143 124).

## 6. COST OF SALES

The agricultural produce sold by the Group is measured based on the fair value of the respective agricultural produce sold less estimated cost of sale at the time of harvesting and taking into account subsequent write downs to net realisable value, if any.

In 2011, the cost of auxiliary agricultural services provided by the Group to third parties totalled SEK 2 150 (2010: SEK 3 397).

## 7. OTHER OPERATING INCOME

| The Group | 2011 | 2010 |
|---|---|---|
| VAT retained (i) | 16 062 | 11 287 |
| Gain on accounts payable written off | 246 | 904 |
| Government subsidies recognized as income | 198 | 640 |
| Other income | 248 | 153 |
| | **16 754** | **12 984** |

(i) VAT retained represents VAT attributable to the qualifying sales of the Group's agricultural producers, which, according to the Ukrainian legislation (Note 3) is not payable to the budget.

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Payroll and related taxes | 13 306 | 10 797 | 1 429 | 1 214 |
| Professional services (i) | 7 595 | 3 672 | 3 919 | 1 601 |
| Fuel and other materials used | 1 877 | 1 206 | - | - |
| Services provided by third parties | 1 381 | 1 093 | - | - |
| Depreciation expenses | 937 | 828 | - | - |
| Repair and maintenance expenses | 404 | 608 | - | - |
| Business entertainment costs and business trips | 228 | 488 | - | - |
| Other expenses | 160 | 697 | - | - |
| | **25 888** | **19 389** | **5 348** | **2 823** |

Audit fees for the parent company (in 2010 and 2011, respectively) and the Group in 2011 relates to fees payable to Ernst & Young. Audit fees for the Group in 2010 relates to HLB. Audit fees included in the general and administrative costs are as follows:

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Audit assignment fees | 652 | 196 | - | - |
| Audit work not related to ordinary audit assignment | 93 | 583 | 93 | 583 |
| Tax advice | - | - | - | - |
| Other assignments | - | - | - | - |
| | **745** | **779** | **93** | **583** |

## 9. OTHER OPERATING EXPENSES

| The Group | 2011 | 2010 |
|---|---|---|
| Charity expenses | 1 395 | 711 |
| Loss on disposal of inventories | 1 281 | 123 |
| Increase in bad debt allowance for trade receivables | 1 234 | 198 |
| Write off of unrecoverable VAT | 780 | 973 |
| Crops losses (i) | 640 | 1 298 |
| Other expenses | 2 288 | 1 244 |
| | **7 618** | **4 547** |

(i) The losses are mainly incurred during the crops storage and attributable to the spoilage of crops negatively impacted, at the different stages of biological transformation, by the climatic, deceases and other factors inherent to the agricultural activity.

## 10. FINANCE COSTS

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Interest on loans and borrowings | 20 965 | 17 647 | 5 305 | 4 193 |
| Non-controlling interests | 1 807 | 197 | - | - |
| Convertible loans charges | 402 | 369 | - | - |
| Finance lease charges | 396 | 1,306 | - | - |
| | **23 570** | **19 519** | **5 305** | **4 193** |

Liabilities for non-controlling interests are reported as current liabilities and not at equity, as they may be redeemed in cash at the request of the owners. Because of this, also minority interests are presented in the results as a financial item. See also accounting principles.

## 11. FINANCE INCOME

| The Group | 2011 | 2010 |
|---|---|---|
| Interest income | 5 | 87 |
| | **5** | **87** |

## 12. INTANGIBLE ASSETS

The movement in intangible assets was as follows:

| | The Group 2011 |
|---|---|
| *Cost*<br>**At 1 January** | **110 433** |
| Additions | 430 |
| Foreign currency translation differences | 2 992 |
| **At 31 December** | **113 855** |
| *Accumulated amortisation*<br>**At 1 January** | **(37 894)** |
| Charge for the year | (25 121) |
| Foreign currency translation differences | (897) |
| At 31 December | (63 015) |
| *Net book value*<br>**At 1 January** | **72 539** |
| **At 31 December** | **50 840** |

Intangible assets include land lease rights acquired by the Group in business combinations. Land lease rights are amortised over the lease term on a straight line basis.

## 13. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Building & Constructions | Plant and Equipment | Vehicles | Furniture and fittings | Construction in progress | Total |
|---|---|---|---|---|---|---|
| *Cost* | | | | | | |
| **As at 1 January 2010** | **56 297** | **22 901** | **24 648** | **984** | **3 588** | 108 418 |
| Additions | - | - | - | - | 46 975 | 46 975 |
| Transfer | 987 | 6 503 | 16 929 | 414 | (24 833) | - |
| Disposals | (117) | (64) | (52) | (5) | (65) | (303) |
| Foreign currency translation differences | (3 004) | (1 580) | (2 288) | (76) | (1 490) | (8 438) |
| **As at 31 December 2010** | **54 163** | **27 760** | **39 237** | **1 317** | **24 175** | **146 652** |
| Additions | - | - | - | - | 28 556 | 28 556 |
| Transfer | 7 702 | 24 301 | 2 193 | 91 | (34 287) | - |
| Disposals | (929) | (192) | (346) | (99) | (134) | (1 700) |
| Foreign currency translation differences | 1 471 | 2 098 | 866 | 24 | 78 | 4 537 |
| **As at 31 December 2011** | **62 407** | **53 967** | **41 950** | **1 333** | **18 388** | **178 045** |
| *Depreciation* | | | | | | |
| **As at 1 January 2010** | - | - | - | - | - | - |
| Depreciation for the year | (2 631) | (4 322) | (5 260) | (172) | - | (12 385) |
| Foreign currency translation differences | 155 | 255 | 310 | 10 | - | 730 |
| **As at 31 December 2010** | **(2 476)** | **(4 067)** | **(4 950)** | **(162)** | **-** | **(11 656)** |
| Depreciation for the year | (2 381) | (4 294) | (5 438) | (153) | - | (12 267) |
| Disposals | 111 | 120 | 47 | 22 | - | 300 |
| Foreign currency translation differences | (195) | (351) | (445) | (12) | - | (1 003) |
| **As at 31 December 2011** | **(4 941)** | **(8 592)** | **(10 786)** | **(305)** | **-** | **(24 624)** |
| **Net book value** | | | | | | |
| **As at 1 January 2010** | **56 297** | **22 901** | **24 648** | **984** | **3 588** | **108 418** |
| **As at 31 December 2010** | **51 687** | **23 693** | **34 287** | **1 155** | **24 175** | **134 997** |
| **As at 31 December 2011** | **57 466** | **45 375** | **31 164** | **1 028** | **18 388** | **153 421** |

As at 1 January 2010 the fair value of property, plant and equipment of the Ukrainian subsidiaries was taken as estimated cost. In order to determine the fair value of items of property, plant and equipment, an independent appraiser was engaged. The main approaches used in the course of appraisal are: depreciated replacement cost method, comparative, income approach. The main criterion for the use or avoiding the use of a particular approach is the availability of sufficient source data for implementing the approach procedures.

As at 31 December 2011 no property, plant and equipment was pledged as a security for the bank loans (2010: SEK 9,556 thousand, 1 January 2010: SEK 6,688 thousand) (Note 21).

The cost, accumulated depreciation and the carrying value of machinery and equipment held under finance lease agreements as at 31 December were as follows:

**The Group**

| | 2011 | 2010 | 1 January 2010 |
|---|---|---|---|
| Cost | 1 822 | 8 527 | 8 986 |
| Accumulated depreciation | (728) | (1 449) | - |
| | **1 093** | **7 077** | **8 986** |

# 14. SHARES IN SUBSIDIARIES

### The Parent Company

| | |
|---|---|
| **As at 1 January 2010** | **213 485** |
| Purchase price | 42 882 |
| **As at 31 December 2010** | **256 367** |
| Investments in subsidiaries | 184 |
| **As at 31 December 2011 (i)** | **256 551** |

(i)

| | 2010 | 2011 |
|---|---|---|
| Barishevskya Grain Company LLC | 256 367 | - |
| Grain Alliance Agroinvest Ltd | 92 | - |
| Grain Alliance Holding Ltd | 92 | - |
| Harvest Moon East LLC | - | 199 898 |
| Grain Alliance Ltd | - | 56 469 |
| | **256 551** | **256 367** |

# 15. OTHER NON-CURRENT ASSETS

### The Group

| | 2010 | 2011 | 1 January 2010 |
|---|---|---|---|
| Value added tax (Note 3) | 1 723 | 1 913 | 1 343 |
| Other non-current assets | 657 | 1 977 | 1 333 |
| | **2 380** | **3 890** | **2 676** |

# 16. BIOLOGICAL ASSETS

A reconciliation of changes in the carrying amount of biological assets is as follows:

### The Group

| | Note | Plants | Animal-breeding | Total |
|---|---|---|---|---|
| **Carrying amount at 1 January 2010** | | **2 138** | **2 737** | **4 876** |
| Increase due to purchases and subsequent ex penditures | | 115 235 | 2 479 | 117 714 |
| Decrease due to crops harvest | (i) | (109 729) | - | (109 729) |
| Decrease due to sales | | - | (1 813) | (1 813) |
| Net gain / (loss) arising from changes in fair value of biological assets and agricultural produce (less cost to sell) | (ii) | (6 643) | (302) | (6 944) |
| Livestock losses | | - | (113) | (113) |
| Currency translation differences | | (45) | (158) | (203) |
| **Carrying amount at 31 December 2010** | (iii) | **956** | **2 831** | **3 787** |
| Increase due to purchases a nd subsequent expenditures | | 142 203 | 1 596 | 143 799 |
| Decrease due to crops harvest | (i) | (193 070) | - | (193 070) |
| Decrease due to sales | | - | (1 376) | (1 376) |
| Net gain / (loss) arising from changes in fair value of biological assets and agricultural produce (less cost to sell) | (ii) | 54 500 | 867 | 55 367 |
| Livestock losses | | - | (68) | (68) |
| Currency translation differences | | 255 | 120 | 375 |
| **Carrying amount at 31 December 2011** | (iii) | **4 843** | **3 970** | **8 813** |

(i) Crops harvested during the year are initially recognised at fair value less costs to sell at the time of harvest. For determination of fair value of agricultural produce, the domestic crop prices, where supported by management plans, less costs to sell at the time of harvest are used. Crop production for the years ended 31 December 2011 and 2010 was as follows:

**The Group**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Tons harvested | FV less cost to sell at the time of harvest | Tons harvested | FV less cost to sell at the time of harvest |
| Corn | 177 259 | 135 831 | 55 249 | 53 958 |
| Sunflower | 19 321 | 5 547 | 14 467 | 32 377 |
| Wheat | 7 812 | 33 707 | 11 751 | 9780 |
| Soybean | 5 736 | 13 327 | 6 331 | 11 464 |
| Barley | 1 014 | 612 | 1 323 | 907 |
| Other | 5 603 | 4 046 | 10 241 | 1 243 |
| | **216 745** | **193 070** | **99 362** | **109 729** |

(ii) The gain arising from the change in fair value less costs to sell of plants represents the aggregate gain arising during the period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets. A discounted cash flow model was used to determine the fair values of biological assets. The discounted cash flow model is based on the following significant assumptions:

**The Group**

| | **2011** | | **2010** | |
|---|---|---|---|---|
| | *Yield in tons per hectare* | *Price per ton less cost to sell* | *Yield in tons per hectare* | *Price per ton less cost to sell* |
| Winter wheat | 4 | 1 085 | 2 | 1 072 |
| Winter rye | 2 | - | 1 | 909 |
| Winter barley | - | 825 | 2 | 809 |

(iii) Biological assets as at 31 December comprised:

*Livestock*

**The Group**

| | **2011** | | **2010** | | **1 January 2010** | |
|---|---|---|---|---|---|---|
| | *Number heads* | *Carrying value* | *Number heads* | *Carrying value* | *Number heads* | *Carrying value* |
| Livestock | 1 021 | 3 382 | 1 002 | 2 405 | 938 | 2 133 |
| Pigs | 748 | 544 | 763 | 376 | 856 | 570 |
| Horses | 50 | 44 | 56 | 50 | 33 | 34 |
| | **1 819** | **3 970** | **1 821** | **2 831** | **1 827** | **2 737** |

Livestock at 31 December 2011 comprises SEK 1 860 of non-current biological assets (2010: SEK 1 333, 1 January 2010: SEK 1 269).

*Plants*

**The Group**

| | **2011** | | **2010** | | **1 January 2010** | |
|---|---|---|---|---|---|---|
| | *Hectares* | *Carrying amount* | *Hectares* | *Carrying amount* | *Hectares* | *Carrying amount* |
| Winter wheat | 3 337 | 4 826 | 1 949 | 950 | 2 950 | 1 706 |
| Winter rye | 108 | 17 | 1 | 1 | 469 | 84 |
| Winter barley | - | | 1 | 5 | 121 | 348 |
| | **3 445** | **4 843** | **1 951** | **956** | **3 540** | **2 138** |

## 17. INVENTORIES

**The Group**

| | **2010** | **2011** | **1 January 2010** |
|---|---|---|---|
| Agricultural produce *(at fair value less costs to sell or net realisable value)* (i) | 61 677 | 3 722 | 18 425 |
| Work in progress *(at cost)* (ii) | 27 643 | 23 735 | 13 177 |
| Raw materials *(at cost)* (iii) | 6 751 | 3 062 | 3 022 |
| Fertilizer, herbicide and pesticide *(at cost)* | 1 011 | 2 048 | 2 299 |
| Other inventories *(at cost)* | 385 | 794 | 143 |
| | **97 467** | **33 361** | **37 066** |

(i) Agricultural produce is measured at the lower of the fair value at the time of harvest less cost to sell and net realizable value.
(ii) Work in progress represents the cost of preparing and treating land prior to seeding.
(iii) Raw materials mainly comprise seeds, other chemicals and fuel.

# 18. TRADE AND OTHER RECEIVABLES, OTHER CURRENT ASSETS

| | The Group | | | The Parent Company | | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **1 January 2010** | **2011** | **2010** | **1 January 2010** |
| *Trade and other receivables* | | | | | | |
| Trade receivables | 509 | 1 024 | 1 058 | - | - | - |
| Trade receivables due from related party *(Note 24)* | 818 | 151 | 482 | 71 304 | - | - |
| Loans issued to employees | 690 | 782 | 1 100 | - | - | - |
| Less: bad debt allowance (i) | (390) | (428) | (262) | - | - | - |
| | **1 627** | **1 529** | **2 378** | **71 304** | **-** | - |
| | | | | | | |
| *Other current assets* | | | | | | |
| Deferred expenses | 2 622 | 1 162 | 5 029 | | | |
| Advances paid | 7 486 | 2 529 | 2 222 | 1 688 | 1 955 | 2 222 |
| Taxes recoverable and prepaid | - | 919 | 2 855 | | | |
| Other | 131 | 662 | 1 825 | 60 | 11 | 58 |
| | **10 239** | **5 272** | **11 931** | **1 748** | **1 966** | **2 280** |

(i)

**The Group**

| | *Reserv for bad debts* |
|---|---|
| **As at 1 January 2010** | **262** |
| Charge for the year | 198 |
| Used amounts | (7) |
| Foreign exchange translation difference | (25) |
| **As at 31 December 2010** | **428** |
| Charge for the year | 1 234 |
| Used amounts | (1 277) |
| Foreign exchange translation difference | 5 |
| **As at 31 December 2011** | **390** |

# 19. CASH AND CASH EQUIVALENTS

| | The Group | | | The Parent Company | | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **1 January 2010** | **2011** | **2010** | **1 January 2010** |
| *Cash:* | | | | | | |
| - on bank accounts | 2 320 | 5 512 | 2 947 | 121 | 111 | 67 |
| - on hand | 22 | 12 | 20 | - | - | - |
| Deposit: | | | | | | |
| - in UAH, 10% p.a. | - | - | 3 372 | - | - | |
| - in USD, 7% p.a. | - | - | 3 430 | - | - | |
| | **2 342** | **5 524** | **9 769** | **121** | **111** | **67** |

# 20. SHARE CAPITAL

The registered share capital amounts to SEK 11 556 (2010: SEK 7 178) and consists of 7 807 775 shares (2010: 4 850 098 shares). BZK Grain Alliance AB has only one class of shares carrying equal voting power.

# 21. LOANS AND BORROWINGS

As at 31 December 2011 loans and borrowings are as follows:

| | | | *Maturity* | | |
|---|---|---|---|---|---|
| | | | **2012** | **2013** | |
| | *Currency* | *Interest* | *Current portion* | *Non-current portion* | *Total* |
| *The Group* | | | | | |
| Related party (Note 24) | USD | - | 5 070 | - | 5 070 |
| Related party (Note 24) | SEK | 3.5-7% | 6 927 | 51 074 | 58 001 |
| Finance lease obligations | USD | Libor 3m | 258 | - | 258 |
| | | | **12 255** | **51 074** | **63 329** |
| *The Parent Company* | | | | | |
| Related party (Note 24) | SEK | 3.5-7% | 6 927 | 55 105 | 62 032 |
| | | | **6 927** | **55 105** | **62 032** |

As at 31 December 2010 loans and borrowings are as follows:

| | | | *Maturity* 2011 | 2012 | |
|---|---|---|---|---|---|
| | *Currency* | *Interest* | *Current portion* | *Non-current portion* | *Total* |
| *The Group* | | | | | |
| Ukrainian bank | USD | 20-23% | 2 658 | - | 2 658 |
| Related party (Note 24) | USD | 9-13% | 61 522 | 4 697 | 66 219 |
| Related party (Note 24) | SEK | 3.5-7% | 19 199 | 78 456 | 97 655 |
| Finance lease obligations | USD | Libor 3m | 641 | 95 | 736 |
| | | | **84 020** | **83 248** | **167 268** |
| *The Parent Company* | | | | | |
| Related party (Note 24) | SEK | 3.5-7% | 19 199 | 82 890 | 102 089 |
| | | | **19 199** | **82 890** | **102 089** |

As at 1 January 2010 loans and borrowings are as follows:

| | | | *Maturity* 2011 | 2012 | |
|---|---|---|---|---|---|
| | *Currency* | *Interest* | *Current portion* | *Non-current portion* | *Total* |
| *The Group* | | | | | |
| Ukrainian bank | USD | 17-25% | 4 017 | 24 179 | 28 195 |
| Related party (Note 24) | USD | 9-13% | 60 686 | 4 496 | 65 182 |
| Related party (Note 24) | SEK | 3.5-7 % | 1 501 | 51 098 | 52 599 |
| Finance lease obligations | USD | Libor 3m | 2 942 | 588 | 3 530 |
| | | | **69 146** | **80 361** | **149 507** |
| *The Company* | | | | | |
| Related party (Note 24) | SEK | 3,5-7 % | 1 501 | 55 900 | 57 401 |
| | | | **1 501** | **55 900** | **57 401** |

As at 31 December 2010 and 1 January 2010, property, plant and equipment with a carrying value of SEK 9 556 and SEK 6 688, respectively, were pledged as a security for the Group's loan with Ukrainian bank.

### *Convertible loans*

The Extraordinary General Meeting in BZK Grain Alliance AB decided in 2009 to issue convertible bonds up to a maximum of SEK 45 million, which entitles holders to convert bonds up to a maximum total of 1 million shares in the Company with a quotient value of SEK 1.48 per share. To the extent that conversion has not taken place on 1 April 2018 at the latest, the then outstanding portion of the principal amount of the convertible bonds is due for payment on 30 April 2018. A holder of convertible bonds is entitled to request conversion of his claim to new shares during the period 1 January 2015 to 1 April 2018 at a conversion rate of SEK 45 per share.

Convertible loans are registered with Euroclear and carry an annual interest rate of 7%, which is payable on 30 April each year. The loan falls due on 30 April 2018.

When calculating the market rate at the time of the loan, the interest rate was estimated at 9%. Convertibles are a compound financial instrument which is divided into its components (equity and debt). The debt on 31 December 2011 was SEK 36 million, and the equity portion was approximately 4.8 million (which has been recorded as retained earnings).

## 22. TRADE AND OTHER LIABILITIES, OTHER CURRENT LIABILITIES

| | **The Group** | | | **The Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2011** | **2010** | **1 January 2010** | **2011** | **2010** | **1 January 2010** |
| *Trade and other liabilities* | | | | | | |
| Trade liabilities | 9 854 | 6 278 | 4 948 | - | | |
| Payroll and related taxes | 2 826 | 2 985 | 2 356 | 126 | 96 | 108 |
| Unused vacations accrual (Accrued holiday pay liabilities??) | 1 764 | 1 562 | 1 288 | - | - | - |
| Liabilities related to acquisition of subsidiary | - | - | 28 575 | - | - | - |
| Other | 7 | 830 | 1 225 | 6 | - | - |
| | **14 451** | **11 655** | **38 392** | **132** | **96** | **108** |
| *Other current liabilities* | | | | | | |
| Value added tax | 889 | - | - | - | - | - |
| Other taxes | 460 | - | - | - | - | - |
| Advances received | 576 | 204 | 1 701 | - | - | - |
| Income tax payable | - | 14 | - | - | - | - |
| Other | 326 | 860 | 1 460 | 35 | 141 | 139 |
| | **2 253** | **1 078** | **3 161** | **35** | **141** | **139** |

## 23. NUMBER OF EMPLOYEES AND EMPLOYEE BENEFITS

*Numbers of employees*

**The Parent Company**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | *Women* | *Men* | *Total* | *Women* | *Men* | *Total* |
| Sweden | - | 1 | 1 | - | 1 | 1 |
| Ukraine | 284 | 867 | 1 151 | 286 | 838 | 1 124 |
| | **284** | **868** | **1 152** | **286** | **839** | **1 125** |

*Employee benefits*

**The Parent Company**

| | 2011 | 2010 |
|---|---|---|
| Board and senior executives | 949 | 792 |
| Other employees | - | - |
| Pension costs | 152 | 135 |
| Social security costs | 328 | 287 |
| | **1 429** | **1 214** |

During the year no salaries, remuneration or pension expenses have been paid to the Board members.

**The Group**

| | 2011 | 2010 |
|---|---|---|
| Board and senior executives | 3 316 | 3 368 |
| Other employees | 26 201 | 27 262 |
| Pension costs | 9 128 | 6 471 |
| Social security costs | 349 | 557 |
| | **38 994** | **37 658** |

## 24. RELATED PARTY DISCLOSURES

*Ultimate Controlling Party*

As at 31 December 2011 the majority owner of the Parent Company is Ukrainian Investment AB, which is a subsidiary of Claesson & Anderzén AB. Mr. Johan Claesson, a citizen of Sweden, has the controlling interest in Claesson & Anderzén AB.

**The Group**

As at 31 December the Group's balances with related parties are as follows:

| | 2011 | 2010 | 1 January 2010 |
|---|---|---|---|
| *Entity under common control* | | | |
| Loans and borrowings | (63 071) | (163 874) | (117 782) |
| Entity with significant influence over the Group | | | |
| Trade and other receivables | 673 | 151 | 482 |
| Other current assets | 274 | 205 | 53 |

For the year ended 31 December the Group's transactions with related parties are as follows:

| | 2011 | 2010 |
|---|---|---|
| *Entities under common control* | | |
| Interest expenses | (10 740) | (10 669) |
| *Entities with significant influence over the Group* | | |
| Sales of services | 13 | 252 |
| Purchases of seeds | (546) | - |
| Purchases of property, plant and equipment | (10 107) | (10 849) |

*Compensation to key management personnel*

For the year ended 31 December 2011, remuneration paid by the Group to key management personnel was SEK 2 319 (2010: SEK 2 405). Compensation included contractual salaries and related taxes. Key management personnel consists of six individuals as at 31 December 2011 (2010: six).

**The Parent Company**

As at 31 December the Company's balances owed to and due from related parties are as follows:

| | 2011 | 2010 | 1 January 2010 |
|---|---|---|---|
| *Entity under common control* | | | |
| Loans and borrowings | (57 722) | (82 154) | (48 734) |
| *Subsidiary* | | | |
| Trade and other receivables | 71 304 | - | - |

For the year ended 31 December the Company's transactions with the related parties under common control are as follows:

| | 2011 | 2010 |
|---|---|---|
| *Interest expenses* | (4 783) | (3 636) |

*Compensation to key management personnel*
For the year ended 31 December 2011, remuneration paid to key management personnel is SEK 1 277 (2010: SEK 1 079). Compensation comprised the contractual salary and related taxes.

Key management personnel consist of one individual as at 31 December 2011 (2010: one).

## 25. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

*Taxation*
The Group's operating activities are concentrated in Ukraine as disclosed in Note 1. Ukrainian legislation and regulations regarding taxation and other operational issues continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of local, regional and national authorities, and other governmental bodies. Instances of inconsistent opinions are not unusual. Management believes that the Group has complied with all regulations and paid or accrued all applicable taxes. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

The Group's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Group could have a significant impact on the Group's ability to continue operations. Management is of the opinion that the contingencies relating to the Group's operations are not of greater significance than those of similar businesses in Ukraine.

*Operating lease commitments of the Group*
The Group has entered into, or acquired, commercial lease agreements for land. The amount of lease payments is subject to renegotiation on an annual basis. At the end of each of the lease terms, the lessee has the right to renew the lease agreements.

Future minimum rentals payable under non-cancellable operating land leases:

| | 2011 | 2010 | 1 January 2010 |
|---|---|---|---|
| Up to 12 months | 19 027 | 11 405 | 9 084 |
| 1-5 years | 39 475 | 35 983 | 29 613 |
| Over 5 years | 11 570 | 8 692 | 10 452 |
| | **70 072** | **56 090** | **49 149** |

## 26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are comprised of trade receivables and liabilities, loans and borrowings, cash and cash equivalents. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and other liabilities, arising in the course of its operations. Fair values of the Group's financial instruments are close to their carrying amounts.

The main risks arising from the Group's financial instruments are market risk, liquidity risk, credit risk and agricultural risk. The policies for managing each of these risks are summarized below.

*Market risk*
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments exposed to market risk include loans and borrowings, deposits, accounts receivable, accounts payable and finance leases.

The sensitivity analyses in the following sections relate to the position as at 31 December 2011 and 2010. They have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant. In calculation of sensitivity analysis, the sensitivity of the relevant profit and loss item is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held on 31 December 2011 and 2010.

*Interest rate risk*
The principal interest rate risk relates to financial lease obligations. The Group or the Company have not entered into any transactions to hedge these interest rate risks. The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, all other variables equal, of the Group's loss before tax.

**The Group**

| | Change in basis points | Effect on profit before tax |
|---|---|---|
| *2011* | | |
| Change in interest rate (LIBOR) | 23.2 | (72) |
| Change in interest rate (LIBOR) | -23.2 | 72 |
| | | |
| *2010* | | |
| Change in interest rate (LIBOR) | 100 | (103) |
| Change in interest rate (LIBOR) | -25 | 82 |

### *Foreign currency risk*

The Group performs its operations in Swedish Krona ("SEK"), Ukrainian Hryvnia ("UAH"), US dollar ("USD"), and Euro ("EUR").

The Group has a substantial amount of foreign currency denominated loans and borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated loans and borrowings give rise to foreign exchange exposure. The Group has not entered into transactions to hedge these foreign currency risks.

Currency risks as defined by IFRS 7 arise when financial instruments are denominated in a currency that is not the functional currency, and are of a monetary nature; translation-related risks are not taken into consideration. Relevant risk variables are generally non-functional currencies in which the Group has financial instruments.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, all other variables equal, of the Group's loss before tax.

| | | **Effect on profit before tax** | |
|---|---|---|---|
| | **Change in foreign currency rate** | **The Group** | **The Parent Company** |
| *2011* | | | |
| Change in USD exchange rate | 15% | (5 481) | 5 348 |
| Change in USD exchange rate | -15% | 5 481 | (5 348) |
| *2010* | | | |
| Change in USD exchange rate | 15% | (10 975) | - |
| Change in USD exchange rate | -15% | 10 975 | - |

### *Liquidity risk*

The objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers as well as loans and borrowings. Management analyses the aging of assets and the maturity of liabilities and plans the liquidity depending on expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, management relocates resources and funds to achieve optimal financing of business needs. The table below summarises the maturity profile of the financial liabilities at 31 December based on contractual undiscounted payments:

Grain Alliance's independence day celebrations

| | The Group | | | | | The Parent Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Payable on demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Total | Payable on demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Total |
| *31 December 2011* | | | | | | | | | | |
| Loans and borrowings, principal amount | - | 258 | 7 898 | 51 664 | 59 820 | - | - | 6 927 | 51 664 | 58 591 |
| Interest payable | 68 | - | - | 3 441 | 3 509 | - | - | - | 3 441 | 3 441 |
| Trade and other liabilities (Note 22) | - | 2 700 | 11 751 | - | 14 451 | - | 41 | - | - | 41 |
| | **68** | **2 958** | **19 649** | **55 105** | **77 780** | **-** | **41** | **6 927** | **55 105** | **62 073** |
| *31 December 2010* | | | | | | | | | | |
| Loans and borrowings, principal amount | - | - | 71 851 | 84 740 | 156 591 | - | - | 19 199 | 79 949 | 99 148 |
| Interest payable | - | 89 | 7 121 | 3 467 | 10 677 | - | - | - | 2 941 | 2 941 |
| Trade and other liabilities (Note 22) | - | 3 029 | 8 626 | - | 11 655 | - | 141 | - | - | 141 |
| | **-** | **3 118** | **87 598** | **88 207** | **178 923** | **-** | **141** | **19 199** | **82 890** | **102 230** |
| *1 January 2010* | | | | | | | | | | |
| Loans and borrowings, principal amount | 24 066 | - | 54 352 | 58 347 | 136 765 | - | - | 1 501 | 53 150 | 54 651 |
| Interest payable | - | - | 9,279 | 3,463 | 12 742 | - | - | - | 2 750 | 2 750 |
| Trade and other liabilities (Note 22) | - | 2 388 | 36 004 | - | 38 392 | - | 140 | - | - | 140 |
| | **24 066** | **2 388** | **99 635** | **61 810** | **187 899** | **-** | **140** | **1 501** | **55 900** | **57 541** |

### *Credit risk*

Sales are performed only to recognised, creditworthy third parties. The policy is that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and, therefore, the exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 18.

The age analysis of trade receivables and other receivables is as follows:

**The Group**

| | | *Past due, but not impaired* | | | | |
|---|---|---|---|---|---|---|
| | Neither past due, nor impaired | Less than 3 months | 3-6 months | 6-12 months | More than 12 months | Total |
| *31 December 2011* | | | | | | |
| Trade and other receivables | 119 | 1 508 | - | - | - | 1 627 |
| | **119** | **1 508** | **-** | **-** | **-** | **1 627** |
| *31 December 2010* | | | | | | |
| Trade and other receivables | 596 | 932 | - | - | - | 1 529 |
| | **596** | **932** | **-** | **-** | **-** | **1 529** |
| *1 January 2010* | | | | | | |
| Trade and other receivables | 796 | 1 583 | - | - | - | 2 378 |
| | **796** | **1 583** | **-** | **-** | **-** | **2 378** |

**The Parent Company**

| | Neither past due, nor impaired | Past due, but not impaired: Less than 3 months | 3-6 months | 6-12 months | More than 12 months | Total |
|---|---|---|---|---|---|---|
| *31 December 2011* | | | | | | |
| Receivable subsidiary | - | - | - | 71 304 | - | 71 304 |
| Trade and other receivables | - | 1 | - | - | - | 1 |
| | **-** | **1** | **-** | **71 304** | **-** | **71 305** |
| *31 December 2010* | | | | | | |
| Trade and other receivables | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** |
| *1 January 2010* | | | | | | |
| Trade and other receivables | - | 1 | - | - | - | 1 |
| | **-** | **1** | **-** | **-** | **-** | **1** |

### *Capital management*

Management considers debts and net assets attributable to majority participants as primary capital sources. The objective of capital management is to safeguard the ability to continue as a going concern in order to provide return on investment for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and sustainability of the development strategy. The capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital, and flexibility relating to the access to capital markets.

Management monitors capital using a gearing ratio, which is net debt divided by total net assets attributable to majority shareholders plus net debt, including in the net debt loans and borrowings, finance lease liability, trade and other liabilities, less cash and cash equivalents.

| | The Group 2011 | The Group 2010 | The Group 1 January 2010 | The Parent Company 2011 | The Parent Company 2010 | The Parent Company 1 January 2010 |
|---|---|---|---|---|---|---|
| Loans and borrowings | 63 329 | 152 555 | 149 507 | 62 032 | 102 089 | 57 401 |
| Trade and other liabilities | 14 451 | 11 655 | 38 392 | 132 | 96 | 108 |
| Less cash and cash equivalents | (2 340) | (5 523) | (9 769) | (120) | (111) | (67) |
| Net debt | 75 440 | 158 687 | 178 130 | 62 044 | 102 074 | 57 442 |
| | | | | | | |
| Equity | 243 422 | 79 031 | 110 188 | 267 525 | 156 118 | 158 184 |
| | | | | | | |
| **Total equity and net debt** | **318 862** | **237 718** | **288 318** | **329 569** | **258 192** | **215 626** |
| Gearing ratio | 24% | 67% | 62% | 19% | 40% | 27% |

Management monitors the capital structure on a regular basis and may adjust its capital management policies and targets following changes in the operating environment, market sentiment or its development strategy. The policy is to maintain a gearing ratio below 50%.

### *Agricultural risk*

Agricultural risk arises from the unpredictability of weather, pollution, and other risks related to the performance of crops. In order to manage the level of risk associated with agricultural activity, the Group holds a diversified portfolio of arable crops.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate. However, considerable judgement is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise in a current market situation. All financial assets and liabilities are valued at amortised cost. Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated statement of financial position:

**The Group**

| | Carrying amount | | | Fair value | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 1 January 2010 | 2011 | 2010 | 1 January 2010 |
| *Loans and receivables* | | | | | | |
| Cash and cash equivalents | 2 340 | 5 523 | 9 769 | 2 340 | 5 523 | 9 769 |
| Trade and other receivables | 1 628 | 1 529 | 2 378 | 1 628 | 1 529 | 2 378 |
| | | | | | | |
| *Other financial liabilities* | | | | | | |
| Trade and other liabilities | 14 451 | 11 655 | 38 392 | 14 451 | 11 655 | 38 398 |
| Loans and borrowings | 63 329 | 167 268 | 149 507 | 63 329 | 167 268 | 149 507 |

**The Parent Company**

| | Carrying amount | | | Fair value | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 1 Jan. 2010 | 2011 | 2010 | 1 Jan. 2010 |
| *Loans and receivables* | | | | | | |
| Cash and short-term deposits | 120 | 111 | 67 | 120 | 111 | 67 |
| Trade and other receivables | 71 304 | - | - | 71 304 | - | - |
| | | | | | | |
| *Other financial liabilities* | | | | | | |
| Trade and other payables | 132 | 96 | 108 | 132 | 96 | 180 |
| Loans and borrowings | 63 032 | 102 089 | 57 401 | 63 032 | 102 089 | 57 401 |

## 28. INCOME TAX

### *The Parent Company*

As at 31 December 2011, the tax loss carried forward is SEK 19 328 (2010: SEK 15 404). The Company has not recognized deferred tax assets as deficit.

## 29. EVENTS AFTER THE REPORTING DATE

### *Legal restructuring*

In April 2012, TFH Agrospectr LLC was liquidated. Prior to the liquidation, the assets of the company were transferred to other entities of the Group.

### *Biological assets losses*

Subsequent to 31 December 2011, the Group estimated that due to unfavourable weather conditions, the harvest of the winter wheat would be lower than initially expected. These climate-related losses would require a downward adjustment of the carrying value of biological assets by SEK 1 315.

*Effect of conversion to IFRS 2010-01-01*

| | BFN | Effect of conversion to IFRS | IFRS |
|---|---|---|---|
| ***Assets*** | | | |
| *Non-current assets* | | | |
| Property, plant and equipment | 133 148 | (24 730) | 108 418 |
| Intangible assets | 97 125 | 192 | 97 317 |
| Non-current biological assets | 0 | 1 269 | 1 269 |
| Other non-current assets | 0 | 2 676 | 2 676 |
| | 230 273 | (20 593) | 209 680 |
| *Current assets* | | | |
| Inventories | 26 787 | 10 279 | 37 066 |
| Current biological assets | 0 | 3 607 | 3 607 |
| Trade receivables | 40 773 | (38 395) | 2378 |
| Prepayments and other receivables | 52 926 | (40 995) | 11 931 |
| Cash and cash equivalents | 9 739 | 30 | 9 769 |
| | 130 226 | (65 475) | 64 751 |
| Assets classified as held for sale | | 28 487 | 28 487 |
| | 130 226 | (36 988) | 93 238 |
| **Total assets** | **360 499** | **(57 581)** | **302 918** |
| | | | |
| ***Equity and liabilities*** | | | |
| *Equity* | | | |
| Issued capital | 6 969 | 0 | 6 969 |
| Asset revaluation reserve | 0 | 159 625 | 159 625 |
| Retained earnings | 138 691 | (195 097) | (56 406) |
| Equity attributable to owners of the parent | 145 660 | (35 472) | 110 188 |
| **Non-controlling interests** | **2 958** | **(1 288)** | **1 670** |
| Total equity | 148 618 | (36 760) | 111 858 |
| | | | |
| *Non-current liabilities* | | | |
| Loans and borrowings | 28 541 | (28 541) | 0 |
| Other non-current liabilities | 53 150 | 27 211 | 80 361 |
| | 81 691 | (1 330) | 80 361 |
| *Current liabilities* | | | |
| Trade liabilities | 6 255 | 32 137 | 38 392 |
| Other liabilities | 123 935 | (51 628) | 72 307 |
| | 130 190 | (19 491) | 110 699 |
| Total liabilities | **211 881** | **(20 821)** | **191 060** |
| **Total equity and liabilities** | **360 499** | **(57 581)** | **302 918** |

The Company has used the exception to market value tangible assets (see Note 2.2) in the transition to IFRS, which brought major changes in tangible assets. These changes have also affected equity.

Other changes that have occurred are attributable to reclassifications, primarily relating to other long-term and other current liabilities. The adjustment of accounts payable and other current liabilities includes the effects of set-off against trade receivables and other receivables.

In addition, the biological assets and the convertible loans have been revaluated, which only had minor effects.

GRAIN
ALLIANCE

Grain Alliance
Gamla Brogatan 29
111 20 Stockholm
Sweden

Grain Alliance - BZK
Torfyana street 11
Kiev region
Ukraine

www.grainalliance.com