EKOSEM-AGRAR

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 JUNE 2018

A new dimension of modern farming

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FOREWORD OF THE EXECUTIVE BOARD

Dear Friends, Colleagues,
Business Partners and Bondholders

When I acquired my first farming operation a good 15 years ago, the Russian agricultural market was still in its infancy. Since then, this industry has developed enormously and is today considered one of the growth engines of the Russian economy. In the first five months of the year, the production of agricultural goods increased by 2.5%, i.e. at a much higher rate than the 1.7% growth projected for the economy as a whole in 2018. In many segments such as poultry and pork production the country meanwhile covers its own requirements, whereas the local production of raw milk continues to be characterized by a high shortfall, which the government wants to reduce significantly in the coming years. Being the country's largest producer of raw milk, we still see considerable growth opportunities in this positive environment. We believe that our economies of scale and the preparations we have made for our further growth put us in a much better position than our smaller or new competitors in the market.

In spite of low milk prices, we continued our successful growth in the first six months of 2018. At EUR 96.6 million, our revenues in euros were up by 24% on the previous year. Milk output increased at a much higher rate of 68% to 225,000 tons. Earnings before interest, taxes, depreciation and amortization (EBITDA) improved by 46% to EUR 45.0 million. With 14 new dairy cow facilities currently under construction, we want to expand our dairy cow herd, which comprised approx. 51,750 animals at the half-year stage, strongly to over 100,000 animals by the end of 2019. On this basis, we project a milk output of about 1 million tons for 2019, which would be twice the target we have set ourselves for 2018. While these figures certainly sound ambitious, they are based on our well-founded projections, which are also confirmed by our growth in the past. We will thus make a significant contribution to reducing the shortfall of currently approx. 7 million tons of locally produced raw milk per year.

Apart from expanding our raw milk output significantly, we now want to take the step into processing our raw milk after a test phase of several years. I am personally convinced that the expansion of our value chain bears challenges, but is the right decision for the company's future. The vertical integration enables us to respond flexibly to fluctuations in the raw milk market and to further strengthen our negotiating position towards our customers. The aim is to position the Ekosem-Agrar Group as Russia's first vertically integrated local producer of dairy products with almost nation-wide market coverage. To achieve this, we are modernizing and expanding our existing dairies, looking for acquisition opportunities and preparing the launch of an attractive range of dairy products under our new umbrella brand EkoNiva. This brand stands for high-quality products as a personal promise of the management and for milk as an experience, as impressively demonstrated by the 40,000 visitors to our dairy farm facilities in the past years.

Our goal is to establish the Ekosem-Agrar Group as Russia's first vertically integrated producer of dairy products with almost national coverage.

Our increased balance sheet shows that our growth plans are very capital-intensive. I am therefore all the more pleased

STEFAN DÜRR
CEO

that my long-term companion Wolfgang Bläsi has returned to the Group as CFO to assist us in implementing the optimum financing structure to achieve our objectives. We rely on the excellent relations to our Russian banks and our bondholders and are reviewing further financing options. The basis for this has been laid by the change of legal form in August.

Besides Wolfgang Bläsi as member of the Management Board of Ekosem-Agrar AG, I also welcome the members of our new, competent Supervisory Board: Rolf Zürn and Franz-Georg von Busse, two seasoned entrepreneurs, Wolfgang Graf and Thomas Kirchberg, two highly experienced board members from the food industry, and Vladislav Novoselov, an expert of the Russian agricultural sector.

Doing business in the agricultural sector certainly presents many challenges. In Russia, too, adverse weather conditions have led to crop losses – as had been expected, wheat yields will be lower than in the record year 2017 but will also lead to higher prices. With regard to food crops, which are more important for our company, we currently project decent yields for 2018. In the Russian dairy market, the widespread practice of processors substituting cheap vegetable fat (palm oil) for part of the milk fat in their dairy products remains a problem. However, the government has announced strict measures to protect consumers from such falsifications in the future.

In spite of the challenging tasks that lie ahead of us, we are optimistic about future developments. I would be pleased if you continued with us along this path and thank you for your confidence.

Sincerely Yours

Stefan Dürr

ABOUT THE EKOSEM-AGRAR GROUP

Headquartered in Walldorf, Germany, Ekosem-Agrar GmbH is the German holding company of the EkoNiva Group, one of the largest Russian agricultural companies. Having successfully operated in the Russian agricultural sector for over 20 years, the Group has a total herd of almost 110,000 animals as of 30.06.2018, including around 51,750 dairy cows producing a milk output of 1,365 tons per day. This makes the Group the largest milk producer in Russia and one of the largest raw milk producers in the world. At the end of June 2018, Ekosem Agrar cultivates a total area of approx. 386,000 hectares.

The Group employs almost 9,000 people in seven regions in Russia, primarily in the Chernozem region, one of the most fertile regions in the world.

DAIRY FARMING

Dairy farming is the core business of the Group and makes by far the biggest contribution to sales revenues. In the first half of 2018 (ending 30 June 2018), our 51,750 dairy cows gave some 225,000 tons of milk at our locations in Russia.

The continuous expansion of milk production, especially at our sites in Voronezh, Kaluga and Novosibirsk, as well as the take-over of facilities, enables the significant growth of the dairy cow herd and milk output. The scheduled capacity utilization of the new dairy cow facilities and the 14 dairy cow facilities under construction mean that an increase in milk output is already certain for the current year.

Most of the raw milk produced in our facilities is sold to dairies, but the company's own processing facilities are continuously expanded. The dairy farming operations also comprise the sale of breeding cattle and male calves as well as the sale of animals no longer used for milk production to slaughterhouses.

MILK PROCESSING

By acquiring two dairies in the fourth quarter of 2017, the Group‘s value chain was further expanded. The Group processes part of the raw milk produced in its own dairies in four regions. The share of sales in the first half of 2018 was already 13%. The existing plants produce sour and fresh milk products, long-life milk, butter, ice-cream, cheese and milk powder under our own brand as well as retail brands. With its own milk processing facilities, the Group is able to react flexibly to fluctuations on the raw milk market and to further strengthen its negotiating position with its customers. In the future, vertical integration in the value chain is to be successively expanded.

CROP FARMING

At seven locations (including Rjazan from 31 December 2017) the Ekosem-Agrar Group cultivates crops and focuses on the production of feed for its own herd. This mainly includes the cultivation of lucerne and maize as well as soya. The 902,000 tons of feed (fresh mass) and 240,000 tons of grain produced in 2017 ensure the feed supply of the herd.

Besides producing fodder for the Group’s internal requirements, the fertile soil in the Chernozem region is also used for growing grain, sugar beets, oil seeds and other food crops for sale to third parties. The distribution of the operations across several climate zones in Russia also prevents the risk of major crop failures due to bad weather conditions.

SEED PRODUCTION AND BREEDING

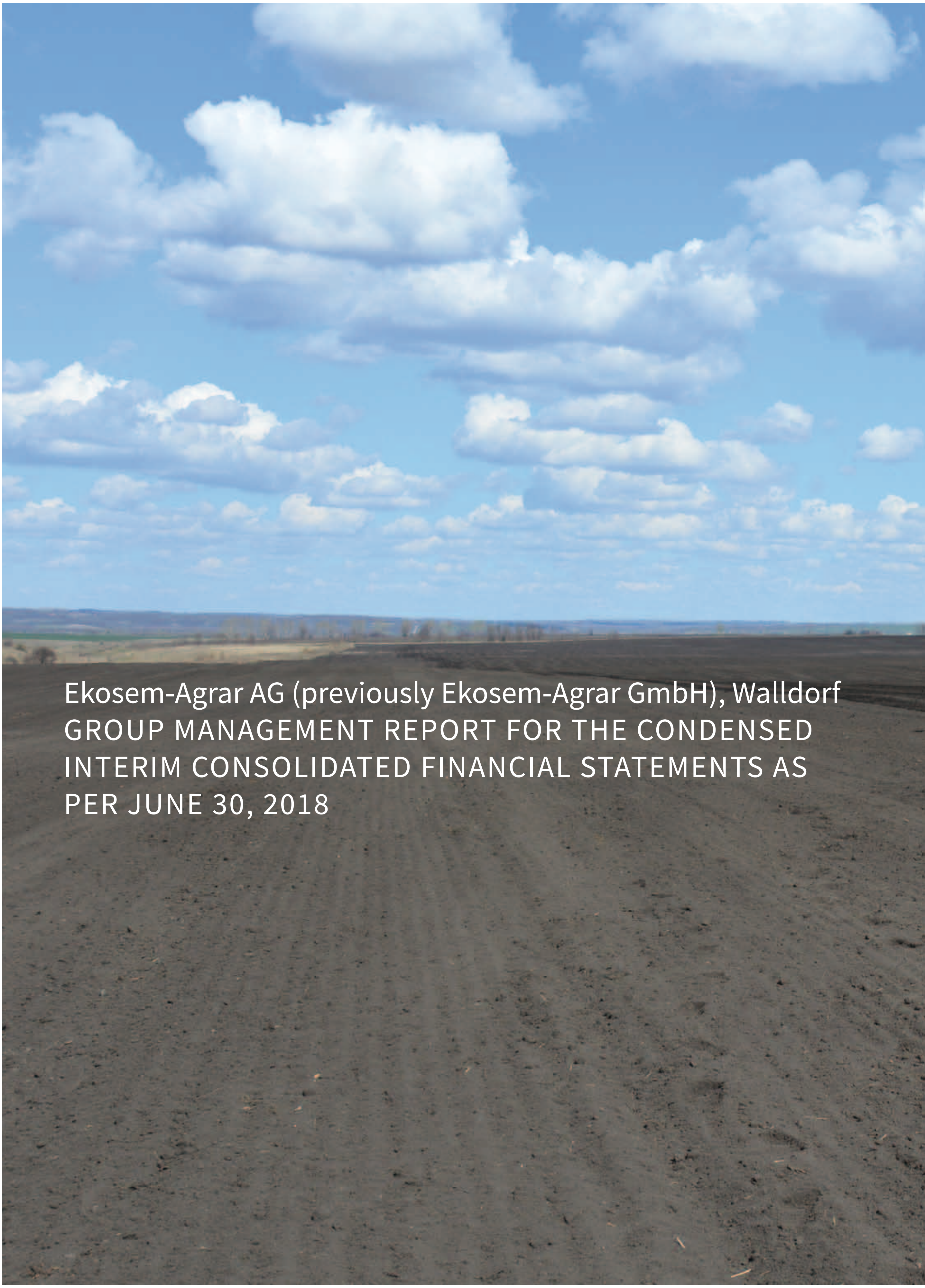
Some 25,400 tons of seeds (as of: 31 December 2017) for sale to third-party customers make the Group one of the large seed producers in Russia. The Ekosem-Agrar Group acquires licenses for varieties for exclusive reproduction and distribution in Russia, mostly for grain, grain legumes, grasses, clover and lucerne. The Ekosem-Agrar Group will expand the plant breeding operations in future and already registered its first own varieties for government examination in Russia last year. The licenses are expected to be granted in spring 2019.

SUCKLER COW FARMING

Cattle for meat production, primarily of the Angus race, are kept on extensive pastures in Voronezh, Orenburg and Novosibirsk. As of 30 June 2018 the herd of suckler cows comprises around 2,420 animals and is to be further expanded at the locations in Orenburg and Novosibirsk. Low-yield grasslands are available there which are particularly well suited for extensive animal keeping.

ORGANIC FARMING

In the production area organic faming, the company produces in the Kaluga region organic beef as well as various organic food crops in compliance with the EU regulations for organic farming. The Group sees growing market potential for organic products both in Russia and in export markets. The “Savinskaja Niva” farm cultivates more than 4,650 hectares and keeps 510 suckler cows (as of: 30 June 2018) on extensive pastures for the production of meat. The land is cultivated in a resource-conserving manner, with erosion-reducing, non-plough tillage increasing the humus build-up and maintaining the natural structure of the soil.



Ekosem-Agrar AG (previously Ekosem-Agrar GmbH), Walldorf
GROUP MANAGEMENT REPORT FOR THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS PER JUNE 30, 2018

The Ekosem-Agrar company

The Ekosem-Agrar Group is one of the largest agricultural companies in the Russian Federation. As of 30 June 2018, the Group cultivated an area of approx. 386,000 hectares. The herd comprised almost 110,000 animals, approx. 57,750 of which were dairy cows.

GROUP MANAGEMENT REPORT FOR THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENT AS PER JUNE 30, 2018

1. BUSINESS ACTIVITY OF THE GROUP

The activities of Ekosem-Agrar Group make it among the largest agricultural companies in the Russian Federation. As of the reporting date (30 June 2018), the dairy herd reached approximately 51,750 dairy cows, which corresponds to a 15% increase on the previous balance-sheet date (31 December 2017: approx. 45,100). The total herd size has reached almost 110,000 head[1] (31 December 2017: approx. 97,520 head). As per 30 June 2018 the Group operates approximately 386,000 hectares of land (31 December 2017: approximately 322,000 hectares).

Ekosem-Agrar AG is the parent and holding company of Ekosem-Agrar Group. Former Ekosem-Agrar GmbH has changed its legal form to AG with effect from 14 August 2018. The company coordinates the activities of the German and Russian subsidiaries and determines the strategic development of the Group. The Group carries out its operating activities exclusively in the territory of the Russian Federation.

The business activities of the group are divided into six production areas: dairy farming and crop farming, both are the biggest areas as per today. The major development area is milk processing and there are the smaller production areas seed production and breeding, suckler cow farming and organic farming:

- **Dairy farming** is the core activity of the Group. This production area focuses on the dairy farms where the dairy cows are housed. These dairy farms source the majority of their feedstuff from the Group's production area "crop farming" and purchase some special parts from third parties. The breeding activities and raising of the young female cattle is done in-house by employees of the Group. The vast majority of the raw milk produced in the Group's dairy farms is sold to third party dairies. The dairy farming operations also comprise the sales of breeding cattle, the sale of slaughter cows to slaughterhouses, as well as male calves to specialized fattening operations.

- **Milk processing** is the Group's main development production area that offers considerable development potential for vertical integration in the value chain. Two test facilities in Voronezh and Novosibirsk, which have a combined processing capacity of

Well ventilated stables with freedom of movement ensure good animal health and provide the basis for a high milk yield of our cows.

[1] Incl. cattle from suckler cow farming and organic farming

40 tons per day, were processing a small part of the raw milk produced by the Group up until late 2017. In the fourth quarter of 2017 the Group acquired two facilities for processing, one in Kaluga and another one in Voronezh with a daily processing capacity of 240 and 320 tons of milk, respectively. However, both are currently subject of renovations / conversions of lines etc. The processing plants source the raw milk from “Dairy farming” and produce a wide range of dairy products such as fresh milk, yoghurt, butter, curd, sour cream, ice cream, cheese and also ultra-high temperature (UHT) milk and skimmed milk powder (SMP). As of now most of the Group's processing capacity relates to buffer products (i.e., UHT milk and SMP) but it is planned to increase the capacity for traditional dairy products (i.e., fresh/semi-fresh products and desserts). These products are sold under the company's own brand as well as private-labels through independent stores, supermarket chains and own points of sale. The Group owns two brands: the self-created “Academy of dairy science” brand and “Bolshaya Peremena” (engl. Big School Break). Latter has been acquired in the course of the purchase of the processing facility in Kaluga. Both brands are well established in their current sales regions and have a loyal customer base. Currently the Group considers launching a new brand for country-wide use.

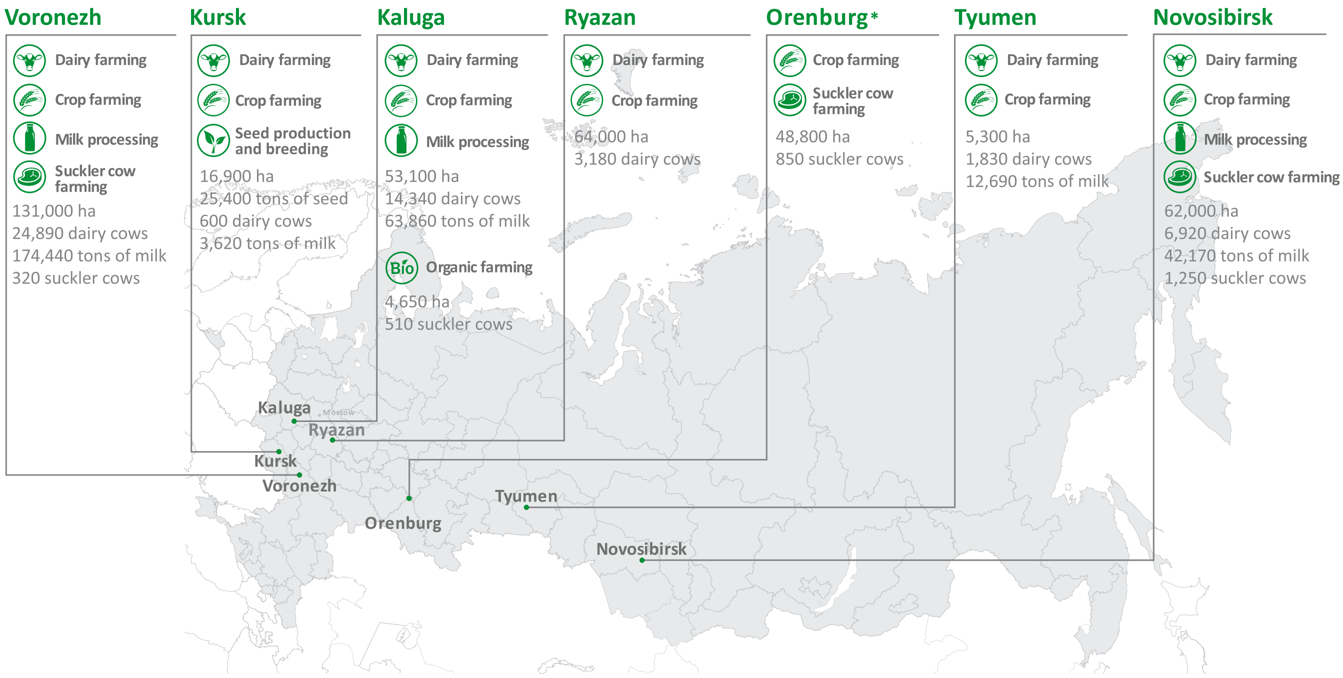
- In **Crop farming**, the Group primarily grows crops for the feed supply of its own herd. In addition to haylage and maize silage, these mainly include forage maize and soy. In addition, grain, sugar beets, oilseeds and other food crops are cultivated for sale to third parties. The activities in this area include the whole working cycle of crop farming: from the purchase of input materials (seed, fertilizer, crop protection) to field work including harvesting and storage. Parts of the seed are purchased from "seed production and breeding", cattle manure and dung (from "dairy farming") is partly used as a fertilizer.

- In **Seed production and breeding**, the Group acquires licenses for specific varieties of crops for exclusive reproduction and distribution in Russia. This includes Russian, German and Canadian varieties and primarily seeds for grain, grain legumes, grass, clover and lucerne. Two years ago, the Group additionally started breeding seeds and has registered first varieties for government examination. An output of approximately 25,400 tons of seeds for sale to third parties in the year 2017 means that the Group is one of the leading companies in seed production and breeding in Russia. The activities in this production area are exclusively done in the Kursk region and for some types of seed meanwhile also in Novosibirsk. Revenue from seed production is included in revenue from grain and other agricultural products in the income statement.

- **Suckler cow farming** comprises traditional pasture feeding for meat production at the company's locations in Voronezh, Orenburg and Novosibirsk. As of 30 June 2018 the herd comprised approximately 2,420 suckler cows. Most of the animals kept for meat production are of the Angus race. While the weaned bulls are sold to fatteners at the age of six to nine months, most of the suckler cows and female calves are kept in the herd. This production area is of minor significance. It helps make use of pasture which is not arable but is often part of agricultural land acquired through larger transactions. Revenue is included in livestock and animal products, including slaughter cows and other sold livestock.

- **Organic farming** operation is based in the Kaluga region and produces organic beef and various organic food crops in accordance with the EU regulations for organic farming. While the Russian market for organically produced food is less developed than its German counterpart, there has been a trend towards a more conscious and healthier diet in recent years, especially in the large cities. The Group intends to participate in this trend and supports its further development in Russia. Already today, the Group is a supplier of well-known processors of baby food who place very strict requirements on their supply-chain. This production area is comparably small today. However, depending on further development of the Group and the market, this may be subject to change in the future. Revenue from Organic farming is included in Grain and other agricultural products and Livestock and animal products.

Our business segments with the respective production areas in Russia are shown on the map: Voronezh, Kursk, Kaluga, Ryazan, Orenburg, Tyumen and Novosibirsk.



* Including Republic of Bashkortostan and Republic of Tatarstan

(Land and animals as of 30 June 2018, production figures for 2017, figures rounded)

2. Economic environment

Overall economic development

In July 2018 update of the World Economic Outlook, the International Monetary Fund (IMF) expects continued strong growth in global GDP of 3.9% for 2018. For the industrialized countries of the euro zone, economic growth of 2.2% is expected for 2018 as a whole, with a growth in GDP of also 2.2% for Germany. However, the strongest growth is again expected to come from the emerging markets and developing countries (including China, India, Russia, Brazil, etc.), for which the IMF forecasts an increase in GDP of 4.9%. While the Russian economy has already grown by 1.5% in 2017, IMF experts expect its growth to continue at 1.7% in 2018.

In the course of the first half of 2018, the key interest rate of the Russian Central Bank was continuously lowered. While it stood at 7.75% at the beginning of the year, it gradually fell to 7.5% and finally to 7.25% in the first six months. The inflation rate in Russia fluctuated slightly between 2.2% and 2.4% in the first half of 2018 and finally stood at 2.5% in July 2018 (first half of 2017: average 4.4%).

The development of the exchange rate of ruble to euro was somewhat more volatile compared to the same period last year. While one euro was 68.867 rubles on 31 December 2017, the RUB/EUR exchange rate was slightly higher at 72.992 on 30 June 2018. With an average exchange rate of 71.822 RUB/EUR in the first half of 2018, the ruble was slightly weaker than in the same period of the previous year (62,719 RUB/EUR). At the time of completion of this report, the exchange rate was 79.559 RUB/EUR (30 August 2018).

Developments in the global and Russian dairy markets

The price of raw milk plays a major role in the performance of the Group. While raw milk as such is a product sold only on local markets, prices are mainly determined by the development of globally traded commodities such as skimmed milk powder ("SMP") and butter. The reason for this is that recombined milk – a mixture of SMP, butter and water – is used instead of raw milk for many dairy products.

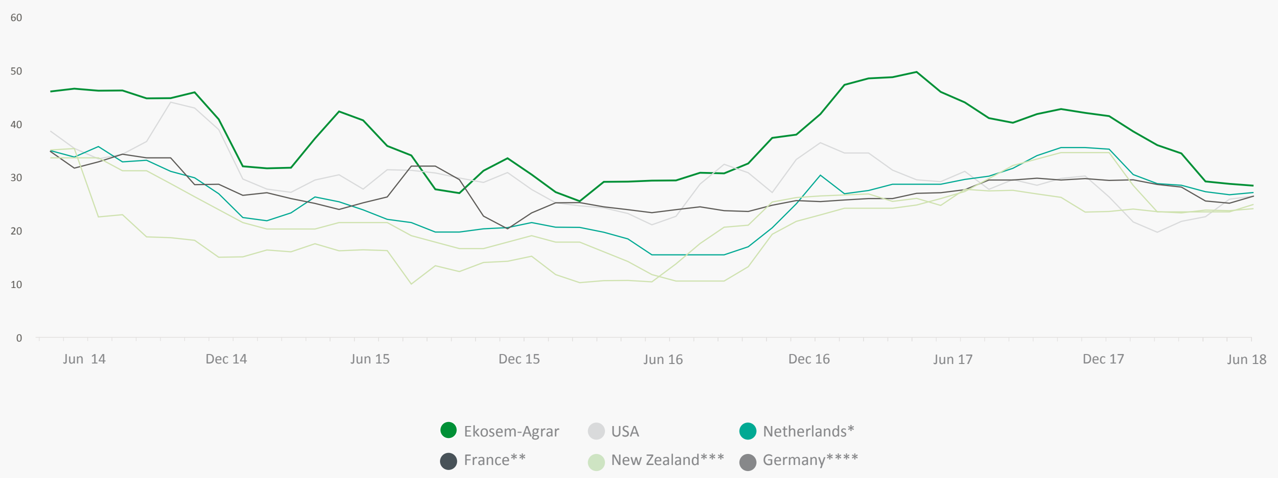
Since end of 2017 the milk prices in key milk-producing countries stagnated or began to decrease. This trend intensified towards mid-2018 and has been true for almost all relevant markets. This was due to an overall good supply situation and the EU SMP intervention stocks, depressing the prices. Currently the downward trend on international markets has stopped and a countermovement has begun. One of the reasons for this development might be unfavorable weather conditions in the EU, one of the world's main export regions of dairy products.

The Russian dairy market is still influenced by a structural undersupply. That means that much less milk is produced in Russia than is required to cover the demand for dairy products. The deficit is covered by the import of dairy products. For Russian milk producers, the undersupply situation of local raw milk results in comparatively good selling prices: As described above, milk prices are linked to worldwide traded commodities as milk powder and butter. The Group therefore usually receives the world market price increased by transaction costs and a certain premium for locally produced fresh milk. Therefore the prices offered by Russian milk processors are generally higher than the prices in other key milk production areas of the world. Milk powder and butter are traded in Euro and Dollar. This means, the Group's ruble milk price increases when ruble devaluates compared to hard currencies.

The modern free-range sheds for the dairy cows offer a high level of animal comfort and enable efficient work organization.

Several factors led to a decrease of the Russian milk price from end 2017 / beginning of 2018: High stocks and cheap imports of dairy products, especially from Belarus and increase in domestic production of marketable milk. In this period, it also has been observed that the Russian milk price decreased stronger than the prices in other key milk-producing countries. The Group sees the reason for this in the increasing counterfeiting on the Russian milk market (adulteration of milk products, i.e. replacing milk fat with cheaper palm oil, using milk powder instead of raw milk without appropriate labeling). The current extent of these problems has led to price pressure on the Russian raw milk market. Russian government is aware of this problem and has recently declared to take serious measures to combat this counterfeiting. Once the measures are in force and effective, we expect that the milk price in Russia will again be above the level of Western Europe. In the last decade the price for the group was in average about 8-10 Eurocents above Western European prices. As a consequence of the rather low prices a number of companies already slaughtered substantial numbers of dairy cows, which leads to a reduction of supply. Due to the long cycles of building up a good dairy herd, this will not be adjusted short term. Between July 2017 and July 2018 the number of dairy cows in agricultural and peasant (farm) enterprises in the whole Russian Federation was reduced from 3,055 thousand heads to 2,975 thousand heads – a reduction of 80,000 heads or 2.6%.

Raw milk purchase price (3.7% fat, 3.2% protein), eurocent excl. VAT



* Friesland Campina
** Danone
*** Fonterra
**** DMK

Development in the Agricultural Sector
Currently in the Russian agricultural sector there is an ongoing redistribution of agricultural land. The Group has actively participated in this development and increased its landbank from approximately 322,000 hectares as of 31 December 2017 to approximately 386,000 hectares as of reporting date (30 June 2018). In addition, a growing number of medium- and small-scale enterprises leave the market due to low milk prices and lack of operational efficiency. This offers the Group good opportunities for acquisitions at favorable prices.

3. ECONOMIC REPORT

3.1 Business performance of the Group in the first 6 months

Raw milk production kept growing in the reporting period. The total raw milk output in the reporting period amounted to about 225,000 tons, which is 68% higher than in the first half 2017 (134,000 tons). The milk yield increased from 1,090 tons per day on 31 December 2017 to 1,365 tons per day on 30 June 2018 (as of reporting date), i.e. by 25%.

While in other agricultural industries the scale of the state support has been reduced, the state support for the dairy production continues. Federal as well as regional governments provide direct investment subsidies, interest subsidies and ongoing production subsidies. While the last one is of limited relevance for the Group the direct investment subsidies as well as interest subsidies are very important for the growth strategy of the Group and a reduction or abolishment of the respective programs for future investments would lead to a change in investment activities of the Group. Ekosem-Agrar Group is taking advantage of such favorable economic environment to further invest in modern dairy facilities.

Besides fresh milk, traditional sour milk products such as kefir are also produced under the company‘s own „Academy of Dairy Sciences“ brand.

Low yield areas, on which farming is not worthwhile, are very well suited for extensive suckler cow farming for meat production.

Considering the prospective subsidies for the dairy farm construction, these projects are expected to generate positive cash flow within a relatively short period. If the government support measures are cancelled or significantly reduced, the Group will cease or significantly slow down its expansion strategy in raw milk production.

Due to above-average precipitation in the Novosibirsk region in spring, sowing has not been fully completed. A drought in Voronezh region from April till June led to reduced wheat yields. However, extensive rainfall in the same region in July let the Group expect an average harvest for later harvested crops as soy, sugar beets and corn. As of publication date more than 80% of the planned haylage has been harvested. Overall we expect this year's harvest of haylage and corn silage to be in line with our plan.

The Group as per 30 June 2018 employed around 8,960 people in seven regions in Russia and nine people in Germany (31 December 2017: 6,710). The 34% increase in the employee number is a result of the expansion of the operating activities as well as the fact that the new dairy farms are constructed by the Group itself. This means also that all operations such as ground works, foundations, concreting and so on are carried out by the Group itself. For this reason, the Group currently employs a large number of construction workers.

3.2 Profit situation

Looking at the statement of comprehensive income, it should generally be noted that the exchange rate for rubles to euros changed significantly compared to the prior year’s period. While revenues and expenses were converted in the first half of 2017 at an average rate of RUB/EUR 62.72, in the first half of 2018 the average rate stood at RUB/EUR 71.82.

Total output (revenue plus changes in balances of fall-ploughed land as well as of agricultural produce and biological assets and other operating income) amounted to EUR 162.2 million (first half of 2017: EUR 100.5 million). The total output resulted from sales revenues of EUR 96.6 million (first half of 2017: EUR 77.8 million; +24%), seasonal decreases of balances of fall-ploughed land amounting to EUR -10.6 million (first half of 2017: EUR -11.6 million), as well as changes in balances of agricultural products and biological assets of EUR 66.0 million (first half of 2017: EUR 28.4 million) and other operating income of EUR 10.2 million (first half of 2017: EUR 6.0 million).

Sales revenues were achieved with about a 64.2% contribution from milk at 62.0 million (first half of 2017: EUR 57.2 million or 73.5%). The contribution of milk processing in total sales amounted to EUR 12.5 million (first half of 2017: EUR 1.6 million) and thus reached a share of 12.9%. This represents a significant increase compared to a share of 2.1% in the same period of the previous year and thus underlines the growing importance of the milk processing as the main development area of the Group. Sales of agricultural crop products accounted for 11.5% or EUR 11.1 million (first half of 2017: EUR 11.3 million, 14.5%). Proceeds from the sale of fattening bulls and culled cows contributed 10.3% to total sales revenues and amounted to EUR 9.9 million (first half of 2017: EUR 6.3 million or 8.1%).

As a result of further operational growth, the **cost of materials** rose year-on-year to EUR 68.6 million (first half of 2017: EUR 40.6 million). For the same reason, **personnel costs** rose from EUR 19.1 million to EUR 29.6 million. On average, the Group employed 7,753 people in the reporting period (first half of 2017: 4,460 employees).

The increase in **other operating expenses** is related to the increase in operational volumes and the increase of land area. It is also related to various projects that go on in the group of companies, like preparation of bigger financing measures as well as the entering of processing markets in a larger scale. For more information, refer to point 13. in the Notes.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 45.0 million (first half of 2017: EUR 30.9 million). EBITDA margin (percentage of the EBITDA divided by total output) was 27.7% (first half of 2017: 30.7%). The **operating result** (EBIT; earnings before interest and taxes) of EUR 26.9 million was significantly higher than in the previous year (first half of 2017: EUR 18.8 million). The EBIT margin (EBIT as a percentage of total output) was 16.6% compared to 18.7% in the same period of the previous year.

The **financial result** was EUR -22.6 million (first half of 2017: EUR -15.5 million). Interest expenses (reduced by interest subsidies received) rose by 41% from EUR 16.8 million to EUR 23.7 million. The financial result includes negative currency effects of EUR 0.3 million; in the previous period, the financial result included positive currency effects of EUR 0.1 million. The reason for this development is intensive investments in the second half of 2017 and in the first half of 2018.

The **net profit for the period** amounted to EUR 1.8 million which is slightly higher than in the previous year (first half of 2017: EUR 1.7 million).

The Group's earnings situation is subject to certain seasonal fluctuations by nature. The main vegetation phase for crops begins in April, and the harvest starts in June or July depending on the crop and can continue into November, especially for sugar beets and corn for grain. Accordingly, net value is added in the crop segment primarily in the months from May to September. However, the sale of the products affecting revenue is distributed more evenly throughout the year. Milk production is much less susceptible to seasonal variations, although here too, milk volume is subject to fluctuations during the year.

3.3 Financial position

The centrally administered financial management ensures that the financing requirements of all companies in the Group are sufficiently covered. This holds true for both current business activities and our extensive investments. The underlying financing plan encompasses all significant companies and is updated

The fresh fodder is stored in large stacks for silage production.

on a rolling basis. Additionally, the Group draws up a liquidity plan with a current orientation.

In the reporting period, operating cash flow before changes in working capital was negative and amounted to EUR 10.6 million (first half of 2017: positive EUR 14.3 million). The decline was mainly due to changes in balances of fall-ploughed land, agricultural produce and biological assets. Operating cash flow before tax and interest payments amounted to EUR 23.2 million (first half of 2017: EUR 22.3 million), mainly due to the increase in trade payables and other liabilities.

After interest payments of EUR 27.3 million (first half of 2017: EUR 23.6 million), interest subsidies received from the public sector in the amount of EUR 9.8 million (first half of 2017: EUR 8.6 million) and tax payments, the net cash inflow from operating activities amounted to EUR 3.3 million (first half of 2017: EUR 6.1 million).

At the bottom line, the negative operating cash flow reflects the Group's growth, the required investments in its operations and mainly working capital. The company is aware of this situation and manages it.

Net cash outflow from investment activities increased to EUR 182.5 million (first half of 2017: EUR 37.6 million) due to the investments into property, plant and equipment, non-current biological assets in the amount of EUR 114.3 million, short-term financial investments amounting to EUR 41.1 million and acquisition of subsidiaries EUR 34.9 million.

Net cash inflow from financing activities amounted to EUR 175.6 million (first half of 2017: EUR 32.8 million), primarily including borrowings.

3.4 Asset position

The balance sheet developed dynamically on the basis of continued growth. The currency exchange rate as of 30 June 2018 was RUB/EUR 72.99, compared to RUB/EUR 68.87 as of 31 December 2017, which means that the euro equivalent of the ruble decreased by around 5.7% over the corresponding period.

Total assets increased to EUR 1,136.7 million as of 30 June 2018 (31 December 2017: EUR 942.7 million). The increase in total assets is mainly due to the increase in property, plant and equipment as well as biological assets.

Acquisitions: On 20 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Bobrov-Niva. Additionally, on 20 April 2018 OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Mega-ferma Berezovka. On 27 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Agrofirma Shipova Dubrava. The entities are located in Voronezh region and operate in agricultural business. For more information, refer to point 7. in the notes.

Non-current assets amounted to EUR 854.6 million on the reporting date and were thus 17% higher than on 31 December 2017 (EUR 724.0 million). Property, plant and equipment, i.e. primarily buildings (including buildings under construction) and agricultural areas amounted to EUR 593.1 million as of the reporting date (31 December 2017: EUR 489.4 million). As of 30 June 2018, the Group controlled an area of around 386,000 hectares (31 December 2017: 322,000 hectares). As of the balance sheet date, 56.2% (31 December 2017: 60.0%) of the total area was owned by the Group. The company's inventories of dairy cows increased by approx. 15% to approximately 51,750 heads (31 December 2017: approximately 45,100 heads) as of 30 June 2018; the total number of cattle is approx. 110,000 (31 December 2017: 97,520). The strong increase in the number of dairy cows underlines the high pace at which the investments of recent years have led to further growth. Biological assets rose from EUR 186.5 million to EUR 203.1 million.

Current assets amounted to EUR 282.1 million as of 30 June 2018, 31% higher than on 31 December 2017 (EUR 218.7 million). This change is mainly due to seasonal factors and to current biological assets, which essentially comprise growing field inventories. The cash crops intended for sale are mainly sold off from the end of the year until mid-year.

Equity, including the share of non-controlling shareholders, decreased slightly from EUR 165.0 million to EUR 157.6 million, and the equity ratio (ratio of equity to total assets) was 13.9% (31 December 2017: 17.5%).

Total liabilities amounted to EUR 979.1 million on the balance sheet date, which corresponds to an increase of 26% (31 December 2017: EUR 777.7 million).

Non-current liabilities of around EUR 626.7 million (31 December 2017: EUR 491.9 million) consist primarily of financial liabilities (EUR 501.6 million; 31 December 2017: EUR 391.6 million). **Current liabilities** of EUR 352.4 million (31 December 2017: EUR 285.7 million) are largely composed of current financial liabilities (EUR 181.0 million; 31 December 2017: EUR 162.6 million) and trade payables (EUR 97.0 million; 31 December 2017: EUR 41.4 million).

All liabilities due were paid down as scheduled in the reporting period. The continual expansion of milk production as well as of the other production areas ensures a further increase in revenues as well as in cash flows and thus contributes to improving the liquidity situation.

As of 30 June 2018 there were open, unused credit lines for different investment purposes of EUR 259.6 million. Depending on the bank and credit volume these credit lines contain different restrictions concerning securities and intended utilization.

Overall, the management is satisfied with the business development in the first half of the year. A further significant expansion of business activities was achieved. This applies both to the traditional areas of crop farming and raw milk production and to the expansion of milk processing. The only drawback is the price of raw milk, which in the first half of 2018 was on a continuous downward trend, which could not be stopped until in the middle of the year. Taking into account the significant growth, the Management Board is of the opinion that the results are satisfactory.

4. RISKS AND OPPORTUNITIES

The dependence on the Group’s ability to generate sufficient liquid funds from its business operations to settle its liabilities is a material uncertainty regarding the Group’s ability to continue as a going concern. Going forward, the Group will continue to need further debt capital to finance its growth. This requires banks or other lenders to make available sufficient capital. The increasing recovery of the Russian economy and the declining inflation are having a positive effect on financing conditions. Moreover, Russian banks are showing a great willingness to finance projects in the agricultural sector.

Based on the Group’s current plans and taking the related uncertainty into account, management assumes, at the time of the preparation of the condensed consolidated interim financial statement as per 30 June 2018, that the Group will be able to raise sufficient funds in the foreseeable future to continue its activity. This also includes the refinancing of bank loans due for repayment within the next 12 months to the extent that they exceed the funds from operations. This is to be seen against the background of the fact that the Group’s member companies use short-term loans granted by Russian banks. Most of these credit lines are regularly refinanced by the banks – notwithstanding the fact that the credit terms of certain short-term loans were not met in Russia last year. The executive management assumes that this will also be the case in the future. Additional credit terms („covenants“) are a regular component of financing agreements with banks. These covenants may contain components that limit the company‘s flexibility with regard to new financing and thus further growth. In the first half of 2018 there was a breach of a covenant of loans amounted EUR 1.4 million. The bank formally waived its right to take any actions regarding this breach. Failure to comply with covenants may have negative effects on the Group‘ s financial situation. Should, contrary to management’s expectations, the supply of funds from operations and external borrowings not be possible at all or only at much poorer conditions, this could result in the company’s insolvency.

The Group's profits depend on the development of the price for raw milk. If milk prices will not increase as assumed, this may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Especially in dairy farming and milk processing the Group sees good opportunities for further growth. The dairy farms currently under construction will boost the milk output and with the current and future capacities for milk processing the Group will be able to increase the amount of own processed products and thereby deepen its value chain.

The whole section of opportunities and risks has not materially changed since the issuance of the annual report 2017. Therefore, please also refer to the respective sections in the said report.

5. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

On 31 July 2018, the shareholders of the company approved the change of the legal form of the company from a limited liability company (GmbH) to a stock corporation (AG). Ekosem-Agrar AG was registered on 14 August 2018 under the registration number HRB 731215 at Mannheim Local Court. The shareholders elected the members of the Supervisory Board. The members elected a chairman and deputy chairman of the Supervisory Board and also appointed the members of the Management Board. The change of legal form was resolved in the context of an intended initial public offering of the company, which the company is currently preparing.

The members of the Supervisory Board are:

Chairman:	Rolf Zürn
Deputy Chairman:	Wolfgang Graf
Members:	Dr. Franz-Georg von Busse
	Dr. Thomas Kirchberg
	Vladislav Novoselov

The Management Board consists of two people:

Stefan Dürr (CEO)
Wolfgang Bläsi (CFO)

6. FORECAST STATEMENT

The information on the future business performance presented in this chapter are management projections based on information such as market expectations, strategic decisions, regulatory framework conditions and exchange rate trends. A change in these and other parameters incorporated in the projections may result in adjustments or the non-occurrence of these projections. The assumptions and estimates upon which the above projections are based assume a considerable increase in the milk output resulting from the continued expansion of the production capacities.

Overall economic development

With a growth of 3.9% in 2018 and 2019 each, the International Monetary Fund (IMF) expects the highest growth in the global economy in the past eight years. In its World Economic Outlook, updated in July 2018, the IMF forecasts economic growth of 2.2% for the industrialized countries of the euro zone for 2018 as a whole and a slight decline to 1.9% GDP growth in 2019. In Germany, economic output is expected to reach 2.2% in 2018 and 2.1% in 2019. For the developing economies and emerging markets, economic growth is expected to increase by 4.9% in 2018 and 5.1% in 2019. Following Russia's economic growth of 1.7% in 2018, experts expect the GDP growth to decline slightly to 1.5% in 2019.

Forecast summary

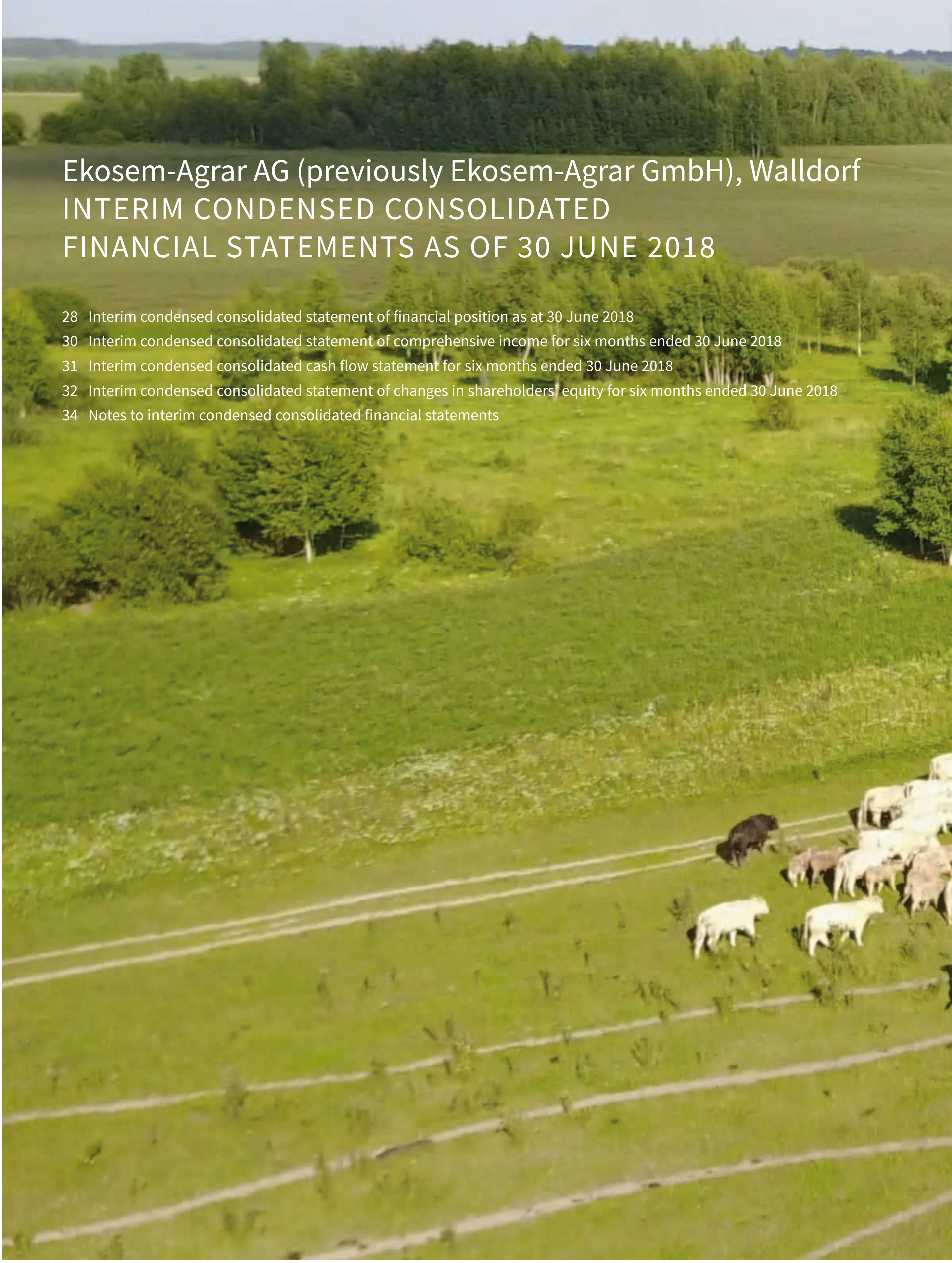
Based on the current performance of the Group, the Management Board expects to reach the number of more than 70,000 dairy cows by the end of 2018. Consequently, the raw milk output is expected to increase to approximately 500,000 to 520,000 tons. By the end of 2019, the number of dairy cows is expected to be in the range of 100,000 – 120,000 heads and the raw milk output for 2019 in the range of 900,000 to 1,100,000 tons. This growth is solely based on 14 new dairy farms for a total of 45,600 dairy cows, which are under construction as per the balance-sheet date and will be completely up and running in the beginning of 2020. The financing for this whole investment is completely secured.

Having reached a landbank of 386,000 hectares as of the reporting date, the Group expects growth to significantly over 400,000 hectares by the end of 2018. The current view as of the end of 2019 indicates a total land bank of around 500,000 to 550,000 hectares, depending on the available financing and market conditions. The expansion with regards to land mainly focuses on the addition of land the regions in which the group is already active. This growth is more subject to availability and not an absolute must because already today the size of land-area is sufficient to feed the increasing heard of cattle with high-quality fodder. Since the group mid-term wants to produce fresh dairy products in most parts of the country (except for the Caucasus-Region and the Far East) there might be additional regions added.

Regarding the processing of milk the group currently modifies the two dairy plants acquired by the end of 2017. As a result the processing capacity for fresh products will increase significantly. In parallel the group moves forward the activities for green-field processing plants namely in Siberia but also Western regions of the group.

Walldorf,
30 August 2018

Stefan Dürr	Wolfgang Bläsi
CEO	CFO



Ekosem-Agrar AG (previously Ekosem-Agrar GmbH), Walldorf
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2018

Ekosem-Agrar AG (previously Ekosem-Agrar GmbH)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

ASSETS	Note	06/30/2018 EUR'000	12/31/2017 EUR'000
Non-current assets			
Property, plant and equipment	16	598,147	489,422
Intangible assets		13,913	11,102
Non-current financial assets		24,158	25,819
Biological assets	19	203,143	186,487
Deferred tax assets		1,608	415
Other non-current assets		13,627	10,780
		854,596	**724,025**
Current assets			
Inventories	18	77,537	99,813
Biological assets	19	81,976	4,310
Advances paid		5,365	4,171
Trade receivables	21	9,944	14,485
Income tax prepayments		112	1,428
VAT and other non-income taxes receivables	21	34,842	29,781
Current financial assets	17	51,744	40,203
Other current assets		9,950	10,250
Cash and cash equivalents	22	10,650	14,251
		282,120	**218,692**
		1,136,716	**942,717**

EQUITY AND LIABILITIES	Note	06/30/2018 EUR'000	12/31/2017 EUR'000
Equity			
Share capital		80	80
Capital reserve		48,517	48,517
Revaluation reserve		133,301	128,911
Other retained earnings		16,533	16,494
Foreign currency translation reserve		(115,215)	(102,252)
Retained earnings		70,562	34,533
Net profit attributable to parent company's shareholders		1,722	36,639
Equity attributable to parent company's shareholders		**155,500**	**162,922**
Non-controlling interests		2,098	2,127
		157,598	**165,049**
Non-current liabilities			
Non-current loans and borrowings	24	501,600	391,620
Obligations under financial leases	24	17,870	16,248
Government grants	25	90,537	69,104
Other non-current liabilities		259	259
Deferred tax liabilities		16,416	14,705
		626,682	**491,936**
Current liabilities			
Government grants	25	11,321	6,166
Current loans and borrowings	24	180,982	139,656
Non-current loans reclassified to current liabilities	24	-	22,974
Obligations under financial leases	24	9,444	8,494
Current trade and other accounts payable	24	97,033	41,373
Contract liabilities	24	14,516	4,683
Income tax payable		274	687
Other current financial liabilities	26	4,893	36,094
Other current non-financial liabilities	26	33,973	25,605
		352,436	**285,732**
		1,136,716	**942,717**

Ekosem-Agrar AG (previously Ekosem-Agrar GmbH)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR SIX MONTHS ENDED 30 JUNE

	Note	Six months ended 30 June 2018 EUR'000	Six months ended 30 June 2017 EUR'000
Revenue from contracts with customers	9	96,569	77,770
Change in balances of fall-ploughed land		(10,574)	(11,628)
Change in balances of agricultural produce and biological assets		66,009	28,406
Other operating income	10	10,184	5,993
		162,188	**100,541**
Costs of materials	11	(68,577)	(40,585)
Personnel costs	12	(29,632)	(19,135)
Depreciation, amortization and impairment losses		(18,104)	(12,059)
Other operating expenses	13	(18,997)	(9,991)
Result from operating activities		**26,878**	**18,771**
Financial income	14	2,371	2,668
Financial expenses	14	(24,961)	(18,163)
Profit before tax		**4,288**	**3,276**
Income tax expense	15	(2,493)	(1,551)
Net profit for the period		**1,795**	**1,725**
Attributable to			
Parent company's shareholders		1,722	1,689
Non-controlling interests		73	36
Earnings per share (EPS):			
Basic, profit for the period attributable to ordinary equity holders of the parent		0.02	0.02
Diluted, profit for the period attributable to ordinary equity holders of the parent		0.02	0.02
Other comprehensive income/(loss)			
Items that may be classified subsequently to profit or loss			
Exchange differences in translating of foreign operations		(13,110)	(11,081)
Items that will not be classified subsequently to profit or loss			
Revaluation of land and buildings		5,537	2,031
Income tax relating to components of other comprehensive income		(1,063)	(321)
		(8,636)	**(9,371)**
Attributable to			
Parent company's shareholders		(8,534)	(9,294)
Non-controlling interests		(102)	(77)
Comprehensive loss for the reporting period		**(6,841)**	**(7,646)**
Attributable to			
Parent company's shareholders		(6,812)	(7,605)
Non-controlling interests		(29)	(41)

Ekosem-Agrar AG (previously Ekosem-Agrar GmbH)
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR SIX MONTHS ENDED 30 JUNE

	Note	Six months ended 30 June 2018 EUR'000	Six months ended 30 June 2017 EUR'000
Cash flows from operating activities			
Profit for the period		1,795	1,725
Depreciation, amortization and impairment losses		18,104	12,059
Net loss on disposal and revaluation of property, plant and equipment		(191)	288
Change in balances of fall-ploughed land as well as of agricultural produce and biological assets		(55,435)	(16,778)
Income taxes recognized in profit or loss	15	2,493	1,551
Financial income	14	(2,371)	(2,668)
Financial expenses	14	24,961	18,163
		(10,644)	**14,340**
Changes in working capital			
Change in inventories		(8,079)	(2,939)
Change in trade receivables		3,961	3,852
Change in advances paid		(1,446)	604
Change in other receivables and assets		(4,963)	1,056
Change in trade payables		19,489	(5,531)
Change in other liabilities		24,854	10,889
Cash inflow from operating activities		**23,172**	**22,271**
Income taxes paid		(2,040)	(1,000)
Interest paid		(27,253)	(23,621)
Bank commissions for operating activities paid	13	(301)	(162)
Government grants for financing activities	14	9,766	8,608
Net cash inflow from operating activities		**3,344**	**6,096**
Cash flows from investment activities			
Proceeds from the disposal of property, plant and equipment		270	77
Short-term financial investments	17	(41,071)	-
Loans (issued) / repaid		28,155	(3,736)
Interest received		3,540	832
Acquisitions of subsidiaries, net of cash acquired	7, 26	(34,840)	-
Payments to acquire property, plant and equipment		(114,270)	(38,096)
Government grants for property, plant and equipment		209	12,758
Payments to acquire non-current biological assets		(24,502)	(9,394)
Net outflow of cash from investment activities		**(182,509)**	**(37,559)**
Cash flows from financing activities			
Proceeds from borrowings		301,659	140,735
Repayment of borrowings		(116,904)	(100,208)
Bank commissions for financing activies paid		(935)	(1,315)
Payment of finance lease liabilities		(8,258)	(6,460)
Net inflow of cash from financing activities		**175,562**	**32,752**
Net (outflow) / inflow of cash and cash equivalents		**(3,603)**	**1,289**
Cash and cash equivalents at start of the period		**14,251**	**2,207**
Effects of exchange rate changes on the balance of cash held in foreign currencies		2	5
Cash and cash equivalents at end of the period		**10,650**	**3,501**

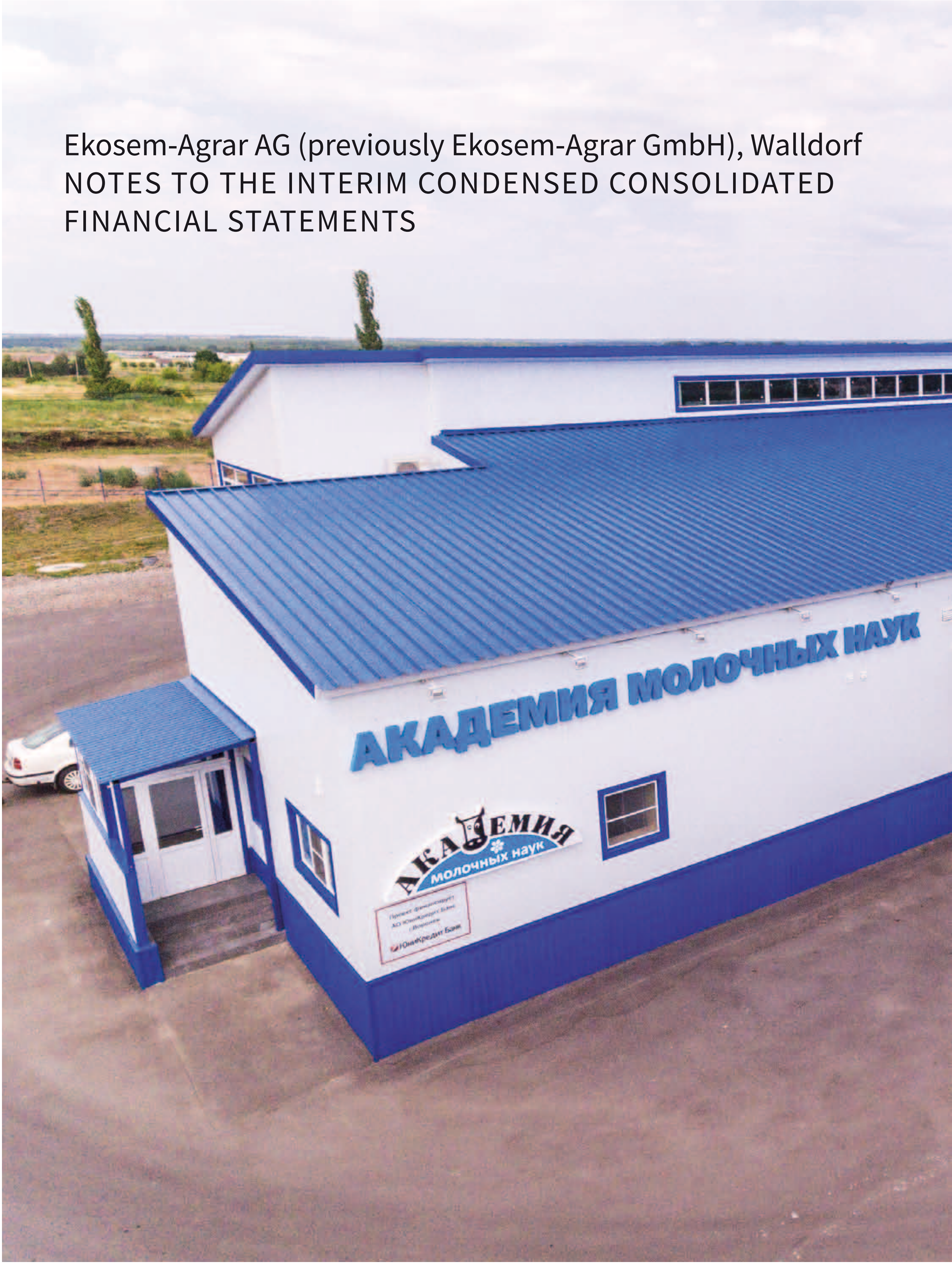
Ekosem-Agrar AG (previously Ekosem-Agrar GmbH)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR'000	Share capital	Capital reserve	Revaluation reserve	Other retained earnings	Foreign currency translation reserve
As of 1 January 2017	**80**	**48,517**	**102,341**	**16,463**	**(87,835)**
Net profit	-	-	-	-	-
Other comprehensive income/(loss)	-	-	1,676	19	(10,989)
Total comprehensive income/(loss)	-	-	1,676	19	(10,989)
Allocation of profit or loss	-	-	-	-	-
As of 30 June 2017	**80**	**48,517**	**104,017**	**16,482**	**(98,824)**
As of 1 January 2018	**80**	**48,517**	**128,911**	**16,494**	**(102,252)**
Net profit	-	-	-	-	-
Other comprehensive income/(loss)	-	-	4,390	39	(12,963)
Total comprehensive income/(loss)	-	-	4,390	39	(12,963)
Application of new standards*					
Allocation of profit or loss	-	-	-	-	-
As of 30 June 2018	**80**	**48,517**	**133,301**	**16,533**	**(115,215)**

* for more details please refer to Note 4

Retained earnings	Net profit attributable to parent company's shareholders	Equity attributable to parent company's shareholders	Non-controlling interests	Total
30,713	**3,820**	**114,099**	**1,660**	**115,759**
-	1,689	1,689	36	**1,725**
-	-	(9,294)	(77)	**(9,371)**
	1,689	(7,605)	(41)	**(7,646)**
3,820	(3,820)	-	-	-
34,533	**1,689**	**106,494**	**1,619**	**108,113**
34,533	**36,639**	**162,922**	**2,127**	**165,049**
-	1,722	1,722	73	**1,795**
-	-	(8,534)	(102)	**(8,636)**
-	1,722	(6,812)	(29)	**(6,841)**
(610)	-	(610)	-	**(610)**
36,639	(36,639)	-	-	-
70,562	**1,722**	**155,500**	**2,098**	**157,598**

Ekosem-Agrar AG (previously Ekosem-Agrar GmbH), Walldorf
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



Ekosem-Agrar AG (previously Ekosem-Agrar GmbH) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 JUNE 2018

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Ekosem-Agrar (also referred to below as "the corporation" or "parent company") and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 were authorized for issue in accordance with a resolution of the directors on 30th August 2018.

Ekosem-Agrar is a German stock corporation (Aktiengesellschaft). The company has its main business offices at Johann-Jakob-Astor-Str. 49, 69190 Walldorf, Germany. Its subsidiaries are domiciled in the Federal Republic of Germany and the Russian Federation. Ekosem-Agrar AG (previously Ekosem-Agrar GmbH) has its registered office in Walldorf. The company is entered in the commercial register of the Mannheim local court under HRB no. 351797. The company has been established as Ekosem-Agrar GmbH in 2001 and changed its legal form with a decision of the shareholders at 31 July 2018 which has been registered in the court of Mannheim (Amtsgericht Mannheim) at 14 August 2018 under the registration number HRB 731215.

The main activities of the Group include the production and processing of and trade in animal and plant agricultural products.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The interim financial statements of Ekosem-Agrar Group cover the period from 1 January 2018 to 30 June 2018. Figures in the consolidated statement of financial position for the prior year refer to 31 December 2017. The prior year figures in the statement of comprehensive income, in the statement of changes in shareholders' equity as well as in the cash flow statement refer to the period from 1 January 2017 to 30 June 2017.

The Group interim financial statements were prepared in compliance with IAS 34 Interim Financial Reporting. The currency reported is euro (EUR).

The Group interim financial statements do not contain all the information required for consolidated financial statements at the end of the fiscal year and thus should be read in conjunction with the consolidated financial statements dated 31 December 2017.

The essential exchange rates for the presentation of the Group interim financial statement are as follows:

Currency RUB/EUR	Closing rate	Average rate
Six months ended 30 June 2017		62.7187
At 31 December 2017	68.8668	
Six months ended 30 June 2018		71.8223
At 30 June 2018	72.9921	

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2017.

Going concern

These consolidated financial statements have been prepared on a going concern basis that envisages the realization of assets and settlement of liabilities in the normal course of business. At 30 June 2018 (and 31 December 2017) the Group's current liabilities exceeded the current assets. For six months ended 30 June 2018 the Group had net inflows from operating activities in the amount of EUR 3,344k (six months ended 30 June 2017: EUR 6,096k), which were mainly driven by an increase in interest paid and trade receivables and advances. Further, for six months ended 30 June 2018 (and 2017) the Group's results were attributed to a significant extend to non-cash revaluations in balances of fall-ploughed land and increase in fair value of agricultural produce and biological assets.

The Group's results of operations are significantly affected by the still significant growth of the Group's livestock and the related feedstuff at stock. The number of cows has increased and so has the volume of milk produced. Therefore, there is a growing demand for feedstuff as well as a growing value of the herd as well as the necessity to enlarge the related assets. This all leads to the use of cash, which results in cash-outflows from operations – a situation that the management of the Group is aware off and deals with.

Further, at 30 June 2018 the Group's current loans and borrowings of EUR 181mln (31 December 2017: EUR 140mln) primarily represent Russian bank loans, which the Group plans to refinance. The Group is continuously talking to the financing banks to ensure a smooth process of refinancing of those short-term loans. From previous experience, it can be said that loans that have to be paid back to a bank can be re-drawn shortly after that.

At 31 December 2017, the Group breached certain restrictive covenants related to its non-current loans (Note 24). Therefore, at 31 December 2017 the Group didn't have an unconditional right to defer their settlement for at least twelve months after the reporting date. Under IAS 1, at 31 December 2017 the respective non-current loans amounting to EUR 23mln and were presented within current liabilities. These loans were classified as non-current loans reclassified to current liabilities. In the first half of 2018 there was a breach of a covenant of loans amounting to EUR 1.4mln. The bank formally waived its right to take any actions regarding this breach. At 30 June 2018 no reclassification of the loans was required.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED AND NOT ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The following new standards and amendments applied for the first time in 2018 do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption to contracts which were not completed as of the date of date of adoption.

The standard adoption had no significant impact on the Group's interim condensed consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017.

As the financial assets of the group only consist of debt instruments the new classification and measurement of the Group's debt financial assets is as follows:

Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains the same as it was under IAS 39.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

The Group evaluates a negative impact on equity of EUR 610k by recognizing impairment loss on Non-current financial assets. As the group currently does not use hedge accounting there would have been no change out of an application of IFRS 9.

New Standards, amendments and interpretations not yet adopted by the Group:

IFRS 16 Leases

The scope of IFRS 16 (effective for annual periods beginning on or after 1 January 2019) includes leases of all assets, with certain exceptions. A lease is defined as a contract, or a part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interests, taxes, depreciation and amortization (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The adoption of IFRS 16 will result in recognition of the right of use assets and the lease liabilities relating to the Group's land lease rights, which have not been recognized under IAS 17. The Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

The following standards will most probably have no material effect on the financial statements of the Group:

- IFRIC Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to IAS 40, Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

5. SEASONAL INFLUENCES ON BUSINESS ACTIVITY

While in the core business of milk production seasonal influences play a minor role, the individual quarters of a fiscal year vary considerably in crop production. In the first and last calendar quarter, practically no added value is obtained, in particular due to the climatic conditions in Russia in crop production. Only a change in the market price of the stored plant products may (positive or negative) have an impact on the operating result. In the second and third quarters of the year substantial value creation in crop production takes place. While the harvest of various crops (mainly wheat and barley) starts at the beginning of the third quarter, maize and sugar beet are likely harvested at the end of the third and beginning of the fourth quarter. This seasonality may result in greater volatility in earnings from one quarter to another.

6. GROUP STRUCTURE

On 30 June 2018, the Group structure consisted of the parent company, one German subsidiary and 35 Russian entities in which Ekosem-Agrar AG holds the majority of capital and voting rights.

7. BUSINESS COMBINATION

On 20 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Bobrov-Niva. The consideration transferred amounted to RUB 157mln (approx. EUR 2,088k) and was paid in cash in 2017. Additionally, on 20 April 2018 OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Megaferma Berezovka. The consideration transferred amounted to RUB 309mln (approx. EUR 4,111k) and was paid in cash in 2017. The entities are located in Voronezh region and operate in agricultural business. The Group determined that these two business acquisitions represent a linked transaction as they were negotiated together.

On 27 April 2018, OOO EkoNiva-APK Chernozemye acquired 100% ownership interest in OOO Agrofirma Shipova Dubrava. The consideration transferred amounted to RUB 429mln (approx. EUR 5,705k) and was paid in cash in 2018.

Purchase price allocation is not finalized. The Group is in process of finalizing. Some figures are already updated based on more clear understanding of their value and some are still in process of evaluation.

The provisional fair values of the identifiable assets and liabilities of the entities as at the dates of their acquisition were as follows:

	Bobrov-Niva and Megaferma Berezovka EUR '000	Agrofirma Shipova Dubrava EUR '000
ASSETS		
Property, plant and equipment	8,459	3,344
Intangible assets	1,076	1,377
Other non-current assets	1,333	-
Inventories	518	1,093
Biological assets	2,668	1,223
Trade receivables	191	129
thereof with companies of the Group	27	-
Current financial assets	-	10
Other current assets	-	7
Cash and cash equivalents	2	5
	14,247	**7,188**

	Bobrov-Niva and Megaferma Berezovka EUR '000	Agrofirma Shipova Dubrava EUR '000
LIABILITIES		
Current loans and borrowings	5,344	-
thereof with companies of the Group	2,576	-
Obligations under financial lease	354	-
Current trade and other accounts payable	2,449	173
thereof with companies of the Group	2,332	160
Other current non-financial liabilities	862	1,310
	9,009	**1,483**

Total identifiable net assets at fair value	**5,238**	**5,705**
Goodwill	961	-
Purchase consideration transferred/ Cash paid	**(6,199)**	**(5,705)**
Net cash acquired with the subsidiary	2	5
Net cash inflow/outflow	**(6,197)**	**(5,700)**

Based on the provisional fair values of the identifiable assets and liabilities there is no goodwill or bargain gain identified from acquisition of OOO Agrofirma Shipova Dubrava. The goodwill resulting from acquisition of OOO Bobrov-Niva and OOO Megaferma Berezovka amounted of EUR 961k and comprises the value of expected synergies arising from the acquisition of these entities. The goodwill is allocated entirely to Voronezh segment. The goodwill is not expected to be deductible for income tax purposes.

At the date of acquisition fair values of the trade receivables of OOO Bobrov-Niva/ OOO Megaferma Berezovka and OOO Agrofirma Shipova Dubrava amounted to EUR 191k and EUR 129k, respectively, and were equal to the carrying amount of trade receivables.

OOO Bobrov-Niva/ OOO Megaferma Berezovka and OOO Agrofirma Shipova Dubrava are included into consolidation for the reporting period since the date of acquisition and contributed EUR 788k and EUR 198k of revenue, respectively, and net profit or (loss) of EUR (272)k and EUR 723k, respectively.

If the acquisitions had taken place as of 1 January 2018, OOO Bobrov-Niva/ OOO Megaferma Berezovka and OOO Agrofirma Shipova Dubrava would have made a contribution to revenue of EUR 2,248k and EUR 635k and a contribution to profit of EUR (91)k and EUR (825)k, respectively.

No acquisition costs were incurred in conjunction with these transactions.

8. OPERATING SEGMENTS

The following tables present revenue and profit information about the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively:

Six months ended 30 June 2018	Voronezh	Novosibirsk	Kaluga	Kursk	Tyumen	Orenburg*	Ryazan	Other companies	Total segments	Adjustments and eliminations	Consolidated
	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000	EUR‘000
Revenue (third parties)	41,546	12,571	23,159	3,627	3,093	473	5,575	6,525	96,569	-	96,569
Revenue (companies of the Group)	13,884	1,623	10,406	4,701	-	25	607	12,308	43,554	(43,554)	-
Government grants	4,127	1,815	1,255	14	397	16	523	-	8,147	-	8,147
Other income (third parties)	1,039	151	357	78	10	30	287	85	2,037	-	2,037
Other income (companies of the Group)	3,547	855	1,838	86	33	117	311	116,231	123,018	(123,018)	-
Changes in balances of biological assets, agricultural produce and fall-ploughed land	25,639	9,466	14,226	(4,055)	(992)	2,058	9,101	(8)	55,435	-	55,435
Costs of materials (third parties)	(33,212)	(7,375)	(14,471)	(2,249)	(1,588)	(732)	(7,227)	(1,723)	(68,577)	-	(68,577)
Costs of materials (companies of the Group)	(10,647)	(4,127)	(11,052)	(203)	(29)	(619)	(1,661)	(15,968)	(44,306)	44,306	-
Personnel expenses	(11,978)	(2,649)	(5,897)	(1,108)	(732)	(336)	(2,350)	(4,582)	(29,632)	-	(29,632)
Depreciation, amortization and impairment losses	(8,030)	(2,212)	(4,361)	(1,029)	(416)	(239)	(1,432)	(389)	(18,108)	4	(18,104)
Other operating expenses (third parties)	(5,898)	(823)	(4,698)	(557)	(193)	(207)	(1,119)	(4,439)	(17,934)	(1,063)	(18,997)
Other operating expenses (companies of the Group)	(18,506)	(41)	(8,710)	(523)	(153)	(220)	(1,948)	(91,246)	(121,347)	121,347	-
Segment operating result	**1,511**	**9,254**	**2,052**	**(1,218)**	**(570)**	**366**	**667**	**16,794**	**28,856**	**(1,978)**	**26,878**
Reconciliation to consolidated statement											
Financial income											2,371
Financial expenses											(24,961)
Income tax expenses											(2,493)
Net profit for the period											**1,795**

* Orenburg region includes Bashkiria region as well

Six months ended 30 June 2017	Voronezh EUR'000	Novosibirsk EUR'000	Kaluga EUR'000	Kursk EUR'000	Tyumen EUR'000	Orenburg EUR'000	Other companies EUR'000	Total segments EUR'000	Adjustments and eliminations EUR'000	Consolidated EUR'000
Revenue (third parties)	42,315	11,016	10,447	4,412	2,939	563	6,078	77,770	-	77,770
Revenue (companies of the Group)	5,463	1,119	28	4,484	330	-	10,944	22,368	(22,368)	-
Government grants	2,610	1,162	493	9	346	1	-	4,621	-	4,621
Other income (third parties)	362	232	148	77	9	22	522	1,372	-	1,372
Other income (companies of the Group)	1,621	627	91	240	54	8	46,204	48,845	(48,845)	-
Changes in balances of biological assets, agricultural produce and fall-ploughed land	16,501	3,846	483	(2,522)	(1,147)	271	(654)	16,778	-	16,778
Costs of materials (third parties)	(25,191)	(5,462)	(5,700)	(2,139)	(1,213)	(202)	(678)	(40,585)	-	(40,585)
Costs of materials (companies of the Group)	(6,016)	(1,219)	(333)	(159)	(837)	(308)	(14,195)	(23,067)	23,067	-
Personnel expenses	(9,572)	(2,180)	(2,194)	(1,016)	(765)	(175)	(3,233)	(19,135)	-	(19,135)
Depreciation, amortization and impairment losses	(7,015)	(1,579)	(1,909)	(825)	(381)	(176)	(200)	(12,085)	26	(12,059)
Other operating expenses (third parties)	(4,069)	(609)	(1,611)	(756)	(197)	(159)	(2,590)	(9,991)	-	(9,991)
Other operating expenses (companies of the Group)	(4,270)	(3,768)	(4,537)	(521)	(477)	(80)	(33,336)	(46,989)	46,989	-
Segment operating result	**12,739**	**3,185**	**(4,594)**	**1,284**	**(1,339)**	**(235)**	**8,862**	**19,902**	**(1,131)**	**18,771**
Reconciliation to consolidated statement										
Financial income										2,668
Financial expenses										(18,163)
Income tax expenses										(1,551)
Net profit for the period										**1,725**

Other companies are managing, consulting and trading companies. Finance income, finance costs and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on an overall group basis. Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on an overall group basis. These are included in adjustments and eliminations in the segment disclosures.

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers comprises the following:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Raw milk	61,951	57,161
Milk processing	12,480	1,629
Grain and other agricultural products	11,149	11,271
Livestock and animal products	9,942	6,302
Other	1,047	1,407
	96,569	**77,770**

In the first half-year of 2018 the Group had two customers with a share of revenue exceeding ten percent of Group revenue from contracts with customers. The revenue from contracts with the biggest customer amounted to EUR 11,306k or 11.7%. The second major customer generated EUR 10,529k or 10.9% of the consolidated revenue from contracts with customers; both of them are milk processors who buy raw milk from the Group.

10. OTHER OPERATING INCOME

Other operating income is composed of the following items:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Government subsidies	8,147	4,621
Gain from the sale of property, plant and equipment	270	77
Other	1,767	1,295
	10,184	**5,993**

The Group received government subsidies in the amount of EUR 6,963k (1 January - 30 June 2017: EUR 3,402k) as ongoing crop growing and dairy production support, another EUR 906k (1 January - 30 June 2017: EUR 970k) is related to government subsidies on capital expenditure that are accrued on the balance sheet and released over the lifetime of the respective asset. In the first half of 2018 the Group received government subsidies for purchasing of breeding animals in the amount of EUR 278k (1 January - 30 June 2017: EUR 249k). Government subsidies for purchasing of breeding animals that are recognized at fair value are recognized totally in the reporting period.

Government subsidies for investments in infrastructure depreciated over their useful life are recognized in the statement of financial position and distributed over the amortization period.

The interest subsidies also received from government are offset directly with the corresponding interest expense in the financial expenses (see Note 14).

Government subsidies as ongoing production support in the reporting period of EUR 6,963k are composed of EUR 6,243k for milk production and EUR 720k for crop production. In the previous period the subsidies of EUR 3,402k consisted of EUR 3,200k for milk production and EUR 202k for crop production.

11. COST OF MATERIALS

Cost of materials comprise the following:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Feedstuffs	19,675	13,678
Consumables and spare parts	14,426	8,519
Fertilizer	10,545	6,084
Fuel and lubricants	9,691	4,380
Seed	7,123	2,780
Crop protection agents	5,511	4,182
Goods for resale	1,606	962
	68,577	**40,585**

Feedstuffs are mainly soybean cake and rapeseed cake. However, the significant portion of the Group's feedstuff is produced by the Group, which are included into profit or loss in the consolidated statement of comprehensive income in line 'Change in balances of agricultural produce and biological assets'.

12. PERSONNEL COSTS

Personnel costs break down as follows:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Wages and salaries	22,996	14,901
Pension contributions	4,533	2,911
Other social insurance contributions	2,103	1,323
	29,632	**19,135**

The average number of employees in the Group was 7,753 in the reporting period (1 January – 30 June 2017: 4,460). On 30 June 2018, Ekosem Group had 8,968 employees (full-time equivalents) (31 December 2017: 6,710).

13. OTHER OPERATING EXPENSES

The other operating expenses comprise the following:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Services	5,318	2,667
Legal and consulting costs	2,759	1,530
Tax expenses	1,904	965
Transportation costs	1,728	983
Leasing expenses	1,612	574
Travel expenses	823	454
Insurance expenses	577	324
Claims and penalties from third parties	500	336
Bank commissions	301	162
Postage, internet, telephone	279	208
Derecognition of carrying amount of property, plant and equipment	79	12
Currency translation differences	65	153
Loss from revaluation of property, plant and equipment	-	353
Other	3,052	1,270
	18,997	**9,991**

The increase in services as well as legal and consulting costs are partly related to the increase in operational volumes as far as for example laboratory services and the like are concerned. It is also partly related to various projects that go on in the group of companies, like preparation of bigger financing measures as well as the entering of processing markets in a larger scale. The increase of transportation costs and leasing expenses is also related to the increase of land area and volume of the operation. For more details regarding increase of area please refer to Management report. Others include a lot of smaller sums such as charity, hospitality and others.

14. FINANCIAL INCOME / FINANCIAL EXPENSES

Financial income is composed of the following items:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Interest income	2,371	2,525
Exchange differences	-	143
Financial income	**2,371**	**2,668**

Financial expenses comprise the following:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Interest expenses	34,203	24,588
Exchange differences	338	-
Government grants related to interest expenses	(10,530)	(7,760)
Bank commissions related to financial activities	935	1,315
Other	15	20
Financial expenses	**24,961**	**18,163**

The government interest subsidies related to the loans which fall under the eligibility criteria of the Russian Federation and/or the respective region. Starting from 1 January 2017, there was a change in interest subsidies allocation mechanism. For loans issued before 1 January 2017, the banks granted the loans at market rates; and the government provided the subsidies to the Group to compensate for a part of interest. For loans issued after 1 January 2017, the Group gets the loans at lower than market interest rates; and the banks receive the compensation of the difference between the market interest rate and the contracted loan interest rate directly from the government. This lower than market interest rate is dependent on the key interest rate of the Russian Central Bank at the time the loan is granted and cannot be higher than 5%. Upon loan receipt, the Group recognizes the lower than market interest rate loans at fair value determined based on the market rates with the difference recognized as government grants related to interest expenses and amortized over the term of the loans.

For the loans received before 1 January 2017, the Group continues to pay the full amount of market interest rate to the banks and receives a compensation from the government.

15. INCOME TAXES

The major components of income tax expense in the interim condensed income statement are:

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Current taxes Current year tax expense	3,287	769
Deferred taxes Recognition and reversal of temporary differences: tax expense / (tax income)	(794)	782
Grand total (tax expense)	**2,493**	**1,551**

All income of the Russian subsidiaries, which is essentially achieved in primary agricultural production, is subject to a tax rate of 0%. The holding companies as well as OOO EkoNiva-Semena, OOO NivaStroj, milk processing companies and a few smaller companies are subject to ordinary taxation at a corporate tax rate of 20%. These tax rates were applied in calculating the deferred tax assets and liabilities according to the current state of the law. A tax rate of 30% was applied for the German companies.

Tax risks in the Russian Federation

The major part of the Group's business activities takes place in the Russian Federation. The current Russian tax legislation is subject to changing interpretations, selection and inconsistent application and changes which may occur regularly and at short notice and may also have retroactive effect. Assessment periods may be audited for the past three years. Under certain circumstances, the Russian tax authorities may also audit periods in the more distant past.

There are requirements on the control of transactions between related parties in the Russian tax legislation for income tax, including the requirements on related parties, the list of transactions with related parties, which are subject to control, pricing methods and requirements on the justification of pricing methods as well as regulations for the reporting of transactions with related parties to the tax authorities of the Russian Federation (RF FTS) and the related documentation requirements. In the first half of 2018, the Group calculated its tax liabilities for transactions with related parties on the basis of actual prices. The Group is constantly taking measures to meet the requirements of Russian tax laws with regard to such transactions.

There are requirements in the Russian tax legislation designed to limit the usage of low tax jurisdictions and aggressive tax planning, including internationally acceptable terms such as "taxation of controlled foreign companies", "company's tax residency" and "actual recipient (owner) of income". Furthermore, Russian tax authorities increased level of cooperation with tax authorities of foreign jurisdictions on data communication about various business transactions.

Executive management assumes that its interpretation of the tax laws and the industry practice is adequate and the tax items of the consolidated entities are correct. The Group's interpretation of the Russian tax laws could be disputed and the tax authorities could challenge the methods applied. This could lead to additional taxes, fines and sanctions against the Group. Tax items were identified by the Group which could be subject to a different interpretation of the tax laws or other regulations. Management believes that at 30 June 2018 and 31 December 2017 the respective risk is approximately zero.

16. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired and constructed assets with a cost of EUR 142,270k (1 January - 30 June 2017: EUR 46,277k), excluding property, plant and equipment acquired through a business combination (see Note 7).

Assets (other than those classified as held for sale) with a net book value of EUR 619k were disposed by the Group during the six months ended 30 June 2018 (1 January - 30 June 2017: EUR 105k), resulting in a net gain on disposal of EUR 191k (1 January - 30 June 2017: loss of EUR 288k).

Impairment testing

At each reporting date, the Group analyses impairment indicators and performs impairment testing, if there are impairment indicators, and as part of its revaluation of buildings based on depreciated replacement cost for each CGU. As of 30 June 2018, management concluded that there were impairment indicators for Tyumen regional unit. As of 31 December 2017, management concluded that there were impairment indicators for Orenburg regional unit. As a result, management performed impairment testing of property, plant and equipment at the level of these cash-generating units. As of 30 June 2018 and 31 December 2017, as a result of impairment testing, the Group management concluded that the recoverable amount of all Group's cash-generating units exceeded their carrying amount, and, therefore, no impairment was recognized.

17. CURRENT FINANCIAL ASSETS

Current financial assets consist of loans granted and short-term financial investments, which are promissory notes from Russian financial institute. As at 31 December 2017 the Group had a loan granted amounting to EUR 33 mln. This loan was totally repaid in first half 2018. In the first half 2018 the Group has also acquired a promissory note from a Russian financial institute. The amount as at 30 June 2018 was EUR 40.4 mln. with 7% of interest rate and maturity till December 2018.

18. INVENTORIES

Inventories decreased seasonally from EUR 99,813k to EUR 77,537k. The reason for this is the sale of finished products and the reduction of work in progress due to seasonality.

The inventories comprise the following:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Own produced feedstuffs	33,365	32,538
Raw materials	24,041	17,168
Finished products	16,766	34,306
Work in progress	1,894	14,974
Goods for resale	1,471	827
Carrying amount	**77,537**	**99,813**

The raw materials subsume necessary bases for the milk and crop production (seed, spare parts, fertilizer, etc.).

During the first half of 2018 and 2017, no expenses for inventories carried at net realizable value were recorded.

Finished products and own produced feedstuffs are evaluated at net realizable value. Raw materials, work in progress and goods for resale are stated at costs.

19. BIOLOGICAL ASSETS

The biological assets include dairy cows, heifers (non-current/ breeding), and fattening bulls (current/ breeding) as well as annual crops (crop production) as follows:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Non-current		
Livestock - mature	112,070	94,833
Livestock - immature	91,073	91,654
	203,143	**186,487**
Current		
Livestock	723	1,089
Crop production	81,253	3,221
	81,976	**4,310**

In addition to the recognized animals, cattle were kept on lease terms. The number of these animals as of 30 June 2018 was 205 heifers and 857 dairy cows (total 1,062 cattle). On 31 December 2017, the total inventory of leased animals was 1,405 cattle, of these 734 heifers and 671 dairy cows.

The increase in current biological assets in crop production is seasonal: while at 31 December hardly no crop on the field has been recorded, the plants at 30 June are shortly before harvest and a large part of the crops to be harvested is almost completely grown up.

In the period of six months ended 30 June 2018 movements of biological assets of livestock production were as follows:

	2018 EUR'000	2017 EUR'000
At 1 January	**187,576**	**122,814**
Acquisitions	20,310	9,430
Acquired in business combination	3,891	-
Own breeding	3,114	2,511
Expenses for the period	17,460	11,915
Revenue from selling	(9,942)	(6,302)
Mortality	(1,010)	(411)
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	(5,321)	(5,640)
Currency translation differences	(12,212)	(7,339)
At 30 June	**203,866**	**126,978**

In the period of six months ended 30 June 2018 movements of biological assets of crop production were as follows:

	2018 EUR'000	2017 EUR'000
At 1 January	**3,221**	**3,097**
Expenses for the period	42,401	28,796
Gain/loss from initial recognition of agricultural produce and from changes in fair value of biological assets	56,892	36,413
Harvested crops	(16,394)	(11,831)
Currency translation differences	(4,867)	(3,086)
At 30 June	**81,253**	**53,389**

20. FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

			Fair value measured using			
30 June 2018	**Date of valuation**	**Note**	**quoted prices in active markets Level 1**	**significant observable inputs Level 2**	**significant unobservable inputs Level 3**	**Total**
Assets measured at fair values						
Property plant and equipment	30 June 2018	16	-	113,699	219,114	332,813
Non-current biological assets	30 June 2018	19	-	-	203,143	203,143
Current biological assets	30 June 2018	19	-	723	81,253	81,976
Non-current financial assets	30 June 2018		255	-	-	255
Assets for which fair values are disclosed						
Non-current financial assets	30 June 2018		-	24,158	-	24,158
Trade receivables	30 June 2018	21	-	9,944	-	9,944
Current financial assets	30 June 2018		-	51,744	-	51,744
Other current assets	30 June 2018		-	44,792	-	44,792
Liabilities for which fair values are disclosed						
Loans and borrowings	30 June 2018	24	129,084	530,762	-	659,846
Obligations under financial lease	30 June 2018	24	-	27,314	-	27,314
Current trade and other accounts payable	30 June 2018	24	-	97,033	-	97,033
Other current financial liabilities	30 June 2018	26	-	4,893	-	4,893
Other current non-financial liabilities	30 June 2018	26	-	33,973	-	33,973

31 December 2017	Date of valuation	Note	Fair value measured using quoted prices in active markets Level 1	significant observable inputs Level 2	significant unobservable inputs Level 3	Total
Assets measured at fair values						
Property plant and equipment	31 December 2017	16	-	99,144	232,252	331,396
Non-current biological assets	31 December 2017	19	-	-	186,487	186,487
Current biological assets	31 December 2017	19	-	1,089	3,221	4,310
Non-current financial assets	31 December 2017		278	-	-	278
Assets for which fair values are disclosed						
Non-current financial assets	31 December 2017		-	25,541	-	25,541
Trade receivables	31 December 2017	21	-	14,485	-	14,485
Current financial assets	31 December 2017		-	40,203	-	40,203
Other current assets	31 December 2017		-	40,031	-	40,031
Liabilities for which fair values are disclosed						
Loans and borrowings	31 December 2017	24	127,674	394,864	-	522,538
Obligations under financial lease	31 December 2017	24	-	24,742	-	24,742
Current trade and other accounts payable	31 December 2017	24	-	41,373	-	41,373
Other current financial liabilities	31 December 2017	26	-	36,094	-	36,094
Other current non-financial liabilities	31 December 2017	26	-	25,605	-	25,605

There were no transfers between Level 1, Level 2 and Level 3 during the reporting period.

The table below contains the main unobservable inputs used in the calculation.

Assets	Valuation technique	Significant unobservable inputs	Sensitivity of the input to fair value
Property, plant and equipment - Buildings	Depreciated replacement cost	Estimated construction costs, unified replacement cost of construction per cubic meter, unified annual construction costs indexes	Increase (decrease) in these inputs would increase (decrease) the fair value
Biological assets - Livestock	DCF	Milk yields	Increase (decrease) in milk yields would increase (decrease) the fair value
		Milk price	Increase (decrease) in milk price would increase (decrease) the fair value
		Number of newborn calves by 100 cows per year	Increase (decrease) in number of calves would increase (decrease) the fair value
		Discount rate	Increase (decrease) in discount rate would decrease (increase) the fair value
Biological assets - Crop production	DCF	Expected selling price of crop at the date of harvest for winter crops	Increase (decrease) in expected selling price would increase (decrease) the fair value
		Harvest yield	Increase (decrease) in harvest yield would increase (decrease) the fair value
		Future expenses	Increase (decrease) in expenses would decrease (increase) the fair value

Important inputs for the valuation of livestock are milk yields and market price for milk.

As of 30 June 2018, an increase in the milk yields by 0.5 kilo/cow/day would lead to an increase in the fair value by EUR 15,053k (as of 31 December 2017: EUR 14,709k). A corresponding fall by the same amount would result in decrease in the fair value of the herd by EUR 15,053k (as of 31 December 2017: EUR 14,709k). An increase in the milk prices by 5% would lead to an increase in the fair value by EUR 37,210k (as of 31 December 2017: EUR 33,976k). A corresponding fall by the same amount would result in decrease in the fair value of the herd by EUR 37,210k (as of 31 December 2017: EUR 33,976k).

21. RECEIVABLES AND OTHER CURRENT ASSETS

Trade receivables decreased by EUR 4,541k compared to the start of the fiscal year due to the seasonal effect that is comparable to the same effect in the first half 2017.

VAT and other non-income taxes receivables increased by EUR 5,061k compared to 31 December 2017 primarily as a result of growth in property, plant and equipment.

22. CASH AND CASH EQUIVALENTS

This line item continues to include cash on hand and bank balances available with an original term of no more than three months.

23. EQUITY

Revaluation reserve

The revaluation reserve represents the results of the revaluation of land and buildings which was performed using the revaluation model.

Foreign currency translation reserve

The foreign currency translation reserve represents foreign currency translation differences related to net investments in Russian subsidiaries and translation from the functional currency of Russian subsidiaries into the reporting currency of the Group. Furthermore, various loans within the Group were designated as a net investment in the operation, as repayment of the loans is neither expected in the foreseeable future nor currently intended.

As revaluation reserve is denominated in rubles, thus, fluctuations of currency exchange rate have a certain impact on its part of change of foreign currency translation reserve.

The foreign currency translation reserve is also influenced by exchange difference arising from translation of the financial statements of Russian subsidiaries denominated in rubles into euro which is used for presentation of consolidated financial statements.

Refer to the statement of changes in shareholders' equity for the changes in the individual equity capital items.

24. FINANCIAL LIABILITIES

Financial liabilities comprise the following:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Less then one year		
Secured bank loans	147,519	143,799
Non-bank loans	28,510	14,959
Interest on corporate bonds	4,953	3,872
Between one and five years		
Secured bank loans	299,860	243,106
Corporate bonds	125,175	124,789
Non-bank loans	2,535	6,805
Over five years		
Secured bank loans	74,030	16,920
	682,582	**554,250**

As of 31 December 2017 current liabilities included non-current financial liabilities considered to be current in an amount of EUR 22,974k. At 31 December 2017 the Group breached certain covenants related to non-current loans. Therefore, at 31 December 2017 immediate repayment of such loans could have been requested by the respective banks. Under IAS 1, at 31 December 2017 the respective non-current loans were classified on demand and presented within current liabilities. None of the banks requested repayment of such loans. In the first half of 2018 there was a breach of a covenant of loans amounted EUR 1.4 mln. The bank formally waived its right to take any actions regarding this breach.
At 30 June 2018 no reclassification of the loans was required.

As of 30 June 2018, current loans and borrowings amounted to EUR 180,982k, which is EUR 41,326k above the level recorded on 31 December 2017. This is due to the seasonal influences – regularly before harvesting costs are incurred to a greater extent; the corresponding cash inflows result only from sale of recently harvested crops. Non-current loans and borrowings (including non-current loans reclassified to current liabilities in the amount of EUR 22,974k as of 31 December 2017 as if no covenant breach has been occurred) increased by EUR 87,006k to EUR 501,600k. This is related to further significant investments into dairy farms and the acquisition of further farm assets. As per 30 June 2018 the Group is constructing 14 further dairy farms which will partly start operating in 2018. All of them will be in operation till end of 2019.

In accordance to the loan agreements, the Group's subsidiaries are required to comply with certain financial and non-financial covenants. The most significant and most important covenants are:

- not to sell, transfer, lease, divest or otherwise dispose of certain assets;
- to coordinate with the creditors in performing financial investments;
- to coordinate with the creditors in issuing guaranties and granting collateral;
- to coordinate with the creditors in cases of reorganization;
- to maintain ratios such as debt to earnings before interests, taxes, depreciation and amortization at specified levels;
- to maintain certain turnover on the Group's bank accounts;
- to maintain a certain level of net assets;
- to maintain a certain financial position.

In case of breach of these covenants penalties can be applied, interest rates can be changed or the schedule of repayment can be changed by the respective lender, up to immediate repayment.

Current trade and other accounts payable increased by EUR 55,660k to EUR 97,033k. The significant increase in current trade and other accounts payable is related to the huge investment projects that are under way. This leads to increased current trade and other accounts payable both the construction of dairy farms as well as the purchase of equipment for crop production – mainly machinery and equipment from agricultural machinery dealers. Significant new financing from banks came in from July 2018 onwards which was used to reduce the level of payables.

Contract liabilities received increased by EUR 9,833k to EUR 14,516k due to seasonal effects.

Obligations under financial leases increased from EUR 24,742k to EUR 27,314k.

25. GOVERNMENT GRANTS

The Group receives grants from the government of the Russian Federation. If these are related to investments in fixed assets measured at their historical cost (minus depreciation where applicable), they are considered as deferred income and the grants received are spread over the useful life of the respective asset.

This deferred income from government grants is classified as current or non-current and developed as shown below during the reporting period and the previous period:

	Long-term EUR'000	Short-term EUR'000
Balance on 01/01/2018	**69,104**	**6,166**
Direct cash grants relating to acquisition of property, plant and equipment	146	-
Grants relating to lower than market interest rate loans	26,363	5,723
Reclassified to short term	(758)	758
Released to the income statement	-	(888)
Currency translation differences	(4,318)	(438)
Balance on 06/30/2018	**90,537**	**11,321**

Balance on 01/01/2017	**6,199**	**986**
Direct cash grants relating to acquisition of property, plant and equipment	12,669	-
Grants relating to lower than market interest rate loans	-	-
Reclassified to short term	(1,070)	1,070
Released to the income statement	-	(827)
Currency translation differences	(1,160)	(72)
Balance on 06/30/2017	**16,638**	**1,157**

Besides direct cash government grants related to acquisition of property, plant and equipment and presented in this table there are government grants received for purchasing of breeding animals and as ongoing production support. These grants are presented in other operating income (Note 10). Additionally, cash interest subsidies for the loans received before 1 January 2017 are offset with corresponding interest expenses (Note 14).

26. OTHER CURRENT FINANCIAL AND NON FINANCIAL LIABILITIES

Other current liabilities comprise the following:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Employees	4,893	2,117
Payables for acquisition of subsidiaries	-	30,888
Other	-	3,089
	4,893	**36,094**

As per 31 December 2017 Payables for acquisition of subsidiaries represented the Group’s liability for acquisition of OOO OkaAgro and OOO Oka Moloko made at the end of December 2017. Those amounts were settled in cash in January-April 2018.

The liabilities pertaining to staff concern ongoing wage and salary payments.

Other current non-financial liabilities comprise the following:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Non-income taxes	19,032	19,575
Other accruals to employees	3,553	2,542
Social insurance	2,770	1,694
Other	8,618	1,794
	33,973	**25,605**

Non-income taxes include mainly VAT payables. Other accruals to employees concern bonuses to staff, unused leave and social insurance relating to such payments.

27. FAIR VALUES

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value of loans and borrowings and long-term payables was evaluated based on discounting of future cash flows.

Below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	06/30/2018 EUR '000	12/31/2017 EUR '000	06/30/2018 EUR '000	12/31/2017 EUR '000
Assets				
Non-current financial assets	24,158	25,819	24,158	25,819
Other non-current assets	13,627	10,780	13,627	10,780
Trade receivables	9,944	14,485	9,944	14,485
Current financial assets	51,744	40,203	51,744	40,203
Cash and cash equivalents	10,650	14,251	10,650	14,251
Loans and receivables	**110,123**	**105,538**	**110,123**	**105,538**
Liabilities				
Loans and borrowings	682,584	554,250	659,846	522,538
Obligations under finanacial leases	27,314	24,742	20,226	18,269
Current trade and other accounts payable	97,033	41,373	97,033	41,373
Other current financial liabilities	4,893	36,094	4,893	36,094
Financial liabilities at amortized cost	**811,824**	**656,459**	**781,998**	**618,274**

28. BUSINESS ACTIVITIES WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are considered to be related parties if one party is able to control the other; if multiple parties are subject to the control of another; or if one party can exercise significant influence on the financial and business decisions of another. Considerations of all possible relationships between related companies are based on the actual substance of the relationship and not merely its legal form.

The managing director of Ekosem-Agrar AG is considered management member in key position.

28.1 Trading activities

In the course of six months ended 30 June 2018, Group companies conducted the following transactions with related companies and persons not belonging to the Group.

	01/01/-06/30/2018 EUR'000	01/01/-06/30/2017 EUR'000
Sale of goods and rendering of services		
Companies under common control	483	222
Acquisition of goods and services received		
Companies under common control	35,130	13,729

The increase in the acquisition of machinery and equipment from companies under common control is related to the significant growth of farm land and expansion of dairy farms that took place partly in the second half of 2017 but also first half of 2018 and continues.

The following balances remained outstanding at the end of the reporting period:

	06/30/2018 EUR'000	12/31/2017 EUR'000
Receivables due from related parties		
Companies under common control	396	133
Loans granted to related parties		
Companies under common control	27,057	26,400
Associated	-	168
Main shareholder and key management personnel of the Group	3,721	3,934
Loans received from related parties		
Companies under common control	12,787	14,417
Entity with significant influence over the Group	109,801	105,185
Payables due to related parties		
Companies under common control	21,864	7,014
Associates	-	5
Main shareholder and key management personnel of the Group	1	381
Short-term financial investments		
Entity with significant influence over the Group	40,412	-

28.2 Loans from and to related parties

The Group received loans from related parties which are companies under common control totaling EUR 12,787k, not secured, with the interest rates of 8-9%.

The Group received loans from related parties which are entities with significant influence over the Group totaling EUR 109,801k, secured, with the interest rates of 10-15%. Entities with significant control over the Group consist of Russian financial institute.

The Group has a loan totaling EUR 27,057k to related parties at the reporting date. All granted loans are long-term with a repayment in 2025, secured, with the interest rate of 5%.

In the first half 2018 the Group has also acquired a promissory note from a related party with significant influence over the Group. The amount as at 30 June 2018 was EUR 40,412k with 7% of interest rate and maturity till December 2018.

28.3 Financial guarantees received from related parties

At 30 June 2018 and 31 December 2017 the Group's bank loans were secured with financial guarantees of its ultimate controlling party and of the entities under common control and amounted to EUR 566,197k and EUR 413,070k, respectively. At the same time these loans were secured with the assets pledged.

28.4. Terms and conditions of transactions with related parties

There have been no guarantees provided or received for any related party receivables or payables. For six month ended 30 June 2018, the Group has no impaired receivables relating to amounts owed by related parties (30.06.2017: nil). This assessment is undertaken each reporting date through examining the financial position of the related party and the market in which the related party operates.

29. CONTINGENT LIABILITIES

The Group has issued guarantees in the ordinary course of business to secure delivery of or funding for certain items.

In March 2018 the Company issued a guarantee to Vaderstad – a producer of agricultural machinery for soil work and drilling – for delivery of machines in the amount of EUR 4.15 mln. The guarantee is valid until 14 March 2019.

In May 2018 the Company issued a guarantee to a financing bank in Germany that provides a documentary credit line for the purchase of machinery from John Deere. The amount is EUR 2.0 mln and the guarantee is valid until 15 October 2018 and might be subject to prolongation.

30. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

On 31 July 2018 the shareholders of the company approved the changing of the legal form of the company from a limited liability company (GmbH) to a stock corporation (AG). Ekosem-Agrar AG was registered at the court of Mannheim on 14 August 2018 under the registration number HRB 731215. The shareholders elected members for the obligatory Supervisory Board. The members elected a chairman and deputy chairman of the Supervisory Board and also appointed the members of the Management Board.

The members of the Supervisory Board are:

Chairman:	Rolf Zürn
Deputy Chairman:	Wolfgang Graf
Members:	Dr. Franz-Georg von Busse
	Dr. Thomas Kirchberg
	Vladislav Novoselov

The Management Board consists of two people:

Stefan Dürr
Wolfgang Bläsi

Agrotechnika GmbH is controlled by the member of the Supervisory Board, Dr. Franz-Georg von Busse, thus it becomes a related party for Ekosem-Agrar AG from the date of electing of a Supervisory Board.

31. RELEASE

The Group interim condensed consolidated financial statements of Ekosem-Agrar AG (previously Ekosem-Agrar GmbH) for the period from 1 January 2018 to 30 June 2018 were approved for publication by the Management Board on 30 August 2018.

Walldorf, Germany
30 August 2018

Stefan Dürr
CEO

Wolfgang Bläsi
CFO

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