



KSG Agro S.A.

REPORT OF THE BOARD OF DIRECTORS

Principal activities

The Group's principal business activity is agriculture, represented mainly by grain growing. The Group's agricultural facilities are primarily based in Dnepropetrovsk region of Ukraine. The agricultural produce is sold in Ukraine.

Review of developments, position and performance of the Group's business

During the nine months of 2011 the Group increased its Land bank from 26.5 thousand hectares to 52, 9 thousand hectares by acquiring eleven new companies. Total amount of acquisitions is USD 22, 363 thousand.

Due to commercially effective deal on acquisition of Agro LLC, while total amount of net assets acquired was higher than remuneration paid, income was recognized in the amount of USD 1, 432 thousand and included into financial statements as gain on company's acquisition.

The profit of the Group for the interim period ended 30.09.2011 was USD 18,302 thousand (30.09.2010: USD 9,067 thousand). On 30.09.2011 the total assets of the Group were USD 97,242 thousand (30.09.2010: USD 33,202 thousand) and the net assets of the Group were USD 64,146 thousand (30.09.2010: USD 14,171 thousand). Thus, the financial position, development and performance of the Group as presented in these consolidated financial statements, is considered satisfactory.

Share capital

During first half of the year Group finished its reorganization at KSG Agro S.A. level together with successfully accomplished initial public offering. Total net amount of issue was USD 36,690 thousand.

Financial highlights for the nine-month period ended 30 September 2011

1. Sales

Despite the fact, that sales for 9 months 2011 still remains at comparatively low level to harvested crops and planed sales volume for whole financial year, sales increased by 27% for the nine-month period ended 30.09.2011 in comparison with the nine-month period ended 30.09.2010.

It is expected to generate intensive revenue flow in the last quarter of 2011, when prices level would be higher, as it is usually occurs after the end of harvesting period.

2. Financial results

The change in Group's financial result for the nine-month period ended 30.09.2011 in comparison with the nine-month period ended 30.09.2010 is mainly explained by following:

- Increase in sales revenue by USD 2,506 thousand;
- Increase in cost of goods sold by USD 672 thousand. The main drivers of the non - proportional change to revenue increase is the fact that that actual selling price was higher than estimated fair value at the point-of-harvest (in particular, it relates to sold sunflower seeds);
- Increase in income from changes in fair value of biological assets by USD 6,906 thousand, from USD 12,607 thousand for the nine-month period ended 30.09.2010 to USD 19,513 thousand for the nine-month period ended 30.09.2011.

The difference in income from changes in fair value of biological assets and initial recognition of agricultural produce in comparison to six-month period 2011 is mainly explainable by combined effect of:

- decrease in market price of sunflowers seeds (about 22% to previously expected);
- actually obtained higher yields' level (about 10% to previously expected in respect of sunflower seeds);
- revaluation effect from winter crops sowed at the period end.

Indebtedness of the Group as at 30.09.2011

As at 30.09.2011 Company's loans and borrowings increased for 18, 4% comparatively to 30.09.2010 despite the fact that company extended its activities significantly (for more than two times).

Earnings per share

	9 months ended 30.09.2011 (not audited)	9 months ended 30.09.2010* (not audited)
Total comprehensive income for the period, USD thousand	18,302	9,067
Number of shares, million pieces	15	15
Earnings per share, USD	1,22	0,60

*As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. Therefore, Proforma financial information was used as comparable and the number of shares actual as at 30.09.2011 was used for calculation of earnings per share for the 9 months ended 30.09. 2010.

Looking ahead - financial year result

As at date of signing this report we strongly believe, that our financial result will be at the level of USD 27 mil due to the following reasons:

- According to existing contracts-in-force and tendency of global markets, sunflower seeds are to be sold at higher price that they were recognized at the point-of-harvest. Thus, about USD 4 mln will be added to operating result accordingly;
- Besides, we would like to draw you attention that biological assets recognized at the reporting date are presented by 50% of actually sowed winter crops and, as such, provides us with conservative result from fair value change since includes possible implications of unfavorable weather conditions. Anyhow, revaluation effect of winter crops will be reconsidered at the year end and will be adjusted properly.
- As we announced earlier, company obtained control over pig-breeding complex, which was under valuator's review at signing date.
But based on valuation preliminary results, it should add at least USD 5 mln of the gain on acquisition to the annual profit due to commercially effective deal.

As such, our performance in a challenging economic environment gives us great confident, that our previously communicated promises and performance targets would be achieved.

By Order of the Board

Head of the board
Mr. Sergiy Kasianov
Luxembourg, 14 November 2011

GROUP OF COMPANIES

KSG AGRO S.A.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 30 September 2011

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011

(in thousand US dollars)

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GROUP «KSG AGRO S.A. »**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 September 2011

(in thousand US dollars)

	Notes	30 September 2011 (not audited)	31 December 2010 (audited)	30 September 2010* (not audited)
Assets				
Non-current assets				
Property, plant and equipment	6	14,072	5,013	4,914
Long-term biological assets	7	184	247	249
Goodwill		23,811	5,586	5,620
Total non-current assets		38,067	10 846	10,783
Current assets				
Current biological assets	9	16,824	7,621	9,601
Inventories	8	25,738	5,149	7,521
Trade and other accounts receivable	10	8,060	1,662	2,505
Taxes prepaid		3,093	1,022	1,441
Cash and cash equivalents	11	5,460	30	1,351
Total current assets		59,175	15,484	22,419
TOTAL ASSETS		97,242	26 330	33,202
LIABILITIES AND EQUITY				
EQUITY:				
Share capital	14	149	2,628	1,419
Share premium		36,688	-	-
Retained earnings		27,309	7,671	11,805
Total equity attributable to owners of the Company		64,146	10,299	13,224
Non-controlling interest		-	1,363	947
Total equity		64,146	11,662	14,171
Non-current liabilities				
Loans and borrowings	12	8,532	2,367	8,589
Long-term promissory notes issued		2,200	-	-
Total non-current liabilities		10,732	2,367	8,589
Current liabilities				
Loans and borrowings	12	5,631	5,414	4,315
Trade and other accounts payable	13	14,905	6,681	5,729
Promissory notes issued		950	188	190
Tax liabilities		878	18	208
Total current liabilities		22,364	12,301	10,442
TOTAL LIABILITIES AND EQUITY		97,242	26,330	33,202

*As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated.

As such, comparative figures for the nine months ended September 30, 2010 are the pro forma consolidated financial statements prepared as if KSG Agro S.A. incorporation took place before 30 September 2010.

_____ /	S.V.	_____ / L.V. Velichko/
Mazin/		(Financial director)
(General director)		

Notes on pages 7-37 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For nine months ended 30 September 2011

(in thousand US dollars)

	Notes	30 September 2011 (not audited)	30 September 2010* (not audited)
Income	15	11,923	9,417
Net gain on initial recognition of agricultural produce and on change in fair value of biological assets less estimated point-of-sale costs		19,513	12,607
Cost of sales	16	(11,515)	(10,843)
Gross profit		19,921	11,181
General and administrative expenses	17	(1,662)	(625)
Gain on company's acquisition		1,431	-
Other operating income (expense), net	18	(659)	317
Result from operating activities		19,031	10,873
Finance expenses, net	0	(713)	(1,802)
Profit before tax		18,318	9,071
Income tax expenses		(16)	(4)
Profit for the period		18,302	9,067
Profit attributable to:			
Participants		18,302	8,805
Non-controlling interest		-	262
Profit for the period		18,302	9,067
Other comprehensive income			
Foreign currency translation differences for foreign operations		(39)	106
Other comprehensive income for the period, net of income tax		(39)	106
Total comprehensive income for the period		18,263	9,173
Total comprehensive income attributable to			
Participants		18,263	8,904
Non-controlling interest		-	269
Total comprehensive income for the period		18,263	9,173
Earnings per share attributable to share of the company's shareholders (uah per share)			
Total comprehensive income for the period, USD thousand		18,263	9,173
Number of shares, million pieces		15,0	15,0**
Earnings per share, USD		1,22	0,61**

*As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. As such, comparative figures for the nine months period ended September 30, 2010 are the pro forma consolidated financial statements prepared as if KSG Agro S.A. incorporation took place before 30 September 2010.

**As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. Therefore, Proforma financial information was used as comparable and the number of shares actual as at 30.09.2011 was used for calculation of earnings per share for the nine months ended 30.09. 2010.

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Mazin/ (Financial director)
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GROUP « KSG AGRO S.A. »

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD

For nine months ended 30 September 2011

(in thousand US dollars)

	30 September 2011 (not audited)	30 September 2010* (not audited)
Cash flows from operating activities		
Profit for the period	18,318	9,071
Adjustments to:		
Depreciation and amortization	682	441
(Reversal)/increase of loss from impairment of doubtful accounts receivable	(901)	244
Amortization of discount	-	
Net effect of fair value change	(19,513)	(12,607)
Finance lease expenses	264	374
Loss from retirement of property, plant and equipment	36	
Interest expense	1,668	1,451
Interest income	(1,219)	(23)
Other	-	(108)
Cash received from operating activities before changes in working capital	(665)	(1,157)
Change of trade and other accounts receivable	(7,568)	1,565
Change of other assets	(9,772)	2,768
Change of trade and other accounts payable	9,394	(2,030)
Income tax paid	(16)	(4)
Net cash flows received from (used in) operating activities	(8,627)	1,142
Cash flow from investment activities		
Acquisition of property, plant and equipment	(5,505)	(534)
Acquisition of companies	(22,363)	-
Interest received	1,227	23
Net cash flow received from (used in) in investment activities	(26,641)	(511)
Cash flow from financing activities		
Issue of share capital, net	36,502	-
Inflows from bank loans	13,804	6,487
Repayment of bank loans	(7,590)	(5,824)
Repayment financial lease commitments	(317)	(1,767)
Interest payment	(1,668)	(795)

Contribution of equity	-	-
Net cash flow received from (used in) financing activities	40,731	(1,899)
Net cash flow for the period	5,463	(1,268)
Cash at the beginning of period	30	2,564
Cash at the end of period	5,460	1,351
Foreign exchange difference	(33)	55

* As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. As such, comparative figures for the nine months period ended September 30, 2010 are the pro forma consolidated financial statements prepared as if KSG Agro S.A. incorporation took place before 30 September 2010.

Mazin/
(General director)

S.V.

/ L.V. Velichko/
(Financial director)

Notes on pages 7-37 are an integral part of these interim consolidated financial statements.

GROUP « KSG AGRO S.A. »**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For nine months ended 30 September 2011

(in thousand US dollars)

	Share capital	Share premium	Retained earnings	Non- controlling interest	Total equity
Balance as at 31 December 2009	1,406	-	2,914	678	4,998
Net profit for the period			8,805	262	9,067
Contributions of participants					
Foreign exchange difference	13	-	86	7	106
Balance as at 30 September 2010* (not audited)	1,419	-	11,805	947	14,171
Balance as at 31 December 2010	2,628	-	7,671	1,363	11,662
Net profit for the period	-	-	18,302	-	18,302
Issue of share capital, net	-	36,688	-	-	36,688
Acquisition of non-controlling interest	-	-	1,361	(1,361)	-
Integration of interests – reorganization	(2,475)	-	-	-	(2,475)
Foreign exchange difference	(4)	-	(25)	(2)	(31)
Balance as at 30 September 2011 (not audited)	149	36,688	27,309	-	64,146

* As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. As such, comparative figures for the nine months period ended September 30, 2010 are the pro forma consolidated financial statements prepared as if KSG Agro S.A. incorporation took place before 30 September 2010.

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(General director)

S.V.

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

Notes on pages 7-37 are an integral part of these interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

*(in thousand US dollars)***1. Background**

KSG Agro S.A. (the “Company”) was incorporated under the name Borquest S.A. on 16 November 2010 (date of incorporation) as a “Société Anonyme” under Luxembourg company law and for an unlimited period. On 08 March 2011 the Company’s name was changed into the current denomination.

The registered office of the Company is established in Luxembourg, 46A avenue J.F. Kennedy, L-1855 Luxembourg and the Company number with the Registre de Commerce is B 156 864. The Company's financial year begins on 1st January and closes on 31st December.

The interim consolidated financial statements for the Company as at and for nine months ended 30 September 2011 comprise the Company and its subsidiaries (together referred to as the “Group”):

Company	Activity	Basis to be included into Group	Share as at 30 September 2011	Share as at 30 September 2010*
KSG Agro S.A. (Luxemburg)	Parent company	Parent company to the Group		
KSG Agricultural and Industrial Holding Limited (Cyprus)	Intermediate holding company	Parent company to Ukrainian subsidiaries	100%	100%
Enterprise №2 of Ukrainian agricultural and industrial holding LLC (Ukraine) [PUAIH-2 LLC]	Agriculture	Subsidiary	100%	100%
Scorpio Agro LLC (Ukraine)	Agriculture	Subsidiary	100%	99.9%
Souzh-3 LLC (Ukraine)	Agriculture	Subsidiary	100%	100%
Goncharovo Agricultural LLC (Ukraine)	Agriculture	Subsidiary	100%	99.9%
Agro-Trade House Dniprovsky LLC (Ukraine) [ATD Dniprovsky LLC]	Agriculture	Subsidiary	100%	68.3%
Ukrainian agricultural and industrial holding LLC (Ukraine) [UAIH LLC]	Trade of agricultural products	Parent company	100%	100%
Agro-Dnister LLC (Ukraine)	Agriculture	Subsidiary	100%	90%
Trade House of the Ukrainian Agroindustrial Holding LLC (Ukraine) [TH UAIH LLC]	Agriculture	Subsidiary	100%	99.9%
Pivdenne Agricultural LLC (Ukraine)	Agriculture	Subsidiary	100%	100%
Unirem Agro Plus LLC	Agriculture	Subsidiary	100%	-

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

Company	Activity	Basis to be included into Group	Share as at 30 September 2011	Share as at 30 September 2010*
(Ukraine)				
Askoninteks LLC	Agriculture	Subsidiary	100%	-
(Ukraine)				
Agro Golden LLC	Agriculture	Subsidiary	100%	-
(Ukraine)				
Agro LLC	Lessor of equipment	Subsidiary	100%	-
	Lessor of equipment	Subsidiary	100%	-
SPE Promvok LLC	equipment	Subsidiary	100%	-
Dniproagrostandard LLC	Agriculture	Subsidiary	100%	-
Dniproagroprogress LLC	Agriculture	Subsidiary	100%	-
Meat plant Dnipro LLC	Manufacture	Subsidiary	100%	-
Kovbasna Liga LLC	Trader	Subsidiary	100%	-
Agrofirm Vesna LLC	Agriculture	Subsidiary	100%	-
Vidrodzhennya LLC	Agriculture	Subsidiary	100%	-
Dnipro LLC	Agriculture	Subsidiary	100%	-

* As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. As such, comparative figures for the nine months period ended September 30, 2010 are the pro forma consolidated financial statements prepared as if KSG Agro S.A. incorporation took place before 30 September 2010.

This structure has been legally finalized in March 2011. As at 31.12.2010 the structure of the Group comprised two holding companies under common control, but there was no formal ownership structure, namely «KSG Agricultural and Industrial Holding Limited» and "Ukrainian agro-industrial holding." As of December 31, 2010 the Group prepared combined financial statements which comprised the consolidated financial statements of «KSG Agricultural and Industrial Holding Limited» and its subsidiaries, as well as the consolidated financial statements of the "Ukrainian agro-industrial holding." As such, comparative figures for the nine month period ended September 30, 2010 are the pro forma consolidated financial statements prepared as if the agency «KSG Agro S.A.» and its acquisition of ownership in companies listed in the Note 1, took place before 30 September 2010.

Group's core activity areas are: production and realization of agricultural products, providing complex of agricultural services. The Group performs its business activities mainly in Ukraine.

2. Basis for preparation of interim consolidated financial statements

Statement of compliance

These interim consolidated financial statements for the nine months period ended 30 September 2011 are prepared in compliance with International Financial Reporting Standards (further - IFRS).

Basis for preparation of financial statements

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

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

Functional and presentation currency

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

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

Exchange rates for the basic currencies are presented below:

		30 September 2011	30 September 2010
Euro	UAH/EUR	10.85	10.77
Russian ruble	UAH/RUB	0.25	0.26
US dollar	UAH/USD	7.97	7.91

Basis of consolidation and combination

As at 31.12.2010 the structure of the Group comprised two holding companies under common control, but there was no formal ownership structure, namely «KSG Agricultural and Industrial Holding Limited» and "Ukrainian agro-industrial holding." As of December 31, 2010 the Group prepared combined financial statements which comprised the consolidated financial statements of «KSG Agricultural and Industrial Holding Limited» and its subsidiaries, as well as the consolidated financial statements of the "Ukrainian agro-industrial holding."

KSG Agricultural and Industrial Holding Limited was a limited liability company.

As at 31 December 2010 statutory capital of KSG Agricultural and Industrial Holding Limited amounted to USD 3,000 presented as one non-nominal share. Ukrainian agro-industrial holding was also a limited liability company with a statutory capital of USD 2,625. During transformation of the holding in April 2011, KSG Agro S.A. acquired 100 percent of statutory capital, and KSG Agricultural and Industrial Holding Limited acquired 99.9 percent of statutory capital of Ukrainian agro-industrial holding. Accordingly, KSG Agro S.A. becomes a parent company of the Group.

The combined financial statements as at 31 December 2010 include consolidated financial statements of KSG Agricultural and Industrial Holding Limited and its subsidiaries, as well as

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

consolidated financial statements of Ukrainian agricultural and industrial holding LLC as at 31 December of each year.

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

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions were eliminated in full. Consolidated financial statements as at 30 September 2010 are prepared for the same reporting period as the parent company's ones, using consistent accounting policies.

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

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

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

Going concern assumption

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

3. Essential accounting estimations and assumptions

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

significant risks of adjustments of carrying amounts of assets and liabilities during the next financial year, are set forth below.

- **Biological assets.** Biological assets are carried at fair value less costs to sell. Gains and losses arising from changes in the fair values of biological assets are recognized in the consolidated statement of comprehensive income. The fair value of biological assets is determined as the present value of future cash outflows relating to costs that would be necessary to grow and harvest biological assets in order to transform them to agricultural produce, and future expected cash inflows as sales revenue less estimated selling costs.
- **Agricultural produce.** Agricultural produce is the harvested product of the Group's biological assets. It is recorded at its fair value less costs to sell at the point of harvest. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by type or quality. Fair value of each group of agricultural produce at the year end is determined as lower of the available average market price for similar products at the point of harvest or net realizable value.
- **Useful life of intangible assets and property, plant and equipment.** Depreciation or amortization of intangibles and property, plant and equipment is charged during their useful lives. Useful lives are based upon management estimates of the period during which an asset is going to generate profit. These estimates are periodically reviewed for their further compliance.
- **Goodwill.** Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

- **Inventories.** The Group examines a net realizable value and demand for its inventories quarterly in order to ascertain that accounted inventories are assessed at least at cost or the net realizable value. The factors that may affect an estimated demand and selling price are computation of time and success of future technological innovations, competitors' actions, prices of suppliers and economic trends.
- **Income tax.** Subsidiary agricultural companies of the Group have chosen the simplified taxation system and are flat-sum agricultural tax payers. The mentioned companies according to the Ukrainian legislation are not income tax payers. The Group does not account a deferred tax of the parent company as these amounts according to management estimation are insignificant.
- **Litigation.** In compliance with IFRS, the Group recognizes the provision only when

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

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

4. Summary of significant accounting policy

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

Property, plant and equipment

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

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

	<i>Useful life period (years)</i>
Buildings and constructions	20
Machinery and equipment, vehicles	10-15
Other	5-8

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

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

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asset) is included in the statement of comprehensive income for the period in the year the asset is derecognized.

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

Intangible assets

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

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

Impairment of non-financial asset

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

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

Recognition of financial instruments

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

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

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

- financial assets at fair value through profit or loss;

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- loans and accounts receivable;
- investments held to maturity; and
- financial assets available for sale.

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of

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the Group's cash management are included as a component of cash and cash equivalents for the purpose of the interim consolidated statement of cash flows.

Investments available-for-sale

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

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

Investments held-to-maturity

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

Fair value

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

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

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

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

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

Non-derivative financial liabilities

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

As at 30 September 2011 the Group had no financial liabilities that could be attributed to those estimated at fair value through profit and loss. Trade payables and other short-term monetary liabilities, which are initially recognized at fair value, subsequently carried at amortized cost using the effective interest method. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and discount payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Impairment of financial assets

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

Assets reported at amortized cost

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

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

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

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

Financial investments available for sale

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

De-recognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Biological assets and agricultural products

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

Arable crops are initially recognized at their fair value less estimated point-of-sale costs at the time of harvesting. The fair value of arable crops is determined based on market prices in the

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local region. A gain or loss arising on initial recognition of arable crops at fair value less estimated point-of-sale costs is recognized in the period in which it originated.

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

Inventories

Inventories are stated at the lower of cost or net realizable value. For agricultural produce, fair value less estimated point-of-sale costs at the point of harvest is considered to be the cost. Subsequent to initial recognition agricultural produce is stated at the lower of cost or estimated net realizable value. Cost is assigned using the FIFO method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are periodically reviewed and provisions established for deteriorated, excess and obsolete items.

Pension liabilities

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

Borrowing costs

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

Interest-bearing loans and borrowings

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

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

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

Lease

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

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

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

Contingent liabilities

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

Provisions

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

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Revenue and expense recognition

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

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

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

5. New Standards and Interpretations issued but not yet effective

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

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

The Group management has assessed the impact of these standards on the Group's consolidated financial statements and believes that it is insignificant.

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*(in thousand US dollars)***6. Property, plant and equipment**

Movement of property, plant and equipment for the period ended 30 September 2011 and 2010 was as follows:

	Buildings construction	and Agricultural equipment	Vehicles office equipment	and Total
Initial cost				
As at 31 December 2009	514	5,249	303	6,066
Addition	-	483	171	654
Disposal	-	(213)	(122)	(335)
Exchange difference	5	47	3	55
As at 30 September 2010	519	5,566	355	6,440
Accumulated depreciation				
As at 31 December 2009	(89)	(1,030)	(126)	(1,245)
Accrued during the period	(13)	(401)	(27)	(441)
Disposal	-	139	33	172
Exchange difference	(1)	(10)	(1)	(12)
As at 30 September 2010	(103)	(1,302)	(121)	(1,526)
Net book value				
As at 31 December 2009	425	4,219	177	4,821
As at 30 September 2010	416	4,264	234	4,914
Initial cost				
As at 31 December 2010	536	5,737	417	6,690
Addition	1,823	3,107	575	5,505
Disposal	-	(53)	(4)	(57)
New consolidation cost	934	3,654	1,049	5,637
Exchange difference	(5)	(18)	(3)	(26)
As at 30 September 2011	3,288	12,427	2,034	17,749
Accumulated depreciation				
As at 31 December	(106)	(1,444)	(127)	(1,677)

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Accrued during the period	(67)	(548)	(67)	(682)
Disposal	-	23	-	23
New consolidation depreciation charge	(161)	(994)	(193)	(1,348)
Exchange difference	-	7	-	7
As at 30 September 2011	(334)	(2,956)	(387)	(3,677)

Net book value

As at 31 December 2010	430	4,293	290	5,013
As at 30 September 2011	2,954	9,471	1,647	14,072

Carrying amount of vehicles and equipment used by the Group under agreements of financial lease and deferred payment purchase as at 30 September 2011 comprised USD 2, 217 thous. (30 September, 2010: USD 2, 564 thous.).

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

7. Long-term biological assets

As at 30 September 2011 and 2010 long-term biological assets can be presented as follows:

	Perennial plantings	Total non-current biological assets
Cost as at 31 December 2009	214	214
Additions	-	-
Disposal	-	-
Revaluation at fair value	33	33
Foreign exchange difference	2	2
Cost as at 30 September 2010	249	249
Cost as at 31 December 2010	247	247
Additions	-	-
Disposal	-	-
Revaluation at fair value	(63)	(63)
Foreign exchange difference	-	-
Cost as at 30 September 2011	184	184

8. Inventories

As at 30 September 2011 and 2010 inventories include:

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	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Agricultural produce	19,837	2,407	5,876
Agricultural stock	2,803	1,158	1,333
Work in progress	1,827	1,027	-
Fuel	595	152	75
Spare parts to agricultural machinery	247	61	220
Other	429	344	17
	25,738	5,149	7,521

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

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*(in thousand US dollars)***9. Current biological assets**

As at 30 September 2011 and 2010 current biological assets include:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Current biological assets (crop products)	15,770	7,452	9,450
Current biological assets (livestock husbandry)	1,054	169	151
	16,824	7,621	9,601

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

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Foundation	805	61	51
Newborn piggery under 2 months	10	9	6
Piggery 2-4 months	83	7	14
Piggery 4-6 months	-	7	17
Piggery 6-9 months	28	46	33
Replacement gilts	60	39	30
Sheep	68	-	-
	1,054	169	151

Reconciliation of changes in carrying amount of biological assets as at 30 September 2011 and 2010 is as follows:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Carrying amount as at 1 January	169	201	201
Additions	790	153	87
Disposal	(464)	(288)	(190)
Change in fair value of biological assets	561	102	51
Exchange difference	(2)	1	2
Carrying amount as at 30 September	1,054	169	151

As at 30 September 2011 and 2010 current biological assets of crop production can be presented as follows:

	30.09.2011	31.12.2010	30.09.2010
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	(not audited)	(audited)	(not audited)
Carrying amount as at 1 January	7,452	2,527	2,527
Costs incurred during a period, including spring crops	13,894	5,063	18,787
Additions from new companies	3,148	-	-
Income from changes in “fair value less expected distribution costs”	19,015	5,104	4,134
Harvest gathered during the year	(27,729)	(5,235)	(16,023)
Exchange difference	(10)	(7)	25
Carrying amount as at 30 September	15,770	7,452	9,450

As at 30 September 2011 and 2010 current biological assets include:

	Area, hectare	30.09.2011 (not audited)	Area, hectare	31.12.2010 (audited)	Area, hectare	30.09.2010 (not audited)
Wheat	12,775	5,575	5,805	5,058	3,845	2,436
Barley	276	66	1,212	529	-	-
Sunflower	8,869	7,151	-	-	2,830	4,817
Rape	2,470	1,989	1,722	1,865	1,722	2,132
Other	2,316	989	-	-	94	65
	26,706	15,770	8,739	7,452	8,491	9450

Total area of agricultural land owned by the Group is over 53 thousand hectares. Factual area of arable land in 2011 comprised 52.9 thousand hectares (2010 - 26.49 thousand hectares). The Group plans to increase the scope of cultivation areas in 2011.

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

For discounting cash flows on current biological assets the rate was applied of 21.3%.

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

		30.09.2011	30.09.2010
Risk free rate	Earnings from medium-term internal state loan bonds (rotation period of 2-3 years) issued in UAH are taken as the basis for risk free rate in Ukraine. Rotation period for securities includes 2009 – 2011.	14.2%	20.5%
Market premium	Currently, the most adequate representation of the equity	5.1%	4.0%

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	markets in Ukraine can be presented by such financial instrument as corporate bonds. Outcome of stock and OTC markets trading show 22% of current earnings from repayment of corporate bonds issued in UAH (in average for the market). The difference between the average earnings from Ukrainian corporate and state bonds is the indicator of market premium value.		
Additional premiums for the risk, typical for the Group	Risk of Group business. Land use territory is within the zone of risk land tenure. Such zone is characterized by significant temperature jumping during vegetation period of grain crops.	2.0%	2.0%
		21.3%	26.5%

10. Trade and other accounts receivable

As at 30 September 2011 and 2010 trade and other accounts receivable included:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Trade accounts receivable	3,875	2,450	3,238
Advances made	1,487	575	42
Other accounts receivable	2,606	391	80
Prepayment for new acquisition	945	-	-
Provision for doubtful debts	(853)	(1,754)	(855)
	8,060	1,662	2,505

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As at 30 September 2011 and 2010 trade accounts receivable included:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Trade accounts receivable	3,875	2,450	3,238
Provision for doubtful debts	(304)	(1,492)	(817)
	3,571	958	2,421

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

	30.09.2011 (not audited)		31.12.2010 (audited)		30.09.2010 (not audited)	
	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment
Up to 90 days	3,188	-	260	-	1,069	-
From 91 to 180 days	262	-	86	-	720	-
>From 181 to 270 days	18	-	331	-	245	-
From 271 to 365 days	71	-	281	-	387	-
Over 1 year	336	(304)	1,492	(1,492)	817	(817)
	3,875	(304)	2,450	(1,492)	3,238	(817)

As at 30 September 2011 and 2010 other current accounts receivable included:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Advances paid	1,487	577	42
Settlements with other debtors	2,606	391	80
Prepayment for new acquisition	945	-	-
Provision for doubtful debts	(549)	(262)	(38)
	4,489	706	84

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

30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
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	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment
Up to 90 days	1,903	-	83	-	80	-
From 91 to 180 days	548	-	17	-	4	-
From 181 to 270 days	428	-	84	-	-	-
From 271 to 365 days	447	-	522	-	-	-
Over 1 year	767	(549)	262	(262)	38	(38)
	4,093	(549)	968	(262)	122	(38)

11. Cash and cash equivalents

As at 30 September 2011, 2010 cash and cash equivalents included balances on current bank accounts.

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Cash and cash equivalents	5,460	30	1,351
	5,460	30	1,351

12. Loans and borrowings

As at 30 September 2011, 2010 loans and borrowings are represented as follows:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Long-term			
Financial lease liabilities	730	561	1,566
Loans	7,802	1,806	7,023
Total	8,532	2,367	8,589
Current			
Financial lease liabilities	1,134	1,662	1,284
Loans	4,497	3,752	3,031
Total	5,631	5,414	4,315

Bank loans as at 30 September 2011 and 2010 were as follows:

Bank	Current	Annual	Maturity	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
	ncy	rate %				

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				Current t debt	Long- term debt	Current debt	Long - term debt	Current t debt	Long -term debt
JSC Rodovid bank	UA	17.00							
	H	%	2012	-	1,505	-	1,507	-	-
JSC Rodovid bank	UA	17.00							
	H	%	2014	-	-	-	-	-	3,026
CB Credit-Dnepr	UA	18.00							
	H	%	2011	4,372	-	2,074	-	90	-
CB Credit-Dnepr	UA	17.00							
	H	%	2013	-	1,720	-	-		
CB Credit-Dnepr	UA	14.50							
	H	%	2013	-	4,390	-	-		
Soyuz CB	UA	21.50							
	H	%	2011	-	-	1,678	-	2,941	-
Soyuz CB	USD	16.0%	2011	-	-	-	-	-	-
RED-PLAZA	UA	29.00							
OJSC CNVCIF	H	%	2012	-	-	-	-	-	1,677
RED-PLAZA	UA								
OJSC CNVCIF	H	5.00%	2012					-	1,177
Oshchad bank	USD	18%	2011	125	-	-	-	-	-
Olbis Investments									
Ltd SA	USD	5.00%	2013	-	124	-	80	-	207
ICD Investments									
S.A.	USD	5.00%	2012	-	63	-	219	-	936
				4,497	7,802	3,752	1,806	3,031	7,023

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

Collateral securing the loan commitments are the following Group assets:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Property (carrying amount)	6,514	268	1,251
Future harvest	2,116	-	-
Total	8,630	268	1,251

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

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(in thousand US dollars)

As at 30 September 2011 and 2010 obligations under financial lease included:

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Long-term financial lease liabilities	730	560	1,566
Short-term financial lease liabilities	1,134	1,662	1,284
Total	1,864	2,222	2,850
Total future minimum lease payments	2,163	2,443	3,530
Less: interest expenses	(299)	(221)	(680)
Discounted value of future minimal lease payments	1,864	2,222	2,850

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

30.09.2011

By maturity term	30.09.2012	30.09.2013	30.09.2014	Total
Future minimum lease payments	1,196	574	393	2,163
Less: interest expenses	(62)	(113)	(124)	(299)
Discounted value of future minimal lease payments	1,134	461	269	1,864

30.09.2010

By maturity term	30.09.2011	30.09.2012	30.09.2013	Total
Future minimum lease payments	1,368	1,195	967	3,530
Less: interest expenses	(263)	(231)	(186)	(680)
Discounted value of future minimal lease payments	1,105	964	781	2,850

2010

By maturity term	2011	2012	2013	Total
Future minimum lease payments	1,865	577	1	2,443
Less: interest expenses	(203)	(17)	(1)	(221)
Discounted value of future minimal lease payments	1,662	560	-	2,222

13. Trade and other accounts payable

As at 30 September 2011 and 2010, trade and other accounts payable included:

	30.09.2011	31.12.2010	30.09.2010
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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(in thousand US dollars)

	(not audited)	(audited)	(not audited)
Payables to guarantor	4,120	4,126	4,151
Trade payables	4,693	498	658
Prepayments received	4,351	572	421
Interest payable	915	815	260
Land share lease payables	-	102	5
Wage arrears	152	17	37
Settlements with participants	-	6	
Share purchase settlements	-	-	
Other accounts payable	674	545	197
	14,905	6,681	5,729

14. Share capital

The structure of the Group's equity as at 30 September 2011 and 2010 can be represented as follows:

	30.09.2011		31.12.2010		30.09.2010	
	(not audited)		(audited)		(not audited)	
	Ownership share	Thous. USD	Ownership share	Thous. USD	Ownership share	Thous. USD
KSG Agro S.A.	100%	36,837	-	-	-	-
KSG Agricultural and Industrial Holding Limited	-	-	100%	3	100%	3
LLC Ukrainian Agricultural and Industrial Holding	-	-	100%	2,625	100%	1,416
		36,837		2,628		1,419

During nine month of the year 2011 company successfully accomplished initial public offering, which resulted in raising USD 36, 837 thousand additional funds (net amount) as equity financing. Share capital of KSG Agro S.A. comprises 15 million shares at the nominal value of 0.01 USD each.

15. Income

For nine months ended 30 September 2011 and 2010 the Group's income included:

	30.09.2011	30.09.2010
	(not audited)	(not audited)
Sale of agricultural products	10,787	8,807
Sale of services	1,098	542
Other sales	38	68
	11,923	9,417

16. Cost of sales

For nine months ended 30 September 2011 and 2010, cost of sales of the Group included:

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	30.09.2011 (not audited)	30.09.2010 (not audited)
Material costs	10,611	10,147
Services	881	631
Other	23	65
	11,515	10,843

The cost includes:

	30.09.2011 (not audited)	30.09.2010 (not audited)
Social charges	146	42
Salary	440	382
	586	411

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

	30.09.2011 (not audited)	30.09.2010 (not audited)
Incurring costs included in the cost of sold products	7,410	5,964
Changes of fair value net of preliminary estimated point of sale expenses	4,105	4,879
	11,515	10,843

17. General and administrative expenses

For nine months ended 30 September 2011 and 2010, Group general and administrative expenses included:

	30.09.2011 (not audited)	30.09.2010 (not audited)
Informational, expert and consulting services	720	123
Transportation and storage costs	319	16
Salary and social taxes	181	208
Bank services	54	23
Taxes	35	115
Amortization	35	11
Lease	28	38
Materials	13	4
Insurance	1	46
Other expenses	276	41
	1,662	625

18. Other operating income (expenses)

For nine months ended 30 September 2011 and 2010 other operating expenses of the Group included:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

	30.09.2011 (not audited)	30.09.2010 (not audited)
Write-off of accounts receivable	(1,929)	-
Provision for doubtful debts on accounts receivable	901	(244)
(Expenses)/income from exchange differences	(34)	(18)
(Expenses)/income from sale of non-current assets	(36)	(1)
Penalties, fines and forfeits	74	108
Income from sale of foreign currency	-	6
Other (expenses) / income	365	466
	(659)	317

19. Financial income (expenses), net

For nine months ended 30 September 2011 and 2010, net financial income (expenses) of the Group included:

	30.09.2011 (not audited)	30.09.2010 (not audited)
Loan interest	(1,668)	(1,451)
Interest received	1,185	23
Interest on the financial lease	(264)	(322)
Other	34	(52)
	(713)	(1,802)

20. Related parties

Related parties are defined in *IAS 24, Related Party Disclosures*.

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parent and ultimate controlling party are disclosed in Note 1.

The following Companies that are controlled or significantly influenced by shareholders:

ICD INVESTMENTS SA (Switzerland);

Fortholing (Switzerland)

Zemivor Holding Limited (Cyprus)

KSG Export Limited (Cyprus)

Vernilia Holding Limited (Cyprus)

Hellpic Limited (Cyprus)

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Olcom Limited (Cyprus)

KS Retail Limited (Cyprus)

LLC ICD UA (Ukraine)

LLC KS Development (Ukraine)

LLC Niko Plaza (Ukraine)

LLC Newfort (Ukraine)

LLC K.Marx (Ukraine)

LLC Innovative City Development Investments (Ukraine)

LLC Berezinka (Ukraine)

LLC Kiev Marketing Center (Ukraine)

LLC SPAR-Logistic (Ukraine)

LLC SPAR-Center (Ukraine)

LLC SPAR-Ukraine (Ukraine)

LLC Business Management Group (Ukraine)

Transactions with the key management

Remuneration of key management personnel for the period ended 30 September 2011 is in the form of short-term employee benefits amounting to US dollars 240 thousand (30 September 2010 : US dollars 152 thousand).

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, and include members of the Board of Management and Supervisory Board.

As at 30 September 2011 and 2010 the Group's indebtedness on transactions with related parties can be represented as follows:

	30.09.2011	31.12.2010	30.09.2010
	(not audited)	(audited)	(not audited)
Assets			
Trade accounts receivable			
Entities - related parties under common control with the Companies of the Group;	408	300	57
Other accounts receivable			
Entities - related parties under common control with the Companies of the Group;	122	124	320
Liabilities			
Trade accounts payable			
Entities - related parties under common control with the Companies of the Group;	219	14	6

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For nine months ended 30 September 2011 and 2010 income of the Group from the transactions with related parties is as follows:

	30.09.2011 (not audited)	30.09.2010 (not audited)
Income		
Entities - related parties under common control with the Companies of the Group;	1,840	324
Cost of sales		
Entities - related parties under common control with the Companies of the Group;	368	74
Fixed asset acquisition		
Entities - related parties under common control with the Companies of the Group;	32	-

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

During the nine month of 2011 the Group acquired 100% of corporate rights share in Unirem Agro Plus LLC, Askoninteks LLC, Agro Golden LLC, Agro LLC, SPE Promvok LLC, Dniproagrostandard LLC, Dniproagroprogress LLC, Meat plant Dnipro LLC, Kovbasna Liga LLC, Agrofirm Vesna LLC, Vidrodzhennya LLC, Dnipro LLC.

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

	Agro LLC	Golden LLC	Unirem LLC	Agro Plus LLC	Askoninteks LLC	Agro LLC
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment	23	23	15	15	500	500
Accounts receivable	3	3	52	52	106	106
Cash	-	-	15	15	-	-
Inventories	-	-	7	7	-	-
Current biological assets	71	134	531	1,014	-	-
	97	160	620	1,103	606	606
Borrowings	-	-	-	-	-	-
Accounts payable	(26)	(26)	(57)	(57)	-	-
	(26)	(26)	(57)	(57)	-	-
Net assets	71	134	563	1,046	606	606
Acquisition cost	-	168	-	1,266	-	1,734
Goodwill acquisition	-	34	-	220	-	1,128

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	Dniproagro-standard LLC		Dniproagro-progress LLC		SPE Promvok		Meat plant Dnipro LLC	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment	235	235	46	46	500	500	285	285
Accounts receivable	451	451	-	-	1,729	1,729	546	546
Cash	46	46	3	3	-	-	2	2
Inventories	165	165	47	47	-	-	295	295
Current biological assets	736	495	144	38	-	-	-	-
	1,633	1,392	240	134	2,229	2,229	1,128	1,128
Borrowings	-	-	-	-	-	-	-	-
Accounts payable	(1,095)	(1,095)	(271)	(271)	(2,667)	(2,667)	(2,200)	(2,200)
	(1,095)	(1,095)	(271)	(271)	(2,667)	(2,667)	(2,200)	(2,200)
Net assets	538	297	(31)	(137)	(438)	(438)	(1,072)	(1,072)
Acquisition cost	-	2,018	-	50	-	6,600	-	1,532
Goodwill from acquisition	-	1,721	-	187	-	7,038	-	2,604

	Kovbasna Liga LLC		Agrofirm LLC	Vesna Dnipro LLC		
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment	4	4	448	448	-	-
Accounts receivable	304	304	23	23	1	1
Cash	13	13	-	-	-	-
Inventories	-	-	195	195	-	-
Current biological assets	-	-	508	514	23	23
	321	321	1,174	1,180	24	24
Borrowings	-	-	(125)	(125)	-	-
Accounts payable	(509)	(509)	(8)	(411)	(2)	(2)
	(509)	(509)	(133)	(536)	(2)	(2)
Net assets	188	188	1,041	644	22	22
Acquisition cost	-	3,000	-	2,728	-	84
Goodwill from acquisition	-	3,188	-	2,084	-	63

Cash outflow from acquisition:

Net amount of cash acquired with the company

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Cash paid	(22,363)
Net cash flows from acquisition	(22,274)

Goodwill amount equal to 18,267 thous. US dollars includes value of estimated positive effect from acquisition and the right for lease of land of agricultural nature, which is not recognized in the financial statements as a separate asset. In accordance with the contractual terms set for acquisition, the lease right is not a separate asset, as such, it does not comply with recognition criteria for intangible asset as per IFRS (IAS) 38, *Intangible assets*. It is expected that the recognized goodwill will not be deductible for taxation purposes – neither to full extent, nor partially.

22. Earnings per share

Basic earnings per share were calculated through dividing net profit for the year attributable to ordinary shareholders of the parent company, by the average-weighted number of common shares outstanding during a year. Diluted earnings per share are calculated through dividing the net profit attributable to ordinary shareholders of the parent company (after adjustments to interest on convertible preference shares), by the average-weighted number common shares outstanding during a year plus the average-weighted number of common shares to be issued in case of the conversion of all potential common shares with dilutive effect. Below is the information about earnings and number of shares used when calculating basic and diluted earnings per share:

	30.09.2011 (not audited)	30.09.2010 (not audited)
Net profit from continuing operations attributable to ordinary shareholders of the parent company	18,302	9,067
Profit/(loss) from discontinued operations attributable to ordinary shareholders of the parent company	-	-
Net profit attributable to ordinary shareholders of the parent company in order to compute basic earnings	18,302	9,067
Interest on convertible preference shares	-	-
Net profit attributable to ordinary shareholders of the parent company adjusted taking into account the dilutive effect	18,302	9,067
	Million	Million
Average-weighted number of common shares to compute basic earnings per share	15,0	15,0*
Dilutive effect:	-	-
Stock option	-	-
Convertible preference shares	-	-
Average-weighted number of common shares adjusted to the dilutive effect	15,0	15,0*

*As at 30.09.2010 the holding company KSG Agro S.A. was not incorporated. Therefore, Proforma financial information was used as comparable and the number of shares actual as at 30.09.2011 was used for calculation of earnings per share for the 9 months ended 30.09. 2010.

No other transactions with common shares or potential common shares were entered into between the reporting date and the date of these interim financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(in thousand US dollars)

23. Commitments and contingencies*Commitments*

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

Group company	Geographical location (region)	30 September 2011 (hectare)	31 December 2010 (hectare)	30 September 2010 (hectare)
Agro-Dnister LLC	Khmelnitsk	1,488	1,531	1,488
Agro-Trade House				
Dniprovsky LLC	Dnepropetrovsk	3,733	3,490	3,733
Goncharovo Agricultural LLC	Dnepropetrovsk	2,489	2,539	2,489
Pivdenne Agricultural LLC	Kherson	1,638	1,671	1,638
Enterprise №2 of Ukrainian agricultural and industrial holding LLC	Dnepropetrovsk	1,812	1,845	1,812
Scorpio Agro LLC	Dnepropetrovsk	6,034	6,017	6,034
SOUZ-3 LTD	Dnepropetrovsk	6,434	6,730	6,434
SOUZ-3 LTD	Kharkov	2,862	2,974	2,862
Unirem Agro Plus LLC (Ukraine)	Dnepropetrovsk	5,465	-	-
Askoninteks LLC (Ukraine)	Dnepropetrovsk region	0,000	-	-
Agro Golden LLC (Ukraine)	Kharkov	0,956	-	-
Agro LLC	Dnepropetrovsk	0,000	-	-
SPE Promvok LLC	Dnepropetrovsk	0,000	-	-
Dniproagrostandard LLC	Dnepropetrovsk region	3,984	-	-
Dniproagroprogress LLC	Dnepropetrovsk region	2,665	-	-
Meat plant Dnipro LLC	Dnepropetrovsk region	0,000	-	-
Kovbasna Liga LLC	Dnepropetrovsk region	0,000	-	-
Agrofirm Vesna LLC	Dnepropetrovsk region	3,855	-	-
Vidrodzhennya LLC	Dnepropetrovsk region	9,484	-	-
Dnipro LLC	Dnepropetrovsk region	-	-	-
		52,900	26,797	26,490

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

Contingent liabilitiesLegal aspects

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

Tax risks

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

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

Financial lease and obligations under hire-purchase agreements

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

Minimum lease payments

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Amounts payable under financial lease agreements:			
During 1 year	1,196	1,865	1,368
Over 1 year but no more than 5 years	967	578	2,162
More than 5 years	-	-	-
Total minimum lease payments	2,163	2,443	3,530
Net of future financial costs	(299)	(221)	(680)
Discounted value of minimal lease payments	1,864	2,222	2,850

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Current cost of minimum lease payments	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Amounts payable under financial lease agreements			
During 1 year	1,134	1,365	1,284
Over 1 year but no more than 5 years	730	2,516	1,566
More than 5 years			

24. Financial risk management: objectives and policies

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

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

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

Interest rate risk

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

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

	<i>Increase / decrease of basis points</i>	<i>Effect on profit before tax</i>
<i>For the period ended 30 September 2011</i>		
Change in interest rate	20	(33)
Change in interest rate	(20)	33
<i>For the year ended 31 December 2010</i>		
Change in interest rate	20	(34)
Change in interest rate	(20)	34

For the period ended 30 September

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2010

Change in interest rate	20	(29)
Change in interest rate	(20)	29

Foreign currency risk

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

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

	<i>Increase decrease</i>	<i>/ Effect on profit before tax</i>
For the period ended 30 September 2011		
Change in USD exchange rate	5%	(9)
Change in USD exchange rate	-5%	9
For the year ended 31 December 2010		
Change in USD exchange rate	5%	(15)
Change in USD exchange rate	(5%)	15
For the period ended 30 September 2010		
Change in USD exchange rate	5%	(57)
Change in USD exchange rate	-5%	57

As at 30.09.2011	UAH	EURO	USD	Non-monetary items	Total
Property, plant and equipment	-	-	-	14,072	14,072
Non-current biological assets	-	-	-	184	184
Goodwill	-	-	-	23,811	23,811
Inventories	-	-	-	25,738	25,738
Current biological assets	-	-	-	16,824	16,824
Trade and other receivables	8,060	-	-	-	8,060
VAT receivables	3,093	-	-	-	3,093
Cash and cash equivalents	5,460	-	-	-	5,460
TOTAL	16,613	-	-	80,629	97,242
Long-term loans	(8,345)	-	(187)	-	(8,532)
Long-term notes	(2,200)	-	-	-	(2,200)
Short-term loans and borrowings	(5,631)	-	-	-	(5,631)
Promissory notes	(950)	-	-	-	(950)

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Trade and other payables	(14,905)	-	-	-	(14,905)
Tax payables	(878)	-	-	-	(878)
TOTAL	(32,909)	-	(187)	-	(33,096)
Net balance position	(16,296)	-	(187)	80,629	64,146

As at 31.12.2010

Property, plant and equipment	-	-	-	5,013	5,013
Non-current biological assets	-	-	-	247	247
Goodwill	-	-	-	5,586	5,586
Inventories	-	-	-	5,149	5,149
Current biological assets	-	-	-	7,621	7,621
Trade and other accounts receivable	1,662	-	-	-	1,662
VAT accounts receivable	1,022	-	-	-	1,022
Cash and cash equivalents	30	-	-	-	30
TOTAL	2,714	-	-	23,616	26,330
Long-term loans and borrowings	(2,068)	-	(299)	-	(2,367)
Promissory notes issued	(188)	-	-	-	(188)
Short-term loans and borrowings	(5,414)	-	-	-	(5,414)
Trade and other accounts payable	(6,681)	-	-	-	(6,681)
Tax accounts payable	(18)	-	-	-	(18)
TOTAL	(14,369)	-	(299)	-	(14,668)
Net balance position	(11,655)	-	(299)	23,616	11,662

	UAH	EURO	USD	Non-monetary items	Total
As at 30.09.2010					
Property, plant and equipment	-	-	-	4,914	4,914
Non-current biological assets	-	-	-	249	249
Goodwill	-	-	-	5,620	5,620
Inventories	-	-	-	7,521	7,521
Current biological assets	-	-	-	9,601	9,601
Trade and other receivables	2,505	-	-	-	2,505
VAT receivables	1,441	-	-	-	1,441
Cash and cash equivalents	1,351	-	-	-	1,351
TOTAL	5,297	-	-	27,905	33,202
Long-term loans	(7,446)	-	(1,142)	-	(8,589)
Short-term loans and borrowings	(4,315)	-	-	-	(4,315)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

Promissory notes	(190)	-	-	-	(190)
Trade and other payables	(5,726)	-	-	-	(5,729)
Tax payables	(208)	-	-	-	(208)
TOTAL	(17,888)	-	(1,142)	-	(19,031)
Net balance position	(12,591)	-	(1,142)	27,905	14,171

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans provided by banks and suppliers. The Group monitors its assets and liabilities as to circulation and mature terms and plans its liquidity depending upon the expected term of obligations fulfillment. When liquidity of individual entities is insufficient or redundant, the Group redistributes its resources and funds to achieve optimal financing of every Group's entity needs. The table below summarizes the maturity profile of the Group's financial liabilities at 30 September 2011 based on contractual undiscounted payments:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
<i>For the period ended 30 September 2011 (not audited)</i>				
Long-term liabilities	-	-	10,732	10,732
Loans and borrowings	-	5,631	-	5,631
Trade and other payables	878	14,905	-	15,783
<i>For the year ended 31 December 2010 (audited)</i>				
Long-term portion of borrowings	-	-	2,367	2,367
Short-term loans and borrowings	-	5,414	-	5,414
Trade and other accounts payable	18	6,681	-	6,699
<i>For the period ended 30 September 2010 (not audited)</i>				
Long-term loans	-	-	8,589	8,589
Short-term loans and borrowings	-	4,315	-	4,315
Trade and other payables	208	5,919	-	6,127

Credit risk

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

Credit risk related to trade receivables is minimized due to the limited number of customers – grain traders with sound reputation. The Group manages this risk through monitoring of the

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

customers' credit capacity. Cash is placed in financial institutions, which are considered to have minimal risk of default at the time of deposit.

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

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

Capital risk management

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

	30.09.2011 (not audited)	31.12.2010 (audited)	30.09.2010 (not audited)
Total amount of borrowings	16,363	7,781	12,904
Net of cash and cash equivalents	(5,460)	(30)	(1,351)
Net debt	10,903	7,751	11,553
Total capital	64,146	11,662	14,171
Plus – subordinated debt instruments	-	-	-
Adjusted capital	64,146	11,662	14,171
Debt to adjusted net assets ratio	17.00%	64.46%	81.53%

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

Risk of grain prices change

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

Classification of financial instruments

As at 30 September 2011 and 2010, financial instruments are classified as follows:

As at 30.09.2011	Loans accounts receivable	and Non-financial assets	TOTAL
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As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

Property, plant and equipment	-	14,072	14,072
Non-current biological assets	-	184	184
Goodwill	-	23,811	23,811
Inventories	-	25,738	25,738
Current biological assets	-	16,824	16,824
Trade and other receivables	8,060	-	8,060
VAT receivables		3,093	3,093
Cash and cash equivalents	5,460		5,460
	13,520	83,722	97,242
Long-term loans	(10,732)	-	(10,732)
Short-term loans and borrowings	(5,631)	-	(5,631)
Promissory notes	(950)	-	(950)
Trade and other payables	-	(14,905)	(14,905)
Tax payables	-	(878)	(878)
TOTAL	(17,313)	(15,783)	(33,096)
Net balance position	3,793	67,939	64,146

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

	Loans accounts receivable	and Non-financial assets	TOTAL
As at 30.09.2010			
Property, plant and equipment	-	4,914	4,914
Non-current biological assets	-	249	249
Goodwill	-	5,620	5,620
Inventories	-	7,251	7,251
Current biological assets	-	9,601	9,601

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2011 and for nine months then ended

(in thousand US dollars)

Short-term financial instruments	-	-	-
Trade and other receivables	2,505	-	2,505
VAT receivables	-	1,441	1,441
Cash and cash equivalents	1,351	-	1,351
	3,856	29,346	33,202
Long-term loans	(8,589)	-	(8,589)
Short-term loans and borrowings	(4,315)	-	(4,315)
Promissory notes	(190)	-	(190)
Trade and other payables	-	(5,729)	(5,729)
Tax payables	-	(208)	(208)
TOTAL	(13,094)	(5,937)	(19,031)
Net balance position	(9,238)	23,409	14,171