KSG AGRO S.A.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

(In thousand US dollars)

Contents:

CONSOLIDATED MANAGEMENT REPORT

1. Operating environment and key developments

Global markets overview

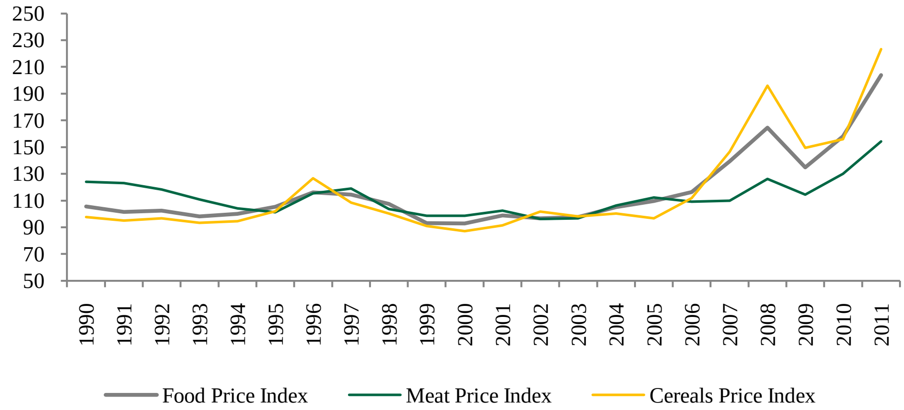
According to FAO (Food and Agriculture Organization of the United Nations), estimation of the global production of cereals in marketing season 2010/2011 (July/June) was about 2,238 million tonnes and points to a record level representing average annual growth of 1.7 per cent since 2000. In 2010/2011, global cereals production dropped by about 1 per cent while in 2011/2012 FAO estimated increase in production over 3.5 per cent mainly due to expectation of yields recovery and larger plantings areas. Nonetheless, in 2010/2011 season stock-to-use ratio declined to about 21.2 per cent compared to 23.4 per cent in 2009/2010. This ratio indicates the level of carryover stock for commodity as a percentage of the total use of the commodity. For 2011/2012, world stock-to-use-ratio forecasted at 21.0 per cent showing that increase in global cereals supply didn’t offset growth of demand.

Over the last decade the global agricultural marked faced a stable demand growth due to various factors, including ones which reflect underplaying trends in supply and demand for agriculture commodities that started to widening two decades ago. The following key drivers are mostly affecting global demand for cereals over the last decade:

- Growth in global population. It is expected that the global population will double in next 50 years from 7 to 12 billion of people
- Rapid economic growth, especially in emerging markets. Growing disposable income allow people to consume more meat and diversify their diets, as result more grains are spent on food production and animal feed. The World Bank estimates that global middle class is likely to grow from 430 million in 2000 to 1.2 billion in 2030. The India and China will account for two thirds of middle class growth in next decades
- Rising demand for grains and oilseeds related to bio-fuel production was caused by soaring oil prices. As of 2010, about 7.9 per cent of global grains & oilseeds production was consumed by bio-fuel sector

Over the last decade the global cereals supply showed stable growth secured by intensification of production, implementation of new technologies and growth of plantings. Nevertheless, further growth of supply can be limited by a number of factors putting a pressure on prices.

ANNUAL REAL FOOD PRICE INDICES (2002-2004=100)



Source: FAO

Ukrainian market

Ukraine has favorable climatic conditions for agricultural production. Its farm land is characterized by a high content of black soil, which has a direct impact on land fertility. Most of the farm land is plain and without major constrains, which enables the use of efficient large scale farming equipment in the production process. Moreover, a well-developed inland railroad system with a direct access to modern soft commodities transhipment terminals located in Ukrainian seaports on the Black sea, which are capable for accepting Panamax size vessels, facilitate Ukraine's exports and make it one of key players in the soft commodities market.

The Ukrainian economy is vulnerable to market downturns and slowdowns elsewhere in the world. The recent global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and a significant devaluation of the national currency against other major currencies since mid-2008.

In 2011, the Ukrainian economy experienced a moderate recovery of economic growth. The return of positive global economic growth in 2010 and continued population gains resulted in increase of food and feed demand in 2011. The recovery was accompanied also by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels. Whilst the Ukrainian Government is introducing various stabilising measures aimed at providing liquidity and supporting debt re-financing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost to the Group.

The customers of the Group have also been affected by the deterioration in their own liquidity, which could in turn impact their ability to repay amounts due to the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment. These factors could affect the Group's financial position, results of operations and business prospects.

Anyhow, the main factor of national economic development and driver for national GDP is the agricultural sector. The agricultural production has a significant influence on the dynamics of this growth.

Development of KSG AGRO S.A. and its Subsidiaries (the hereinafter «the Group» or «KSG Agro» or «the Company»)

KSG Agro is an agricultural holding with total controlled land bank of approximately 61 thousand hectares.

The Group is primarily engaged in production of grains such as sunflower, wheat, barley, rapeseed and soybeans, vegetables production and also produces groceries for retail chains. Besides, Company performs animals breeding for meat and milk production.

After having achieved the best results in the Group's history in 2010, KSG Agro was able to achive declared goals for the fiscal year 2011, and the company significantly increased net profit.

Initial Public Offering

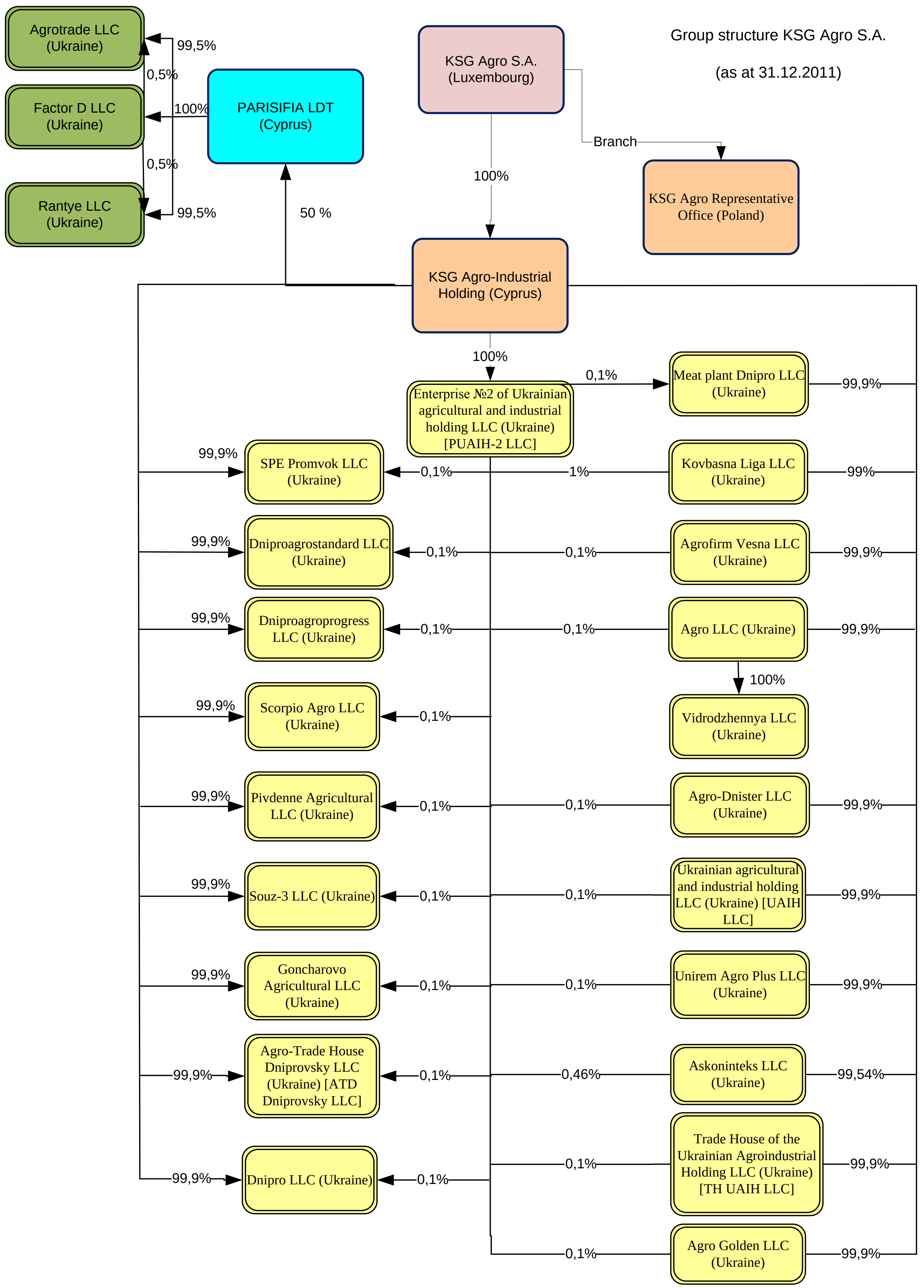
During the first half of the year 2011, the Company successfully accomplished initial public offering, which resulted in raising thousand USD 36,813 additional funds (net amount) as equity financing. The Share capital of KSG Agro S.A. is divided into 15 million shares with a nominal value of 0.01 USD each.

Corporate structure

KSG Agro S.A. 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 8 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. In 2011, KSG Agro S.A. obtained control over the following agrarian companies:

Unirem Agro Plus LLC (Ukraine)
Askoninteks LLC (Ukraine)
Agro Golden LLC (Ukraine)
Agro LLC (Ukraine)
SPE Promvok LLC (Ukraine)
Dniproagrostandard LLC (Ukraine)
Dniproagroprogress LLC (Ukraine)
Meat plant Dnipro LLC (Ukraine)
Kovbasna Liga LLC (Ukraine)
Agrofirm Vesna LLC (Ukraine)
Vidrodzhennya LLC (Ukraine)
Dnipro LLC (Ukraine)
Parisifia ltd (Cyprus)
Agrotrade LLC (Ukraine)
Factor D (Ukraine)
Rantye (Ukraine)

The following chart describes the structure of the Group as of 31 December 2011:



Group strategy

In 2011 the Company and its subsidiaries (hereinafter “the Group”) actively implemented its development strategy announced during IPO:

Strategy	Strategy implementation results in 2011
Land bank expansion & improvement of land bank usage efficiency • Focus on land bank expansion via acquisition of agricultural entities with land lease rights as well as on organical growth through attracting new land owners • Development of land bank as land cluster model, which assumes highly concentrated location of fields and selfsufficiency in farming infrastructure of each cluster • Land bank expansion in prime quality agricultural areas, in the so-called black earth belt, with favourable weather conditions adding to its operational efficiency • Improvement of fertilization and cultivation approaches, accompanied by higher penetration of modern agricultural technologies will lead to further increase in efficiency of main crops harvesting • Deeper vertical integration via development of food processing segment, in order to increase profitability and mitigate risks from crops' prices volatility • Modernization of existing irrigation infrastructure across more than 2,000 ha and expansion of irrigated land up to 5,000 ha by 2016	• In 2011 KSG Agro SA doubled its land bank under control to 61 ths ha and harvest volumes to 107 ths tonnes, the Group's revenues increased more than twice, to USD 35 mln • Since IPO, the Group increased its grain storage capacities from about 30 ths tonnes to about 60 ths tonnes and machinery park from 334 units to 584 units • The Group constructed vegetable storage facility with capacities of 2.8 ths tonnes which increased total vegetable storage capacities to 4.0 ths tonnes

Revenue diversification • Further development of new business segments, in particular, fuel agro-pellet production and pig breeding and bring their share in the Group's revenues to about 30% by 2015 • Diversification of operations also helps to maintain liquidity at sufficient level through the whole financial year, consequently contributes to solving problems of seasonal cash flow, which is attributable to companies of agricultural sector	• The Group entered into new business segments of producing fuel agro-pellets. As of now the Group has installed two production units with total capacity of 7 thousand tonnes of pellets per year • In line with its strategy the Group increased sales of food production segment. In particular, about 9 ths tonnes of wheat flour were sold in 2011
Other	• In November 2011 the Group acquired 50 per cent stake in pig breeding complex which after modernization and reconstruction will reach 240 ths animals per year. It will allow the Company to realize its pig breeding segment development steadily. • Besides, the Group arranged debt financing of the machinery acquisition from John Deere for USD 11 mln by Deere Credit INC. at the annual interest rate of around 5.0%, secured by US Export-Import Bank guarantee

The internal control system

The Board of Directors (the "Board") observes the majority of rules of Warsaw Stock Exchange corporate governance rules included in the "Code of Best Practice for WSE Listed Companies" to the form and extent determined by the Resolution No. 20/1287/2011 of the Exchange Supervisory Board dated 19 October 2011. Code of Best Practice for WSE Listed Companies is available at the official website of the Warsaw Stock Exchange: www.corp-gov.gpw.pl

The Board nominates at least three members to Audit Committee, which performs a review and evaluation, at least annually, of its performance, members' performance, and the internal audit department, including reviewing the compliance to Charter and Instructions.

Mr. Sergiy Kasianov, chairman of the Board of Directors, has a significant indirect holding of securities in the Company. No other person has a significant direct or indirect holding of securities in the Company. No person has any special rights of control over the Company's share capital.

There are no restrictions on voting rights.

Appointment and replacement of Directors and amendments to the Articles of Association

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

Powers of Directors

The Board is responsible for managing the business affairs of the Company within the clauses of the Articles of Association. The Directors may only act at duly convened meetings of the Board of Directors or by written consent in accordance with article 9 of Articles of Association.

Rights of the shareholders

The operation of the shareholders meetings and their key powers, description of their rights are governed by Articles of Association and national laws and regulation.

Transfer of shares

Transfer of shares and is governed by Articles of Association of the Company.

Company's management is responsible for establishing and maintaining adequate controls over financial reporting process for KSG Agro, which includes the appropriate level of involvement of the Board of Directors.

KSG Agro maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. An important element of the control environment is an ongoing internal audit program. Our system also contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

To assure the effective administration of internal controls, we carefully select and train our employees, develop and disseminate written policies and procedures, provide appropriate communication channels and foster an environment conducive to the effective functioning of controls. We believe that it is essential for the company to conduct its business affairs in accordance with the highest ethical standards, as set forth in KSG Agro.

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

In order to ensure, that established controls over financial reporting system worked effectively during 2011, a summary of the work performed by internal audit department was reviewed by the Audit Committee.

Besides, Internal Audit plan for 2012 was also analyzed and approved by the Board of Directors, in order to make sure, that:

1) Existing information system is able to identify and manage risk of misstatement in financial data once occurred, including override of controls and fraud;
2) Information is communicated to management regularly and timely.

2. Financial Results and operational data summary

Harvest gathered during the year (in tonnes) can be shown as follows:

Crop production, tons

Crop	2011	2010
Sunflower	51,372	29,996
Winter wheat	36,177	17,206
Winter barley	3,571	6,521
Spring barley	6,747	712
Soybeans	609	495
Rapeseed	1,579	-
Other crops	7,220	-
Total	**107,275**	**54,929**

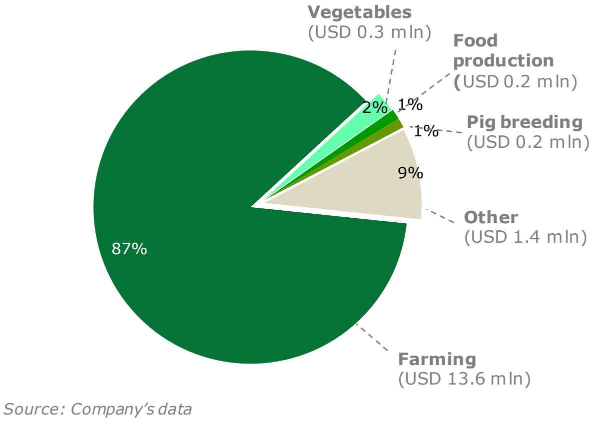
The following table sets forth the Company's results of operations for the years ended 31 December 2011 and 2010 derived from the Consolidated Financial Statements:

(US$ in thousands)	31 December 2011	31 December 2010	Changes in %
Revenue	34,665	15,628	122%
Net change in fair value of biological assets and agricultural produce, net	14,834	16,919	(12%)
Cost of Sales	(34,629)	(20,456)	69%
GROSS INCOME	**14,870**	**12,091**	23%
Selling, general and administrative expenses	(4,092)	(787)	420%
Other operating income (expense), net	18,460	303	5992%
RESULT FROM OPERATING ACTIVITIES	**29,238**	**11,607**	**152%**
Financial expenses, net	(1,143)	(1,558)	(27%)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**28,095**	**10,049**	**180%**
Income tax (expense) / income	61	(2)	-

NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**28,156**	**10,047**	**180%**

Revenue

The following chart sets forth the Company's sales revenue by segments for the years indicated:



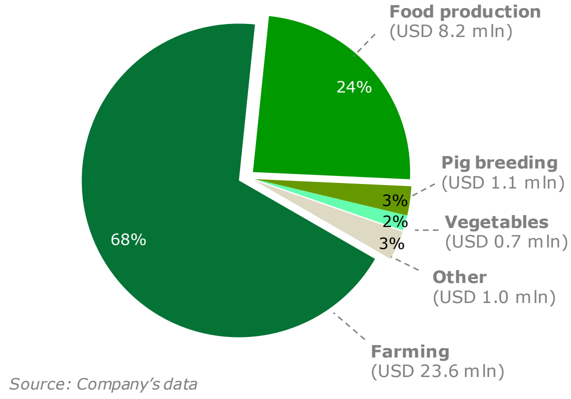


Chart 1: Revenue segments of 2010

Chart 2: Revenue segments of 2011

The Company's revenue from sales of finished products increased year-on-year by 4,000% primarily as a consequence of further vertical integration as announced during IPO as one of the main strategy goals.

The most significant portion of the Company's revenue comes from selling sunflower seed, which represented 57% and 76% of total revenue for the years ended 31 December 2011 and 2010, respectively. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

	2011	**2010**	**Changes in%**
SUNFLOWER			
Sales, USD mln	19,719	11,846	66%
Sales, tones	47,803	29,761	61%
Average price, USD/tone	413	398	4%
WHEAT			
Sales, USD mln	2,893	633	357%
Sales, tones	19,541	6,037	224%
Average price, USD/tone	148	105	41%

Revenue relating to sales of sunflower seeds increased by 66% to USD 19.8 million for the year ended 31 December 2011 from USD 11.8 million for the year ended 31 December 2010, primarily due to increase in sales volume (tones) in 2011.

Revenue relating to sales of wheat increased by 357% to USD 19.5 million for the year ended 31 December 2011 from USD 6 million for the year ended 31 December 2010, primarily due to increase in sales volume (tones) in 2011 and price increase.

Income from changes in fair value and on initial recognition of biological assets and agricultural products, net

Income from changes in fair value and on initial recognition of biological assets and agricultural produce, decreased by 12% from USD 16.9 million for year ended 31 December 2010 to 14.8 million for the year ended 31 December 2011. The decrease for the year ended 31 December 2011 was due to the revaluation of crops and agricultural produce at the point of harvest at a lower fair value due to worse market conditions than in 2010. Besides, bad weather conditions decreased the fair value of current biological assets recognized (winter crops sowed as at 31.12.2011).

Cost of sales

The Company's cost of sales increased by 69% to USD 34.6 million for the year ended 31 December 2011 from USD 20.5 million for the year ended 31 December 2010. The following table sets forth the principal components of the Company's cost of sales for the periods indicated:

(in USD thousands)	**2011**	**2010**
Material costs	34,349	20,025
Services	280	9
Other	-	422
Total	**34,629**	**20,456**

The cost includes:

(in USD thousands)	**2011**	**2010**
Social charges	372	57
Salary	1,210	520
Total	**1,582**	**577**

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

(in USD thousands)	**31.12.2011**	**31.12.2010**
Incurred costs included in the cost of sold products	20,574	5,694
Changes of fair value net of preliminary estimated point of sale expenses	14,055	14,762
Total	**34,629**	**20,456**

The following table sets forth the Breakdown of cost of sales by components:

	2011		**2010**	
	USD ths	**in, %**	**USD ths**	**in, %**
Fertilizers	2,710	13%	1,081	19%
Plant & animals protectors	1,225	6%	316	6%
Fuels and lubricants	2,956	14%	895	16%

Seeds	2,231	11%	872	15%
Wages	1,129	5%	577	10%
Land lease payments	1,936	9%	930	16%
Third parties services (transportation, processing)	2,617	13%	-	-
Primary meat products	1,911	9%	-	-
Feeds	536	3%	-	-
Other	3,322	17%	1,023	18%
Total costs included in the COGS	20,574	100%	5,694	100%
Fair value adjustment	14,055		14,762	
Total	**34,629**		**20,456**	

Gross profit

The Company's gross profit increased from USD 12.1 million for the year ended 31 December 2010 to USD 14.9 million for the year ended 31 December 2011, an 23% increase. In relative terms, the net change in the fair value of biological assets and agricultural produce went down by 12%.

Selling, general and administrative expenses

Selling, general and administrative expenses increased from USD 0.8 million for the year ended 31 December 2010 to USD 4.1 million for the year ended 31 December 2011, reflecting an increase in the transportation, legal, professional (audit and related expenses), wages and salaries due to a significant increase in number of entities and quantity of sold produce.

Other operating income/(expenses), net

The Company's other operating income increased by 5,992% to USD 18.5 million for the year ended 31 December 2011 from USD 0.3 million for the year ended 31 December 2010. Such increase is explained by VAT reimbursement from Government and a gain on acquisition of companies (bargain purchase).

Financial expenses, net

The Company's financial expenses decreased by 27% to USD 1.1 million for the year ended 31 December 2011 from USD 1.6 million in 2010. This decrease in expenses occurred due to foreign currency exchange gain on IPO proceeds.

Income tax expenses

The Company had income tax expenses of USD 2 thousand for the year ended 31 December 2010 compared to an income tax income of USD 61 thousand for the year ended 31 December 2011, due to deferred tax implication.

Net profit for the period from continuing operations

Net profit for the period from continuing operations increased by 180% to USD 28.2 million for the year ended 31 December 2011 from USD 10.0 million for the year ended 31 December 2010, primarily due to a gain on acquisition of companies.

Cash flows

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

(in USD thousands)	**31 December 2011**	**31 December 2010**
Net cash flow from operating activities	4,260	10,027
Net cash flow from investing activities	(51,687)	(759)
Net cash flow from financing activities	48,619	(11,802)
Net cash flow for the year	**1,192**	**(2,534)**

3. Subsequent events

Multicurrency credit line

A credit agreement was signed between KSG Agro and CREDIT AGRICOLE in 2012. The first step of this cooperation is the opening of a multicurrency credit line. The total amount of the credit is UAH 24.0 million. The credit line will be directed to working capital. The Group plans to expand this line to UAH 48.0 million in the future.

John Deer agricultural equipment

After 31 December 2011 the Company received the following agricultural equipment:

- John Deere seeders (8 pieces) for a total amount of 1.5 million USD;
- John Deere self-propelled sprayers (4 pieces) for a total amount of 1 million USD.

4. Business and financial risks

Risks relating to the Group's Operations and Industry can be grouped as follows:

Weather conditions

Weather conditions are a significant operating risk affecting the Group's crop growing operations. Weather not only directly impacts crop yields, but also the cost of, and the Group's ability to complete, harvests. Weather and other aspects of growing conditions may also lead to a greater use of fertilisers and other chemicals, which may also increase costs. Accordingly, the Group is highly susceptible to changes in the growing conditions of the regions in which it operates, as determined by the weather and otherwise, and the resulting impact on the production of crops. The Group irrigates not all land it farms and is therefore reliant on rainfall to water its crops. In the event of a shortage of rainfall the Group may lose some of its crops. Floods, heavy rainfall, snow and/or frost may also have an adverse effect on the Group's crops. The Group has no ability to control the effect of climate changes and poor weather conditions. Such factors may adversely affect the Group's business, results of operations and financial condition.

Tax exemptions and government support, which may be discontinued in the future

Under Ukrainian law, producers of agricultural products are permitted to choose between general and special regimes of taxation with respect to certain taxes. In particular, agricultural companies engaged in the production, processing and sale of agricultural products may apply to be registered as payers of fixed agricultural tax (the "FAT"), provided that their agricultural production accounts for more than 75 per cent of total production for the preceding tax (reporting) year. FAT is paid in lieu of corporate income tax, land tax, duties for geological survey works and duties for trade patents. For the year ended December 31, 2011, the Group paid FAT in an aggregate amount equals to USD 37 thousand being equivalent to approximately 0.1 per cent of its income before tax (corporate income tax at the standard rate is 23 per cent as of December 31, 2011).

The Ukrainian Government provides various types of support to domestic agricultural producers by providing subsidies, including partially reimbursing interest paid on credit facilities with Ukrainian commercial banks and costs for electric power supply used for irrigation of lands, subsidies for producing seeds and planting new gardens. The aggregate amount of the above-mentioned compensations and subsidies is determined annually in the state budget. The right to reimburse interest rate paid is granted to agricultural companies based on a tender procedure, while other subsidies are paid upon application of the producer.

State support currently received by the Company could be discontinued in the future.

Price level for the Group's produce and key inputs

The Group's financial performance is largely dependent on the disposable income of its customers in Ukraine and the countries of the Group's export as well as the price of key inputs for its end products, which are mainly impacted by the respective crop harvest in Ukraine and overseas.

The selling prices and operating costs associated with producing our products are volatile and are determined by market conditions.

If any or all of these factors depress prices or increase our operating costs, our business, results of operations and financial condition may be adversely affected.

Prices for fertiliser in Ukraine are highly influenced by global fertiliser prices. In the event of a rise in fertiliser prices the Group may either reduce the amount of fertiliser it uses, thereby potentially reducing crop yields, continue to acquire similar quantities of fertiliser at a higher price, thereby incurring greater costs, or employ a combination of these approaches. In addition, the Group purchases substantial quantities of crop protection chemicals which could also experience increases in price.

Such factors could materially and adversely affect the Group's costs and/or crop output and, as a result, the Group's business, financial condition and results of operations.

Business seasonality

Due to the seasonality of the Group's business and its related short-term financing requirements, it may experience liquidity problems.

The Group is required to perform various agricultural operations, such as fertilising, planting and harvesting, during specific seasons in the agricultural calendar. The time period for completing these key operations is very limited. The Group is exposed to the risk of equipment breakdown or failure or injury to, or death of, personnel at all times. If any of these risks or other risks that may interrupt operations, such as poor weather, were realised during a key period in the agricultural calendar, the Group may have to incur significant expense to remedy the situation, which could materially and adversely affect the Group's business, financial condition and results of operations.

Due to the seasonal nature of the Group's business, the Group requires high levels of financing in the period immediately following the harvest to support the purchase of raw materials as they become available. The Group fulfils its seasonal financing requirements by obtaining credit lines from commercial banks, which are repaid in the course of the financial year or longer on the condition that its sales to customers are timely settled. If the majority of the Group's customers were unable or unwilling to fulfill their payment obligations in a timely manner, the Group would be forced to repay its credit lines from other resources, thus jeopardizing its liquidity.

Currency-related and interest rate risks

The Group is subject to currency-related and interest rate risks.

Fluctuations in the value of USD, which is the Group's reporting currency, against other currencies, such as UAH, and EUR, have in the past had, and may have in the future, an adverse effect on the Group's results of operations. All domestic sales are in UAH, which is not a freely tradable currency. The results of domestic operations are reported in UAH and then converted into USD at applicable exchange rates for inclusion in our consolidated financial statements. Moreover, although most of Group's contracts (such as lease agreements and goods supply contracts) are denominated in UAH, payments under certain of such contracts are calculated and adjusted based on the applicable exchange rate of UAH to USD or EUR on the date of payment. A change in the value of these currencies compared to UAH would have a negative effect on the Group's results of the operations. The Group also encounters currency exchange risks to the extent that it incurs operating expenses in a currency other than that in which it has obtained financing or those in which it generates revenues.

In the ordinary course of business, the Group does not enter into hedging transactions in order to manage the exposure to foreign exchange, currency and interest rate risks. The Group cannot assure prospective investors that any hedging transaction that it may enter into in order to protect against such risks will be successful or that shifts in currency exchange rates generally will not have a material adverse effect on the financial condition or results of operations.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

5. Forecast for 2012

The Group plans to keep up its business expansion pace of 2011 in the following year. In particular, the management plans to increase land bank by about 50 ths hectares by the end of 2012.

The following table sets out key forecasted operational and financial data for the years indicated:	**2012**	**2011**
Land bank under control, ths ha	110.0	61.0
Harvested land bank, ths ha	80.0	45.6
Grain harvest, ths t	232.0	106.6
Grain storage capacities, ths t	76.0	60.0
Revenue, USD mln	66.7	34.7
EBITDA, USD mln	42.3	30.8

Net Income, USD mln	31.8	28.1

6. Selected Financial Data

(in USD thousand, unless otherwise stated)	**2011**	**2010**
Income Statement summary		
Revenue	34,665	15,628
EBITDA	30,767	12,207
Profit for the year	28,156	10,047
Balance Sheet summary		
Property, plant and equipment	53,982	5,013
Total non-current assets	73,510	10,846
Cash and cash equivalents	1,122	30
Inventories	14,800	5,149
Current biological assets	13,363	7,621
Total current assets	49,206	15,484
Total assets	122,716	26,330
Total equity attributable to owners of the parent Company	72,469	10,299
Loans and borrowings	5,201	2,367
Total non-current liabilities	6,345	2,367
Loans and borrowings	17,189	5,414
Total current liabilities	25,600	12,301
Total equity and liabilities	122,716	26,330
Key Ratios		
Net debt/EBITDA	0.69	0.64
Return of equity	0.39	0,98
Current ratio	1.92	1.26

STATEMENT OF THE DIRECTORS AND MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2011

The following statement, which should be read in conjunction with the independent auditors' responsibilities disclosed in the Report of the Réviseur d'entreprises agréé set out on pages 20 - 21, is made with a view to distinguishing the respective responsibilities of the management and directors and those of the independent auditors in relation to the consolidated financial statements of the KSG AGRO S.A. and its subsidiaries (further – the Group).

The Board of Directors and the Group's management are responsible for the preparation of the consolidated financial statements of the Group as at 31 December 2011 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In preparing the consolidated financial statements, the management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Compliance with relevant IFRS and disclosure of all material departures in Notes to the consolidated financial statements;
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future except when this assumption is inappropriate.

The Board of Directors and management are also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

By this statement the Board of Directors and the management of the company reaffirm their responsibility to ensure the maintenance of proper accounting records disclosing the financial position of the Group with reasonable accuracy at any time, and ensuring that an appropriate system of internal controls is in place to ensure the Group's business operations are carried out efficiently and transparently.

In accordance with Article 3 of the law of 11 January 2008 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, we declare that, to the best of our knowledge, the consolidated financial statements for the year ended 31 December 2011, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the year of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole. In addition, the management report includes a fair review of the development and performance of the business and the position of KSG Agro S.A. and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The consolidated financial statements for the year ended 31 December 2011 were approved on 30 May 2012.

S.P. Kasianov (Chairman of the Board)	S.V. Mazin (Chief Executive Officer)	L.V. Velichko (Chief Executive Officer)

Tel. +352 45 123-1
www.bdo.lu

2, Avenue Charles de Gaulle
Boîte Postale 351
L-2013 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGRÉÉ

To the shareholders of
KSG Agro S.A.
Société Anonyme
46A, avenue J.F. Kennedy
L-1855 Luxembourg

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders, we have audited the accompanying consolidated financial statements of KSG Agro S.A., which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of directors' responsibility for the consolidated financial statements

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

Responsibility of the réviseur d'entreprises agréé

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the réviseur d'entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

BDO Audit, Société Anonyme
R.C.S. Luxembourg B 147.570
TVA LU 23425810
BDO Audit, a *société anonyme* incorporated in Luxembourg, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of KSG Agro S.A. as of 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is in accordance with the consolidated financial statements.

The management report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the annual accounts and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, 31 May 2012

BDO Audit
Cabinet de révision agréé
represented by

Jacques Reffer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(in thousand US dollars)

	Notes	31 December 2011	31 December 2010*
Assets			
Non-current assets			
Property, plant and equipment	6	53,982	5,013
Intangible assets		52	-
Long-term biological assets	7	1,540	247
Goodwill	26	17,936	5,586
Total non-current assets		73,510	10,846
Current assets			
Current biological assets	9	13,363	7,621
Inventories and agricultural produce	8	14,800	5,149
Trade and other accounts receivable	10	14,141	1,662
Taxes prepaid		1,400	1,022
Deposit pledged	12	4,380	-
Cash and cash equivalents	11	1,122	30
Total current assets		49,206	15,484
TOTAL ASSETS		122,716	26,330
LIABILITIES AND EQUITY			
EQUITY:			
Share capital	14	149	2,628
Share premium	14	36,821	-
Retained earnings		35,595	7,671
Effect of foreign currency translation		(139)	-
Total equity attributable to owners of the parent Company		72,426	10,299
Non-controlling interests		18,345	1,363
Total equity		90,771	11,662
Non-current liabilities			
Loans and borrowings	12	5,201	2,367
Long-term promissory notes issued		579	-
Deferred tax liability	21	565	-
Total non-current liabilities		6,345	2,367
Current liabilities			
Loans and borrowings	12	17,189	5,414
Trade and other accounts payable	13	7,860	6,681
Promissory notes issued		313	188
Tax liabilities		238	18
Total current liabilities		25,600	12,301
TOTAL LIABILITIES AND EQUITY		122,716	26,330

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.

S.P. Kasianov
(Chairman of the Board)

S.V. Mazin
(Chief Executive Officer)

L.V. Velichko
(Chief Executive Officer)

Notes on pages 26-61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2011
(in thousand US dollars)

	Notes	31 December 2011	31 December 2010*
Revenue	15	34,665	15,628
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs	7, 9	14,834	16,919
Cost of sales	16	(34,629)	(20,456)
Gross profit		**14,870**	**12,091**
Selling, general and administrative expenses	17	(4,092)	(787)
Other operating income (expense), net	18	18,460	303
Result from operating activities		**29,238**	**11,607**
Finance expenses, net	19	**(1,143)**	**(1,558)**
Profit before tax		**28,095**	**10,049**
Income tax expenses	21	61	(2)
Profit for the year		**28,156**	**10,047**
Profit attributable to:			
Owners of the Company		27,924	9,362
Non-controlling interest		232	685
Profit for the year		**28,156**	**10,047**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(139)	(17)
Other comprehensive income for the year, net of income tax		(139)	(17)
Total comprehensive income for the year		28,017	10,030
Total comprehensive income attributable to			
Owners of the Company		**27,828**	**9,345**
Non-controlling interests		**189**	**685**
Total comprehensive income for the year		**28,017**	**10,030**
Earnings per share			
Earnings per share (basic), USD	27	2.29	0.82**
Earnings per share (diluted), USD	27	2.29	0.82**

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.

**As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Therefore, combined financial information was used as comparatives and the average-weighted number of outstanding common shares at 31.12.2011 was used for the calculation of earnings per share for the year ended 31.12.10.

S.P. Kasianov (Chairman of the Board)	S.V. Mazin (Chief Executive Officer)	L.V. Velichko (Chief Executive Officer)

Notes on pages 26-62 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD

For year ended 31 December 2011
(in thousand US dollars)

	31 December 2011	31 December 2010*
Cash flows from operating activities		
Profit for the year	28,095	10,049
Adjustments to:		
Depreciation and amortization	1,529	600
(Reversal)/increase of loss from impairment of doubtful accounts receivable	491	1,009
Net effect of gain on change and fair value recognition of biological assets and agricultural produce	(779)	(2,216)
Exchange differences	(548)	-
Finance lease expenses	516	611
Loss from retirement of property, plant and equipment	44	1
Interest expense	2,366	1,695
Interest income	(1,173)	(34)
Cash received from operating activities before changes in working capital	**30,541**	**11,715**
Change of trade and other accounts receivable	(13,351)	1,954
Change of other assets	(14,216)	(3,293)
Change of trade and other accounts payable	1,225	(347)
Income tax paid	61	(2)
Net cash flows received from (used in) operating activities	**4,260**	**10,027**
Cash flow from investment activities		
Acquisition of property, plant and equipment	(7,783)	(793)
Acquisition of companies, less cash acquired	(25,069)	-
Interest received	1,173	34
Gain on companies' acquisition	(15,628)	-
Time deposit pledged	(4,380)	-
Net cash flow received from (used in) in investment activities	**(51,687)**	**(759)**
Cash flow from financing activities		
Inflows from bank loans	19,162	5,559
Time deposit pledged	(4,380)	-
Repayment of bank loans	(8,585)	(9,882)
Increase in other borrowings	4,111	-
Contribution of equity	36,813	(3,366)
Repayment financial lease commitments	(516)	(2,418)
Loans interest paid	(2,366)	(1,695)
Net cash flow received from (used in) financing activities	**48,619**	**(11,802)**
Net cash flow for the year	**1,192**	**(2,534)**
Exchange differences	**(100)**	**-**
Cash at the beginning of year	**30**	**2,564**
Cash at the end of year	**1,122**	**30**

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.

S.P. Kasianov
(Chairman of the Board)

S.V. Mazin
(Chief Executive Officer)

L.V. Velichko
(Chief Executive Officer)

Notes on pages 26-61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2011
(in thousand US dollars)

	Share capital	Share premium	Profit brought forward	Profit for the period	Other comprehensive income	Non-controlling interests	Total equity
Balance as at 31 December 2009	**1,406**	**-**	**2,914**	**-**	**-**	**678**	**4,998**
Net profit for the year	-	-	-	9,362	-	685	10,047
Contributions of participants	1,218	-	(4,584)	-	-	-	(3,366)
Foreign exchange difference	4	-	(21)	-	-	-	(17)
Balance as at 31 December 2010*	**2,628**	**-**	**(1,691)**	**9,362**	**-**	**1,363**	**11,662**

	Share capital	Share premium	Profit brought forward	Profit for the period	Other comprehensive income	Non-controlling interests	Total equity
Balance as at 31 December 2010*	**2, 628**	**-**	**7,671**	**-**	**-**	**1,363**	**11,662**
Net profit for the year	-	-	-	27,924	-	232	28,156
Issue of share capital, net	-	36,821	-	-	-	-	36,821
Increases resulting from business combinations	-	-	-	-	-	18,121	18,121
Acquisition of non-controlling interests	-	-	-	-	-	(1,371)	(1,371)
Integration of interests – reorganization	(2,479)	-	-	-	-	-	(2,479)
Other comprehensive income	-	-	-	-	(139)	-	(139)
Balance as at 31 December 2011	**149**	**36,821**	**7,671**	**27,924**	**(139)**	**18,345**	**90,771**

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.

S.P. Kasianov
(Chairman of the Board)

S.V. Mazin
(Chief Executive Officer)

L.V. Velichko
(Chief Executive Officer)

Notes on pages 26-61 are an integral part of these consolidated financial statements.

(in thousand US dollars)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 for an unlimited period. On 8 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, except for the first year which started on 16 November 2010 and ended on 31st December 2010.

As at 31 December 2011 and 2010 the number of the Company's staff can be presented as follows:

	31.12.2011	31.12.2010	Changes in%
Total number of employees	1 064	220	384%
Operating personnel	558	79	606%
Administrative personnel	210	59	256%
Other	296	82	261%

The consolidated financial statements for the Company as at and for year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group"):

Company	Activity	Registered office	Basis to be included into Group	Share as at 31 December 2011	Share as at 31 December 2010
KSG Agro S.A. (Luxemburg)	Parent company	46A avenue J.F. Kennedy, L-1855 Luxembourg	Parent company to the Group		
Poland representative office of KSG Agro SA	Representative office	37, Domaniewska Str.,02-672, Warszawa	Branch of KSG Agro S.A.		
KSG Agricultural and Industrial Holding Limited (Cyprus)	Intermediate holding company	Lampousas Street, 1095, Nicosia, Cyprus.	Parent company to Ukrainian subsidiaries	100%	100%
Enterprise №2 of Ukrainian agricultural and industrial holding LLC (Ukraine) [PUAIH-2 LLC]	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	100%
Scorpio Agro LLC (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	99.9%
Souz-3 LLC (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	100%
Goncharovo Agricultural LLC (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	99.9%
Agro-Trade House Dniprovsky LLC (Ukraine) [ATD Dniprovsky LLC]	Agriculture	6, Abhaskaya Str., Dnepropetrovsk	Subsidiary	100%	68.3%
Ukrainian agricultural and industrial holding LLC (Ukraine) [UAIH LLC]	Trade of agricultural products	7, Grushevskogo Str., Kiev	Subsidiary	100%	100%
Agro-Dnister LLC (Ukraine)	Agriculture	26, Podolsk,. Str., New Ushica Village	Subsidiary	100%	100%
Trade House of the Ukrainian Agroindustrial Holding LLC (Ukraine) [TH	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	99.9%

(in thousand US dollars)

Company	Activity	Registered office	Basis to be included into Group	Share as at 31 December 2011	Share as at 31 December 2010
UAIH LLC]					
Pivdenne Agricultural LLC (Ukraine)	Agriculture	6, Lenin Str., Kachkarovka Village	Subsidiary	100%	100%
Unirem Agro Plus LLC (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	100%	-
Askoninteks LLC (Ukraine)	Agriculture	81, Karl Marx Avenue, Dnepropetrovsk	Subsidiary	100%	-
Agro Golden LLC (Ukraine)	Agriculture	67, Bishkin Kosinova Str., Verhnay Bishkin Village	Subsidiary	100%	-
Agro LLC (Ukraine)	Lessor of equipment	38-A Heroes of Stalingrad Str., Dnepropetrovsk	Subsidiary	100%	-
SPE Promvok LLC (Ukraine)	Lessee of equipment	38-A Heroes of Stalingrad Str., Dnepropetrovsk	Subsidiary	100%	-
Dniproagrostandard LLC (Ukraine)	Agriculture	18, Gagarin Str., Pismennoe Village	Subsidiary	100%	-
Dniproagroprogress LLC (Ukraine)	Agriculture	146, Golondiya Shevchenkovo Village	Subsidiary	100%	-
Meat plant Dnipro LLC (Ukraine)	Manufacture	31, Krasnopol'skaya Str., Dnipropetrovsk	Subsidiary	100%	-
Kovbasna Liga LLC (Ukraine)	Trader	38-A Heroes of Stalingrad Str., Dnepropetrovsk	Subsidiary	100%	-
Agrofirm Vesna LLC (Ukraine)	Agriculture	56, Komsomolskaya Str., Pavlopillya Village	Subsidiary	100%	-
Vidrodzhennya LLC (Ukraine)	Agriculture	17-A, 40-years Zovtnya Str., Pokrovske	Subsidiary	100%	-
Dnipro LLC (Ukraine)	Agriculture	2, Verhnaya Str., Novopokrovka	Subsidiary	100%	-
Parisifia Trading ltd (Cyprus)	Intermediate holding company	Arch. Makariou III, 155 Proteas House, Limassol Cyprus	Parent company to 3 of Ukrainian subsidiaries	50%**	-
Agrotrade LLC (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	50%	-
Factor D (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	50%	-
Rantye (Ukraine)	Agriculture	40b, Komsomolskaya Str., Dnepropetrovsk	Subsidiary	50%	-

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.

**The right to operate control of financial and commercial activities was transferred to KSG Agricultural and Industrial Holding Limited. Thus, Parisifia Trading ltd was considered by the Group as Subsidiary in consolidated accounts.

This group 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 year ended December 31, 2010 are prepared as if KSG Agro S.A. and its acquisition of ownership in the companies listed in the Note 1, took place before 31 December 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.

(in thousand US dollars)

Ultimate controlling party is ICD Investments S.A.

2. Basis for preparation of consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in compliance with International Financial Reporting Standards as adopted by the European Union (further IFRS). The consolidated financial statements were authorised for issue by the Board of Directors on 30 May 2012.

Basis for preparation of financial statements

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

- current and non-current biological assets are measured at fair value less costs to sell,
- agricultural produce is measured at fair value less costs to sell.

Functional and presentation currency

Based on the economic substance of the transactions and the operating environment, the Group has determined UAH as a functional currency. Transactions in other currencies are deemed foreign currency transactions. Despite the fact that the functional currency of the major companies of the Group is the national currency of Ukraine, UAH, these financial statements are presented in USD. All information in USD has been rounded to the nearest thousand, except when otherwise indicated. As the Group’s management uses USD when monitoring operating results and financial conditions 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.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency, using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses, resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognized in the profit or loss. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

The exchange rates used for translating foreign currency balances were:

		31 December 2011	31 December 2010
Euro	EUR/UAH	10.30	10.57
US dollar	USD/UAH	7.99	7.98

Basis of consolidation and combination

As at 31 December 2010 the structure of the Group comprised two holding companies namely «KSG Agricultural and Industrial Holding Limited» and «Ukrainian agro-industrial holding» under common control, but there was no formal ownership structure. As of 31 December 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 is 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 is also a limited liability company with a statutory capital of USD 2,625 as at 31 December 2010.

During restructure held 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. became the parent company of the Group.

As the companies were under common control at the restructuring date, there has been no fair value adjustments of assets and liabilities, except for any adjustments required to align the accounting policies. Any goodwill is not recognized.

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date 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 owners of the parent in the consolidated statement of financial position, separately from the net assets that belong to parent’s owners.

Going concern assumption

The Ukrainian economy is vulnerable to market downturns and slowdowns elsewhere in the world. In 2011, the Ukrainian economy experienced a moderate recovery of economic growth. The return of positive global economic growth in 2010 and continued population gains resulted in increase of food and feed demand in 2011.
The recovery was accompanied also by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels.

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 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. The fair value of livestock held for sale is based on the market price of livestock of similar age, weight, breed and genetic make-up.

- **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. Acquisition cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss.

  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.

- **Inventories.**

  Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

  Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

  The cost of standing crops transferred from biological assets in its fair value less costs to sell at the date of harvest.

- **Income tax.**

  Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

  Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

  Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

  - ✓ temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
  - ✓ temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
  - ✓ taxable temporary differences arising on the initial recognition of goodwill.

  Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

  Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

  Deferred tax asset is recognized for unused tax losses, tax credits and deductable temporary differences to the extent that is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefits will be realized.

- **Litigation.** In compliance with IFRS, the Group recognizes the provision only when 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 consolidated financial statements. The realization of any contingent liability, which was not recognized or disclosed in consolidated 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 consolidated statement of financial position date to estimate the necessity for provisions in its consolidated 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 consolidated 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 consolidated financial statements are consistent with principles applied in the financial statements for the year ended 31 December 2010. The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements and all Group companies.

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:

	Useful life period (years)
Buildings and constructions	20-30
Machinery and equipment, vehicles	10-15
Other	5-8

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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 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 price and the related implementation expenses. The capitalized software is amortized over 5 years which is the expected useful life. Licenses are amortized over the contract period.

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 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 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;
- loans and receivables;
- 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.

As at year end the Group held only loans and receivables and non-derivative financial liabilities as financial instruments.

<u>Loans and receivables</u>

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

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.

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

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.

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 uncollectible.

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.

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

The Group initially recognizes debts securities issues and subordinated liabilities on the date that they are originated.

All other financial liabilities (including liabilities designated as fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognizes a financial liability when its contractual obligation are discharged, cancelled or expire.

Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

(in thousand US dollars)

Contingent liabilities

Contingent liabilities are not reflected in the 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.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

Revenues from sales of goods and agricultural produce are recognized at the point of transfer of risks and rewards of ownership.

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

Sales of services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognized on a time-proportion basis using the effective interest method.

Changes in presentation

Management believes that current year presentation is more relevant for users needs.

Corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2011:

	As originally presented	Reclassification	As reclassified at 31 December 2011
Consolidated statement of cash flow for the period:	-	-	-
- Net effect of gain on change and fair value recognition of biological assets and agricultural produce	(779)	(5,843)	(6,622)
- Change of other assets	(14,216)	5,843	(8,373)
Current biological assets (crops in the fiels) (Note 9)	-	-	-
- Income from changes in "fair value less expected distribution costs"	6,868	7,507	14,375
- Harvest gathered during the year	(25,742)	(7,507)	(33,249)

The effect of reclassifications for presentation purposes was as follows on amounts at 1 January 2011:

(in thousand US dollars)

	As originally presented	Reclassification	As reclassified at 1 January 2011
Consolidated statement of cash flow for the period:	-	-	-
- Net effect of gain on change and fair value recognition of biological assets and agricultural produce	(16,919)	14,703	(2,216)
- Change of other assets	11,410	(14,703)	(3,293)
Current biological assets (crops in the files) (Note 9)	-	-	-
- Income from changes in "fair value less expected distribution costs"	5,104	11,657	16,761
- Harvest gathered during the year	(5,235)	(11,657)	(16,892)

The third statement of consolidated cash flow for the period ended 31 December 2010 is presented in these financial statements as a result of the above described changes in presentation. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification.
The omission of the notes to the additional opening statement of consolidated cash flow and financial position is therefore, in management's view, not material.
The reclassifications in the statement of consolidated cash flow had no impact on information in notes and had no impact on any other captions in the statement of financial position and related note disclosures.
The reclassifications in Note 9 "Current biological assets" had no impact on information in other notes and had no impact on any other captions in the statement of financial position and related note disclosures.

5. New Standards and Interpretations issued but not yet effective

During the current year the Company adopted all new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011.
This adoption did not have a material effect on the accounting policies of the Company.
At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

(i) Standards and Interpretations adopted by the EU

- *IFRS 7 (Amendment) Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).*

(ii) **Standards and Interpretations not adopted by the EU**
New standards

- *IFRS 9 "Financial Instruments and subsequent amendments" (effective for annual periods beginning on or after 1 January 2015).*
- *IFRS 10 "Consolidated Financial Statement" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).*
- *IAS 27 (Revised): "Consolidated and Separate" (effective for annual periods beginning on or after 1 January 2013).*
- *IAS 28: "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013).*

Amendments

- *Amendments to IAS 1, "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2012).*
- *Amendments to IAS 12 – "Deferred tax": Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).*
- *Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011).*
- *Amendments to IAS 1, "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).*
- *Amendments to IAS 19 – "Employee Benefits" (amendments) (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 7 (Amendments) Financial Instruments: Disclosures – "Offsetting Financial Assets and Financial liabilities" (effective for annual periods beginning on or after 1 January 2013).*
- *Amendments to IAS 32 – "Offsetting Financial Assets and Financial liabilities" (amendments) (effective for annual periods beginning on or after 1 January 2014).*
- *Amendments to IFRS 1 – "Government Loans" (effective for annual periods beginning on or after 1 January 2013).*

New IFRICs

- *IFRIC 20: "Stripping Costs in the Production Phase of the Surface Mine" (effective for annual periods beginning on or after 1 January 2013).*

The Board of Directors expects that the adoption of these standards or interpretations in future periods will not have a material effect on the financial statements of the Company.

(in thousand US dollars)

6. Property, plant and equipment

Movement of property, plant and equipment for the period ended 31 December 2011 and 2010 was as follows:

	Buildings and construction	Agricultural equipment	Vehicles and office equipment	Total
Initial cost				
As at 1 January 2010	**514**	**5,249**	**303**	**6,066**
Additions	22	686	235	**943**
Disposal	(1)	(212)	(121)	**(334)**
Exchange difference	1	14	-	**15**
As at 31 December 2010	**536**	**5,737**	**417**	**6,690**
Additions	456	4,091	3,236	**7,783**
Disposal	(108)	(393)	(40)	**(541)**
Increases resulting from business combinations	37,679	5,200	2,176	**45,055**
Exchange difference	(107)	(44)	(17)	**(168)**
As at 31 December 2011	**38,456**	**14,591**	**5,772**	**58,819**
Accumulated depreciation				
As at 1 January 2010	**(89)**	**(1,030)**	**(126)**	**(1,245)**
Additions	(17)	(549)	(34)	**(600)**
Disposal	-	137	33	**170**
Exchange difference	-	(2)	-	**(2)**
As at 31 December 2010	**(106)**	**(1,444)**	**(127)**	**(1,677)**
Additions	(25)	(771)	(85)	**(881)**
Disposal	-	-	1	**1**
Increases resulting from business combinations	(872)	(968)	(456)	**(2,296)**
Exchange difference	3	11	2	**16**
As at 31 December 2011	**(1,000)**	**(3,172)**	**(665)**	**(4,837)**
Net value				
As at 1 January 2010	**425**	**4,219**	**177**	**4,821**
As at 31 December 2010	**430**	**4,293**	**290**	**5,013**
As at 31 December 2011	**37,456**	**11,419**	**5,107**	**53,982**

The carrying amount of machinery and equipment used by the Group under finance lease agreements as at 31 December 2011 amounted to 2,254 thousand USD (2010: 2,334 thousand).
Leased assets act as collateral for the relevant obligations under finance lease agreements (Note 12).

(in thousand US dollars)

Change in estimates

During the year the Group conducted an operational efficiency review of the building and constructions of newly acquired companies, which resulted in changes in the expected usage of certain items of property, plant and equipment. Building and constructions of newly acquired entities, which management previously intended to destroy after 20 years of use, is now expected to remain in production for 30 years from the acquisition date. As a result, the expected useful lives of these assets increased. The effect of these changes on depreciation expense, recognized in cost of sales, in current and future years is as follows:

	2011	2012	2013	2014	2015	Later
(Decrease) /increase in depreciation expense	(670)	(670)	(670)	(670)	(670)	3,350

7. Long-term biological assets

As at 31 December 2011 and 2010 long-term biological assets can be presented as follows:

	Cows (diary)	Perennial plantings	Total non-current biological assets
Carrying amount as at 31 December 2009	-	**215**	**215**
Additions	-	-	-
Disposal	-	-	-
Revaluation at fair value	-	56	**56**
Foreign exchange difference	-	(24)	**(24)**
Carrying amount as at 31 December 2010	-	**247**	**247**
Increases resulting from business combinations	1,491	-	**1,491**
Disposal	(128)		**(128)**
Revaluation at fair value		(69)	**(69)**
Foreign exchange difference	-	(1)	**(1)**
Carrying amount as at 31 December 2011	**1,363**	**177**	**1,540**

Weight of the Cows (diary) at the 31 December 2011 was 272,148 kg.

8. Inventories and Agricultural produce

As at 31 December 2011 and 2010 inventories include:

	31.12.2011	31.12.2010
Agricultural produce	6,302	2,407
Work in process	4,349	1,027
Agricultural stock	3,281	1,158
Fuel	260	152
Spare parts to agricultural machinery	50	61
Other	558	344
	14,800	**5,149**

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.

(in thousand US dollars)

Agricultural stock mainly includes seeds, fertilizers and plant protectors.

Agricultural produce is measured at fair value less costs to sell.

Other components of inventory are stated at the lower of cost or net realizable value.

9. Current biological assets

As at 31 December 2011 and 2010 current biological assets include:

	31.12.2011	31.12.2010
Current biological assets (crops in the field)	11,692	7,452
Current biological assets (livestock husbandry)	1,671	169
	13,363	**7,621**

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

	weight, kg	31.12.2011	weight, kg	31.12.2010
Piggery	433,464	1,160	49,216	169
Heifers	154,436	319	-	-
Calves	71,262	147	-	-
Sheep	20,396	42	-	-
Horses and stallions	856	3	-	-
Carrying amount	**680,414**	**1,671**	**49,216**	**169**

Reconciliation of changes in carrying amount of biological assets (livestock husbandry) as at 31 December 2011 and 2010 is as follows:

	31.12.2011	31.12.2010
Carrying amount as at 1 January	**169**	**201**
Increases resulting from business combinations	1,396	153
Disposal	(423)	(288)
Change in fair value of biological assets	528	102
Exchange difference	1	1
Carrying amount as at 31 December	**1,671**	**169**

As at 31 December 2011 and 2010 current biological assets include:

	Area, hectare	31.12.2011	Area, hectare	31.12.2010
Wheat	19,954	9,151	5,805	5,058
Barley	6,070	1,865	1,212	529
Rape	1,142	676	1,722	1,865
	27,166	**11,692**	**8,739**	**7,452**

(in thousand US dollars)

Total area of agricultural land leased by the Group is over 61 thousand hectares.

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 21.33%.

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

		31.12.2011	31.12.2010
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 2010 – 2014.	14.2%	12.2%
Market premium	Currently, the most adequate representation of the equity 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.	5.1%	5.1%
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%	**19.3%**

As at 31 December 2011 and 2010 current biological assets of crop production can be presented as follows:

	31.12.2011	31.12.2010
Carrying amount as at 1 January	**7,452**	**2,527**
Costs incurred during a period, including spring crops	19,325	5,063
Increases resulting from business combinations	3,816	-
Income from changes in "fair value less expected distribution costs"	14,375	16,761
Harvest gathered during the year	(33,249)	(16,892)
Exchange difference	(27)	(7)
Carrying amount as at 31 December	**11,692**	**7,452**

The Group is exposed to the following risks relating to its crops in the field:

Environmental risks

The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risk from arising from fluctuations in the price and sales volume of main harvested crops. When possible the Group manages this risk by aligning its harvest volume by crops to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

(in thousand US dollars)

Climate risks

The Group crops in the field are exposed to the risk of damage from climatic changes, disease and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular crops' health inspections and industry pest and disease surveys. The Group also insures itself against unfavorable weather conditions which lead to destroy of crops.

10. Trade and other accounts receivable

As at 31 December 2011 and 2010 trade and other accounts receivable included:

	31.12.2011	**31.12.2010**
Trade accounts receivable	11,893	2,450
Advances made	2,730	575
Other accounts receivable	218	391
Provision for doubtful debts	(700)	(1,754)
	14,141	**1,662**

As at 31 December 2011 and 2010 trade accounts receivable included:

	31.12.2011	**31.12.2010**
Trade accounts receivable	11,893	2,450
Provision for doubtful debts	(220)	(1,492)
	11,673	**958**

All trade accounts receivables over 1 year are considered as past due.

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

	31.12.2011		**31.12.2010**	
	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment
Up to 90 days	10,498	-	260	-
From 91 to 180 days	481	-	86	-
>From 181 to 270 days	507	-	331	-
From 271 to 365 days	187	-	281	-
Over 1 year	220	(220)	1,492	(1,492)
	11,893	**(220)**	**2,450**	**(1,492)**

As at 31 December 2011 and 2010 other current accounts receivable included:

	31.12.2011	**31.12.2010**
Advances paid	2,730	577
Settlements with other debtors	218	391
Provision for doubtful debts	(480)	(262)
	2,468	**706**

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

(in thousand US dollars)

	31.12.2011		31.12.2010	
	Total carrying amount	Provision for impairment	Total carrying amount	Provision for impairment
Up to 90 days	1,394	-	83	-
From 91 to 180 days	87	-	17	-
From 181 to 270 days	707	-	84	-
From 271 to 365 days	280	-	522	-
Over 1 year	480	(480)	262	(262)
	2,948	**(480)**	**968**	**(262)**

11. Cash and cash equivalents

As at 31 December 2011, 2010 cash and cash equivalents included balances on current bank accounts.

	31.12.2011	31.12.2010
Cash and cash equivalents	1,122	30
	1,122	**30**

12. Loans and borrowings

As at 31 December 2011, 2010 loans and borrowings are represented as follows:

	31.12.2011	31.12.2010
Long-term		
Financial lease liabilities	482	561
Loans	4,719	1,806
Total	**5,201**	**2,367**
Current		
Financial lease liabilities	885	1,662
Loans	12,193	3,752
Other borrowings	4,111	-
Total	**17,189**	**5,414**

Bank loans as at 31 December 2011 and 2010 were as follows:

Bank	**Currency**	**Annual rate %**	**Maturi-ty**	**31.12.2011**		**31.12.2010**	
				Current debt	**Long-term debt**	**Current debt**	**Long-term debt**
JSC Rodovid bank	UAH	17.00%	2012	1,502	-	-	1,507
CB Credit-Dnepr	UAH	23.00%	2012	4,362	-	-	-
CB Credit-Dnepr	USD	12.00%	2012	4,000	-	-	-
CB Credit-Dnepr	UAH	14.50%	2013	2,219	2,161	-	-
CB Credit-Dnepr	UAH	18.00%	2013	-	2,346	-	-
Olbis Investments	USD	5.00%	2013	-	212	-	80

(in thousand US dollars)

Ltd S.A.							
ICD Investments S.A.*	USD	5.00%	2012	110	-	-	219
Soyuz CB	UAH	21.50%	2011	-	-	1,678	-
CB Credit-Dnepr	UAH	22.50%	2011	-	-	2,074	-
				12,193	**4,719**	**3,752**	**1,806**

* 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:

	31.12.2011	**31.12.2010**
Property (carrying value)	3,652	268
Biological assets (carrying amount)	499	-
Cash deposit**	4,380	-
Total	**8,531**	**268**

** Time deposit was pledged as collateral for a loan with maturity on September, 29th 2012. The time deposit has a maturity date of September, 29th 2012 and interest rate of 13.5%.

As at 31 December 2011 and 2010 obligations under financial lease included:

	31.12.2011	**31.12.2010**
Long-term financial lease liabilities	482	560
Short-term financial lease liabilities	885	1,662
Total	**1,367**	**2,222**
Total future minimum lease payments	1,594	2,443
Less: interest expenses	(227)	(221)
Discounted value of future minimal lease payments	**1,367**	**2,222**

As at 31 December 2011 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:

By maturity term	**2012**	**2013**	**2014**	**Total**
Future minimum lease payments	955	572	67	**1,594**
Less: interest expenses	(70)	(137)	(20)	**(227)**
Discounted value of future minimal lease payments	**885**	**435**	**47**	**1,367**

As at 31 December 2010 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:

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**

(in thousand US dollars)

Financial lease obligations

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

Minimum lease payments

	31.12.2011	31.12.2010
Amounts payable under financial lease agreements:		
During 1 year	955	1,865
Over 1 year but no more than 5 years	639	578
More than 5 years	-	-
Total minimum lease payments	**1,594**	**2,443**
Net of future financial costs	(227)	(221)
Discounted value of minimal lease payments	**1,367**	**2,222**

Current cost of minimum lease payments

	31.12.2011	31.12.2010
Amounts payable under financial lease agreements		
During 1 year	885	1,662
Over 1 year but no more than 5 years	482	560
More than 5 years	-	-
	1,367	2,222

13. Trade and other accounts payable

As at 31 December 2011 and 2010, trade and other accounts payable included:

	31.12.2011	31.12.2010
Trade payables	5,060	498
Payables to guarantor	-	4,126
Prepayments received	845	572
Interest payable	956	815
Land share lease payables	330	102
Wage arrears	151	17
Settlements with participants	-	6
Other accounts payable	518	545
	7,860	**6,681**

14. Share capital

The structure of the Group's equity as at 31 December 2011 and 2010 can be represented as follows:

	31.12.2011		31.12.2010	
	Ownership share		Ownership share	
KSG Agro S.A.	100%	36,970	-	-
KSG Agricultural and Industrial Holding Limited	-	-	100%	3
LLC Ukrainian Agricultural and Industrial Holding	-	-	100%	2,625
		36,970		**2,628**

(in thousand US dollars)

The Company's subscribed share capital amounts to USD 149,925 represented by 14,925,500 shares having a nominal value of USD 0.01 each, which is fully paid in.

During year 2011 the company successfully accomplished initial public offering, which resulted in raising USD 36, 821,000 additional funds (net amount) as equity financing.

At reporting date the authorized capital of the Company is set at USD 150,745 and represented by 15,074,500 shares with a nominal value of USD 0.01 each.

Movement in number of shares in issued share capital can be presented as follows:

	Number of shares
As at 1January 2011	3,100,000
Increase in share capital	11,825,500
As at 31 December 2011	**14,925,500**

The comparative data for 2010 was not presented, since share capital of combined financial statements were presented by KSG Agricultural and Industrial Holding Limited and by a limited liability company (Enterprise №2 of Ukrainian agricultural and industrial holding LLC (Ukraine)), which is not divided into shares.

15. Revenue

For year ended 31 December 2011 and 2010 the Group's income included:

	2011	**2010**
Sale of agricultural produce and processed food	33,772	14,580
Rendering of services	893	898
Other sales	-	150
	34,665	**15,628**

Crops are sold mainly within domestic market.

16. Cost of sales

For year ended 31 December 2011 and 2010, cost of sales of the Group included:

	2011	**2010**
Cost of goods sold	34,349	20,025
Cost of services rendered	280	9
Other	-	422
	34,629	**20,456**

The total amount of inventories recognized as an expense during the period is USD 14,891 thousand (2010: USD 4,187 thousand).

The cost includes:

	2011	**2010**
Salary	1,210	520
Social charges	372	57
	1,582	**577**

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

	2011	**2010**
Incurred costs included in the cost of sold products	20,574	5,694
Changes of fair value net of preliminary estimated point of	14,055	14,762

(in thousand US dollars)

sale expenses		
	34,629	**20,456**

17. Selling, general and administrative expenses

For year ended 31 December 2011 and 2010, Group general and administrative expenses included:

	2011	2010
Salary and social charges	1,300	285
Transport services	1,286	18
Services of crop storage and refining	675	2
Informational, expert and consulting services	358	145
Petroleum, oil and lubricants	127	8
Depreciation	106	15
Bank services	97	28
Taxes	46	151
Marketing expenses	40	-
Lease expenses	26	44
Insurance	13	46
Materials	8	5
Communication costs	5	2
Repairs and maintenance of fixed assets	2	1
Other costs	3	37
	4,092	**787**

18. Other operating income

For year ended 31 December 2011 and 2010 other operating income of the Group included the following:

	2011	2010
Gain on companies' acquisition (note 26)	15,628	-
State subsidies (VAT)	1,983	1,271
Provision for doubtful debts	(491)	(1,009)
(Loss)/income from sale of non-current assets	(44)	(1)
Income from sale of current assets	-	4
Penalties, fines and forfeits received/(paid)	74	(73)
(Loss)/income from exchange differences	(45)	585
Reversal of accounts payables	615	-
Insurance compensation	105	-
Audit fees	(115)	(100)
Impairments of assets	-	(2)
Other (expenses) / income	750	(372)
	18,460	**303**

The total audit fees accrued by the Company and paid to the auditor/audit firm are presented as follows:

(in thousand US dollars)

	2011	2010
Audit fees	76	100
Audit-related fees	39	-
Tax related fees	-	-
Other fees	-	-
	115	**100**

19. Financial income (expenses), net

For year ended 31 December 2011 and 2010, net financial income (expenses) of the Group included:

	2011	2010
Loan interest	(2,366)	(1,695)
Interest received	548	34
Interest on the financial lease	(516)	(611)
Exchange differences	1,173	714
Other	18	-
	(1,143)	**(1,558)**

20. Operational lease expenses

Total amount of operational lease expense recognized in the period is US dollars 2,254 thousand (2010: US dollars 1,004 thousand). No sublease payments or contingent rent were applicable to Groups' contacts both in 2011 and 2010.

Operating lease commitments

The Group is the lessee of agricultural land. The future minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
Not later than 1 year	5,338	2,275
Later than 1 year and not later than 5 years	16,288	7,779
Later than 5 years	14,516	15,369
Total operating lease commitments	**36,142**	**25,423**

The total land under operational lease is 61,018 hectares (2010: 26,797 hectares).

21. Income taxes

(a) Components of income tax expense / (benefit)

Income tax expense comprises the following:

	2011	2010
Current tax	(37)	(2)
Deferred tax	98	-
Income tax expense	**61**	**(2)**

On 2 December 2010, the Ukrainian Parliament adopted a new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April – 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the changes in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2011.

(in thousand US dollars)

(b) Reconciliation between the tax benefit and profit or loss multiplied by applicable tax rate

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries (primarily in Ukraine). In 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 23% starting from 1 April 2011 (2010: 25% and till 1 April 2011), 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the changes in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2011.

In 2011, the tax rate for Cyprus operations was 10% (2010: 10%).

The income tax rate applicable to the majority of the Group's 2011 operations in Ukraine is 0% for the companies which are subject to special tax regime and 25% for 1st quarter 2011 and 23% the period from 1st April 2011 to 31 December 2011 for Factor D LLC, Meat plant Dnipro LLC, Kovbasna Liga LLC, Agro LLC, SPE Promvok LLC, 10% for Cyprus (2010: 10% for Cyprus), 28.59% for Luxembourg (2010: 28.59% for Luxembourg).

According to Ukrainian tax legislation, in 2011 the following companies were subject to fixed agriculture tax (FAT) and were exempted from any income tax charges / benefits:

Scorpio Agro LLC (Ukraine)
Souz-3 LLC (Ukraine)
Goncharovo Agricultural LLC (Ukraine)
Agro-Trade House Dniprovsky LLC (Ukraine)
Ukrainian agricultural and industrial holding LLC (Ukraine)
Agro-Dnister LLC (Ukraine)
Trade House of the Ukrainian Agroindustrial Holding LLC (Ukraine)
Pivdenne Agricultural LLC (Ukraine)
Unirem Agro Plus LLC (Ukraine)
Askoninteks LLC (Ukraine)
Agro Golden LLC (Ukraine)
Dniproagrostandard LLC (Ukraine)
Dniproagroprogress LLC (Ukraine)
Agrofirm Vesna LLC (Ukraine)
Vidrodzhennya LLC (Ukraine)
Dnipro LLC (Ukraine)
Agrotrade LLC (Ukraine)
Rantye (Ukraine)

Reconciliation between the expected and the actual taxation charge is provided below.

	2011	2010
Profit/(loss) before tax	**28,095**	**10,049**
Tax calculated at domestic tax rates applicable to profits in the respective countries		
- 23% (25 % for 2010 and till 1 April 2011) as for Ukraine	6,484	2,512
- 10% as for Cyprus	-	-
- 28.59% as for Luxembourg (2010: 28.59%)	2	-
Tax effect of items not deductible or assessable for taxation purposes:		
- non-taxable income (subject to FAT)	(6,425)	(2,514)
Income tax benefit/(expense)	**61**	**(2)**

(in thousand US dollars)

(c) Deferred taxes analyzed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

	2011	**2010**
Property, plant and equipment	(565)	-
Prepaid expenses	-	-
Provision for doubtful debts	-	-
Deferred income tax	**(565)**	**-**

	2011	**2010**
As at 01.01.2011	-	-
DTL on acquired companies	(663)	-
Changes, recognized in statement of comprehensive income	98	-
Changes, recognized as other comprehensive income	-	-
Effect of translation to presentation currency	-	-
As at 31.12.2011	**(565)**	**-**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

22. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- ***Crop production.*** Crop production is core business of the Group. It is generally focused on production of sunflower, wheat, barley, rapeseed, soybeans, and other crops, such as corn, triticale, peas, buckwheat. The main factors effecting crop production segment are climate conditions, land quality, plant nutrition and level of moisture in land.
- ***Food Processing.*** Established relationships with retail chains created opportunities to get additional income by selling groceries and meat products. Currently the Group produces flour, sunflower oil, packaged crops, macaroni and meat products (sausages, meat delicates, etc).
- ***Other operations.*** This opearting segments includes fruits and vegetables production, cultivation and sale of farm animals (pigs and cattle), pellets production and rendering of services to third parties. This segment doesn't meet threshold requirement, but management belives, that it is useful for users to see it as a separate segment.

Inter-segment pricing is determing on arm's length basis.

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment gross margin, as included in the internal management reports that are reviewed by the Group's CEO. Segment gross margin is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(in thousand US dollars)

Information about operating segments for the year ended 31 December 2011:

	Crop production	Food Processing	Other operations	*Adjustments*	Total
Revenue	25,111	8,220	4,406	-	37,737
Intercompany transactions	(1,105)	-	(1,544)	-	(2,649)
Intersegmental sales	(423)	-	-	-	(423)
Revenue from third parties	**23,583**	**8,220**	**2,862**	**-**	**34,665**
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs	11,973	2,180	681	-	14,834
Cost of sales	(25,564)	(6,567)	(2,498)	-	(34,629)
Gross profit	**9,992**	**3,833**	**1,045**	**-**	**14,870**
Selling, general and administrative expenses	-	-	-	(4,092)	(4,092)
Other operating income (expense), net	-	-	-	18,460	18,460
Operating result of a segment	**9,992**	**3,833**	**1,045**	14,368	**29,238**
Finance expenses, net	-	-	-	(1,143)	(1,143)
Profit before tax	**9,992**	**3,833**	**1,045**	13,225	**28,095**
Income tax expenses	-	-	-	61	61
Profit for the period	**9,992**	**3,833**	**1,045**	13,286	**28,156**
Other segment information:					
Depreciation and amortization	599	209	73	-	881

Since supervision over the assets and liabilities is carried out at the level of the Group, they were not allocated to particular segment.

None of these segments meets the quantitative thresholds for determining reportable segments in 2010. Besides, the cost of obtaining the information to show comparative data would exceed the benefit from providing it.

Information about major customer

In 2011 and 2010, the Group sold most its sunflower harvest to Group of “Optimus” LLC (includes entities of “Optimus” LLC, “Orbasta” LLC, “Agrotrading” LLC), one of the leading oil producers in Ukraine .Total amount of revenue which was related to Group of “Optimus” LLC comprised 40% in 2011 and 82% in 2010 respectively.

23. Related parties

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

(in thousand US dollars)

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.

Transactions with the key management personnel

Remuneration of key management personnel for the year ended 31 December 2011 is in the form of short-term employee benefits amounting to US dollars 886 thousand (2010: US dollars 203 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.

From time to time directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions are those entered into by other Group employees or customers.

Other related party transactions

As at 31 December 2011 and 2010 the Group's indebtedness and transactions with related parties can be represented as follows:

	Balance outstanding as at 31 December		Transactions value for the year ended 31 December	
	2011	**2010**	**2011**	**2010**
Sales of goods and services				
Other	2,288	424	4,720	881
Purchase of goods and services				
Other	852	14	1,174	-
Loans				
Other	322	299	23	102

All outstanding balances, excluding loans, with these related parties are priced on arm's length basic and are to be settled in cash within one months of the reporting date. None of the balances is secured.

24. Government grants

Government grants are represented by government aid in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group.

Government grants are not recognized until there is a reasonable confidence in the compliance with conditions related to the grant and that the grant will be received.

Government grants are recognized as revenue in the periods of corresponding costs which they are supposed to compensate on a systematic basis.

Government grants relating to income are presented in the consolidated statement of comprehensive income within the item "Other (expenses) / income, net".

Grants related to assets are government grants which the main condition of granting them is for the Group to buy, build or purchase non-current assets. It may be accompanied by additional conditions that restrict the type of assets, their location or terms of acquisition or possession.

Government grants related to assets are recorded in the consolidated statement of financial position as accrued income, which are recognized as income on a systematic and rational basis over the useful life of asset.

In compliance with Ukrainian laws the Group is entitled to receive the following types of government grants:

- Grant for grown and sold cattle
- Grant for grown and sold pigs
- Compensation for interest rates for agricultural manufactures
- Compensation for mineral fertilizers
- Compensations for post-effect of drought / losses in sowing

(in thousand US dollars)

- Compensations for insurance premiums
- Compensations for creation of new jobsites

In connect with frequent changes in Ukrainian laws the list of grants, to which the Group's entities are entitled, is subject to change.

	2011	**2010**
Carrying amount as at 1 January		
Received during the year	1,983	1,271
Recorded in "Other (expenses) / income, net".	(1,983)	(1,271)
Carrying amount as at 31 December	**-**	**-**

25. Business combination

During the 2011 the Group significantly extended its land bank mainly in Dnepropetrovsk region through acquisition of 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, Agrotrade LLC, Factor D LLC and Rantye LLC.

During 2011 a representative office of KSG Agro S.A. was opened in Warsaw (Poland).

Above mentioned companies are located in the Ukraine and perform agricultural activities.

Thus, business combination took place in order to increase land bank.

KSG Agro SA obtained control over acquirees by either the purchase of 100% shares or by signing an agreement, if the shares acquires represented less than 100% (Parisifia Trading ltd), which transferred the power to execute control over operating and financial activity of the entity.

Goodwill was recognised as excess of a 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 and it is mainly relates to long-term rights for use of agricultural land. The Purchase-price allocation was based on estimates in the interim financial statements, and it was finalised by 31 December 2011. Therefore figures have changed compared to the semi-annual financial statements.

Non-controlling interest is measured as non-controlling interest's proportion share of the acquiree's identifiable net assets.

The total amount of non-controlling interest in the acquiree recognised at the acquisition date was USD 18,070 thousand.

The Board of Directors considers it impracticable to determine what would be the total revenue and net profit for the year ended 31 December 2011 for all companies which were acquired after 1 January 2011 if the acquisition occurred on 1 January 2011 as this information is not available.

Non-controlling interest is measured as non-controlling interest's proportion share of the acquiree's identifiable net assets.

Name of entity/group of entities	**Dnipro LLC (Ukraine)**		**Agro Golden LLC (Ukraine)**		**Askoninteks LLC (Ukraine)**		**Agrofirm Vesna LLC (Ukraine)**	
Date of acquisition	**01.07.2011**		**01.01.2011**		**01.01.2011**		**01.07.2011**	
Percent of ownership at the date of acquisition	**100%**		**100%**		**100%**		**100%**	
Value at the date of acquisition	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Property, plant and equipment	-	-	25	42	500	500	439	847
Cash and cash equivalents	-	-	-	-	-	-	-	-
Accounts receivable	1	1	25	25	100	100	46	46
Other current assets	21	21	34	34	-	-	712	712
Total assets	**22**	**22**	**84**	**101**	**600**	**600**	**1,197**	**1,605**
Accounts payable	-	-	(11)	(11)	-	-	(472)	(468)

(in thousand US dollars)

Bank loans	-	-	-	-	-	-	(126)	(126)
Deferred taxes	-	-	-	-	-	-	-	-
Total liabilities	**-**	**-**	**(11)**	**(11)**	**-**	**-**	**(598)**	**(594)**
Net assets at the acquisition date	22	22	73	90	600	600	599	1,011
Cost of acquisition		80		899		1,637		2,736
Effect from the acquisition		**58**		**809**		**1,037**		**1,725**

Name of entity/group of entities	**Agro LLC (Ukraine); Vidrodzhennya (Ukraine)**		**Dniproagrostandard LLC (Ukraine)**		**Dniproagroprogress LLC (Ukraine)**		**SPE Promvok LLC (Ukraine); Meat plant Dnipro LLC (Ukraine); Kovbasna Liga LLC (Ukraine)**	
Date of acquisition	**01.04.2011**		**01.07.2011**		**01.07.2011**			**01.07.2011**
Percent of ownership at the date of acquisition	**100%**		**100%**			**100%**		**100%**
Value at the date of acquisition	**Carrying value**	**Fair value**	**Carry-ing value**	**Fair value**	**Carrying value**	**Fair value**	**Carry-ing value**	**Fair value**
Property, plant and equipment	1,638	8,818	235	239	46	48	789	1,332
Cash and cash equivalents	8	8	46	46	3	3	14	14
Accounts receivable	1,009	947	81	81	-	-	2,737	2,915
Other current assets	2,026	2,026	884	884	192	192	294	294
Total assets	**4,681**	**11,799**	**1,246**	**1,250**	**241**	**243**	**3,834**	**4,555**
Accounts payable	(2,064)	(2,064)	(934)	(953)	(271)	(271)	(5,531)	(5,548)
Bank loans	-	-	-	-	-	-	-	-
Deferred taxes	-	(576)	-	-	-	-	-	(88)
Total liabilities	**(2,064)**	**(2,640)**	**(934)**	**(953)**	**(271)**	**(271)**	**(5,531)**	**(5,636)**
Net assets at the acquisition date	2,617	9,159	312	297	(30)	(28)	(1,697)	(1,081)
Cost of acquisition		6,004		1,856		50		5,180
Effect from the acquisition		**(3,155)**		**1,559**		**78**		**6,261**

Name of entity/group of entities	**Unirem Agro Plus LLC (Ukraine)**		**Parisifia ltd (Cyprus): Agrotrade LLC (Ukraine);Factor D (Ukraine) and Rantye (Ukraine)**	
Date of acquisition		**01.01.2011**		**01.10.2011**
Percent of ownership at the date of acquisition		**100%**		**50%**
Value at the date of acquisition	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Property, plant and equipment	17	691	16,982	16,982
Cash and cash equivalents	1	1	83	83
Accounts receivable	40	40	723	723
Other current assets	513	513	2,015	2,015
Total assets	**571**	**1,245**	**19,803**	**19,803**

(in thousand US dollars)

Accounts payable	(3)	(210)	(1,682)	(2,315)
Bank loans	-	-	-	-
Deferred taxes	-	-	-	-
Total liabilities	**(3)**	**(210)**	**(1,682)**	**(2,315)**
Net assets at the acquisition date	568	1,035	18,121	17,488
Cost of acquisition		1,858		5,014
Effect from the acquisition		**823**		**(12,474)**

Cash outflow from acquisition:

Net amount of cash acquired with the company	155
Cash paid	(25,224)
Net cash flows from acquisition	(25,069)

26. Goodwill

Goodwill includes mainly the long-term rights for lease of agricultural land under operational lease term (Note 20). Movements in goodwill arising on the acquisition of subsidiaries are:

	31.12.2011	2010
Gross book value at 1 January	5,586	-
Accumulated impairment losses at 1 January	-	-
Carrying amount at 1 January	**5,586**	**-**
Acquisition of subsidiary	12,350	5,586
Transfer to non-current assets held for sale (or disposal groups)	-	-
Disposal of subsidiary	-	-
Impairment loss	-	-
Effect of translation to presentation currency	-	-
Other	-	-
Carrying amount at 31 December before accumulated impairment losses	**17,936**	**5,586**
Gross book value at 31 December	17,936	5,586
Accumulated impairment losses at 31 December	-	-
Carrying amount at 31 December	**17,936**	**5,586**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment) as follows:

CGU	2011	2010
Souz-3	5,581	5,586
Unirem	1,860	-
Agro Golden	809	-
Agro & Vidrodzhennya	(3,155)	-
Meat plant Dnipro	6,261	-
Dniproagrostandard	1,559	-

(in thousand US dollars)

Dniproagroprogress	78	-
Agrofirm Vesna	1,710	-
Dnipro	58	-
Parisifia ltd & Factor D & Agrotrade & Rantye	(12,474)	-
***Total carrying amount of positive goodwill**	**17,916**	**5,586**
****Total carrying amount of negative goodwill**	**(15,629)*****	**-**

Effect of translation to presentation currency

- **Positive goodwill* *20*
- ***Negative goodwill* *1*

******* Negative goodwill arises because the faire value of acquired non-monetary assets exceeds the amount paid for those assets. This situation is due to the lack of financial resources in the acquired companies, which does not allow them to utilize their assets in the most efficient manner.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a nine-year period, which is related to average period of land lease rights of acquired companies.

Cash flows beyond the nine-year period are not taken into consideration.

Assumptions used for value-in-use calculations for agricultural producers to which the recoverable amount is most sensitive were:

	2011	**2010**
Yields growth	2%-10%	2%-10%
Price growth rate	2%	2%
Direct expenses growth rate	5%-11%	5%-11%
Gross margin	33,4% - 36,5%	33,4% - 36,5%
Discount rate for biological assets valuation used	30%	30%

No impairment arose as a result of evaluation.

Sensitivity to changes in assumptions

Significant adverse movement in key assumptions could lead to impairment. Management has identified one of them (gross margin) for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The following tables show the amount that this one assumption is required to change in order for the estimated recoverable amount to be equal to the carrying amount.

In percent	**Change required for carrying amount to equal recoverable amount**	
	2011	**2010**
Gross Margin	20%	26%

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports.

27. 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 the 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 the 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. Information about earnings and number of shares used when calculating basic and diluted earnings per share is as follows:

(in thousand US dollars)

	2011	**2010**
Net profit from continuing operations attributable to ordinary shareholders of the parent company	**28,017**	**10,030**
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	**28,017**	**10,030**
Interest on convertible preference shares	**-**	**-**
Net profit attributable to ordinary shareholders of the parent company adjusted taking into account the dilutive effect	**28,017**	**10,030**
	Million	**Million**
Average-weighted number of common shares to compute basic earnings per share	12,21	12,21*
Dilutive effect:	-	-
Stock option	-	-
Convertible preference shares	-	-
Average-weighted number of common shares adjusted to the dilutive effect	12,21	12,21*

*As at 31.12.2010 the holding company KSG Agro S.A. has already been incorporated. However the current group structure as such has not been established at that date. Comparative figures for the year ended 31.12.2010 reflect the combined results, as if KSG Agro S.A.'s establishment of current group structure took place before 31.12.2010.
Therefore, combined financial information was used as comparatives and the average-weighted number of outstanding common shares as at 31 December 2011 was used for the calculation of earnings per share for the year ended 31 December 2010.
No other transactions with common shares or potential common shares were entered into between the reporting date and the date of these financial statements.

28. Commitments and contingencies

Contingent liabilities

Legal 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 the future operations of the Group.

29. 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.

Market risk

There are following market risks which are faced by the Group:

- Change in market prices for finished products,
- Change in market prices for key inputs,
- Interest rate risk,
- Foreign currency risk.

(in thousand US dollars)

The Group's financial performance is largely dependent on the disposable income of its customers in Ukraine and the countries of the Group's export as well as the price of key inputs for its end products, which are mainly impacted by the respective crop harvest in Ukraine and overseas.

The selling prices and operating costs associated with producing our products are volatile and are determined by market conditions.

If any or all of these factors depress prices or increase our operating costs, our business, results of operations and financial condition may be adversely affected.

Prices for fertiliser in Ukraine are highly influenced by global fertiliser prices. In the event of a rise in fertiliser prices the Group may either reduce the amount of fertiliser it uses, thereby potentially reducing crop yields, continue to acquire similar quantities of fertiliser at a higher price, thereby incurring greater costs, or employ a combination of these approaches. In addition, the Group purchases substantial quantities of crop protection chemicals which could also experience increases in price. Such factors could materially and adversely affect the Group's costs and/or crop output and, as a result, the Group's business, financial condition and results of operations.

The Group management makes monitoring of market prices of finished goods in order to manage exposure to changes. Thus, Companies pricing policy is affected by results of such monitoring.

The Group manages the risk of market price change for key inputs by working with reliable suppliers and by monitoring market for opportunity to get new attractive supply of resources.

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 rate change, when all other variables remain constant. There is no effect to the net assets attributable to the Group's participants.

	Increase / decrease of basis points	*Effect on profit before tax*
For the period ended 31 December 2011		
Change in interest rate	20	(47)
Change in interest rate	(20)	47
For the year ended 31 December 2010		
Change in interest rate	20	(34)
Change in interest rate	(20)	34

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

	Increase / decrease	*Effect on profit before tax*
For the year ended 31 December 2011		
Change in USD exchange rate	5%	(452)
Change in USD exchange rate	(5%)	452
For the year ended 31 December 2010		
Change in USD exchange rate	5%	(15)

(in thousand US dollars)

Change in USD exchange rate	(5%)	15

The table shows the Group's assets and liabilities at their carrying amounts as at 31 December 2011 and 2010

As at 31.12.2011	**UAH**	**EURO**	**USD**	**Non-monetary items**	**Total**
Property, plant and equipment	-	-	-	53,982	**53,982**
Non-current biological assets	-	-	-	1,592	**1,592**
Goodwill	-	-	-	17,936	**17,936**
Inventories	-	-	-	14,800	**14,800**
Current biological assets	-	-	-	13,363	**13,363**
Trade and other receivables	14,141	-	-	-	**14,141**
VAT receivables	1,400	-	-	-	**1,400**
Pledged deposit	4,380	-	-	-	**4,380**
Cash and cash equivalents	1,122	-	-	-	**1,122**
TOTAL	**21,043**	**-**	**-**	**101,673**	**122,716**
Long-term loans	(835)	-	(4,931)	-	**(5,766)**
Long-term notes	(579)	-	-	-	**(579)**
Short-term loans and borrowings	(13,079)	-	(4,110)	-	**(17,189)**
Promissory notes	(313)	-	-	-	**(313)**
Trade and other payables	(7,860)	-	-	-	**(7,860)**
Tax payables	(238)	-	-	-	**(238)**
TOTAL	**(22,904)**	**-**	**(9,041)**	**-**	**(31,945)**
Net balance position	**(1,861)**	**-**	**(9,041)**	**101,673**	**90,771**

As at 31.12.2010	**UAH**	**EURO**	**USD**	**Non-monetary items**	**Total**
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**

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 fulfilment. 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.

(in thousand US dollars)

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments:

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Total*
For the year ended 31 December 2011				
Long-term liabilities	-	-	6,345	**6,345**
Loans and borrowings	4,111	13,078	-	**17,189**
Trade and other payables	238	7,860	-	**8,098**
For the year ended 31 December 2010				
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**

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 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. The carrying amount of the financial instruments best represents the maximum exposure to the credit risk. All past due financial instruments are considered to be impaired.

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.

	31.12.2011	**31.12.2010**
Total amount of borrowings	19,171	7,781
Net of cash and cash equivalents	(1,122)	(30)
Net debt	18,049	7,751
Total capital	90,771	11,662
Plus – subordinated debt instruments	-	-
Adjusted capital	90,771	11,662
Debt to adjusted net assets ratio	19,88%	66.46%

(in thousand US dollars)

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.Classification of financial instruments

As at 31 December 2011 and 2010, financial instruments are classified as follows:

As at 31.12.2011	Loans and accounts receivable	Financial liabilities measured at amortized cost	**Total**
Trade and other receivables	14,141	-	**14,141**
VAT receivables	-	1,400	**1,400**
Deposit pledged	4,380	-	**4,380**
Cash and cash equivalents	1,122	-	**1,122**
	19,643	**1,400**	**21,043**
Long-term loans	(6,345)	**-**	**(6,345)**
Short-term loans and borrowings	(17,189)	-	**(17,189)**
Promissory notes	-	(313)	**(313)**
Trade and other payables	-	(7,860)	**(7,860)**
Tax payables	-	(238)	**(238)**
	(23,534)	**(8,411)**	**(31,945)**

As at 31.12.2010	Loans and accounts receivable	Financial liabilities measured at amortized cost	**Total**
Trade and other accounts receivable	1,662	-	**1,662**
VAT accounts receivable	-	1,022	**1,022**
Cash and cash equivalents	30	-	**30**
	1,692	**1,022**	**2,714**
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)**
	(7,969)	**(6,699)**	**(14,668)**