

KSG Agro S.A.
R.C.S. Luxembourg B 156.864

**Unaudited Consolidated Financial Statements
for the year ended 31 December 2017**

Contents

Statement of the Board of Directors and management's responsibility for the preparation and approval of the unaudited consolidated financial statements.....	3
Unaudited Consolidated Statement of Financial Position.....	7
Unaudited Consolidated Income Statement.....	8
Unaudited Consolidated Statement of Comprehensive Income/(Loss).....	9
Unaudited Consolidated Statement of Cash Flows.....	10
Unaudited Consolidated Statement of Changes in Equity.....	12
Notes to the unaudited Consolidated Financial Statements.....	13

KSG Agro S.A.

Statement of the Board of Directors and management's responsibility for the preparation and approval of the unaudited consolidated financial statements

The following statement is made with a view to clarify responsibilities of management and Board of Directors in relation to the unaudited 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 of 31 December 2017 and for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In preparing the consolidated financial statements, the Board of Directors and management are responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Compliance with relevant IFRSs and disclosure of all material departures in Notes to the consolidated financial statements;
- Compliance with ESMA Guidelines
- 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.

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 as adopted by the European Union;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

In accordance with Article 3 of the law of Luxembourg 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 2017, prepared in accordance with 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 period 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 unaudited consolidated financial statements as of 31 December 2017 and for the year then ended were approved on 30 April 2018.



A.V. Skorokhod
(Chief Executive Officer)



L.L. Omelchenko
(Chief Financial Officer)

KSG Agro S.A.**Unaudited Consolidated Statement of Financial Position**

as at 31 December 2017

<i>In thousands of US dollars</i>	Note	31 December 2017 (unaudited)	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	8	18,097	19,073
Intangible assets	9	-	33
Long-term biological assets	11	22,558	22,163
Long-term receivables		-	937
Deferred expense		618	514
Deferred tax assets	25	233	173
Promissory notes receivable		-	266
Term deposits	12	-	1,534
Total non-current assets		41,506	44,693
Current assets			
Current biological assets	11	7,701	4,172
Inventories and agricultural produced	10	2,332	1,102
Trade and other accounts receivable	13	6,197	7,321
Taxes recoverable and prepaid	14	-	207
Term deposits	12	534	-
Cash and cash equivalents	12	760	1,107
Total current assets		17,524	13,909
TOTAL ASSETS		59,030	58,602
EQUITY			
Share capital	15	150	150
Share premium	15	37,366	37,366
Treasury shares	15	(112)	(112)
Retained earnings		(39,082)	(39,440)
Currency translation reserve		(10,987)	(9,103)
Equity attributable to the owners of the Company		(12,665)	(11,139)
Non-controlling interests		7,078	6,788
TOTAL EQUITY		(5,587)	(4,351)
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	22,531	20,896
Long-term account payable		-	253
Total non-current liabilities		22,531	21,149
Current liabilities			
Loans and borrowings	16	24,659	24,393
Trade and other accounts payable	17	15,712	15,920
Promissory notes issued	18	1,384	1,365
Taxes payable		331	126
Total current liabilities		42,086	41,804
TOTAL LIABILITIES		64,617	62,953
TOTAL LIABILITIES AND EQUITY		59,030	58,602

Approved for issue and signed on behalf of the Board of Directors on 30 April 2018.


A.V. Skorokhod
(Chief Executive Officer)

L.L. Omelchenko
(Chief Financial Officer)

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.**Unaudited Consolidated Income Statement**

for the year ended 31 December 2017

<i>In thousands of US dollars</i>	Note	2017 (unaudited)	2016
Revenue	19	23,187	20,924
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated point-of-sale costs	11	9,666	10,595
Cost of sales	20	(21,212)	(18,504)
Gross profit		11,641	13,015
Government grant received	14	350	178
Selling, general and administrative expenses	21	(1,487)	(1,630)
Other operating income	22	735	4,395
Operating profit		11,239	15,958
Finance income	24	671	1,492
Finance expenses	24	(2,141)	(3,934)
Foreign currency exchange gain/(loss), net	33	(4,399)	(3,370)
Loss on impairment of goodwill	9	-	(315)
Other expenses	23	(4,477)	(5,985)
Gain/(Loss) on acquisition/(disposal) of subsidiaries and associates	5	(56)	-
Profit/ (loss) before tax		837	3,846
Income tax benefit	25	58	67
Profit/ (loss) for the year		895	3,913
Profit/ (loss) attributable to:			
Owners of the Company		358	1,831
Non-controlling interest	6	537	2,082
Profit/ (loss) for the year		895	3,913
Earnings per share			
Weighted-average number of common shares outstanding	15	15,020,000	15,020,000
Basic earnings per share, USD	15	0.02	0.12
Diluted earnings per share, USD	15	0.02	0.12

Approved for issue and signed on behalf of the Board of Directors on 30 April 2018.



A.V. Skorokhod
(Chief Executive Officer)



L.L. Omelchenko
(Chief Financial Officer)

KSG Agro S.A.**Unaudited Consolidated Statement of Comprehensive Income/(Loss)**

for the year ended 31 December 2017

<i>In thousands of US dollars</i>	Note	2017 (unaudited)	2016
Profit/ (loss) for the year		895	3,913
Other comprehensive income/(loss), net of income tax			
Items that will not be reclassified subsequently to profit or loss:		-	-
Items that will be reclassified subsequently to profit or loss:			
Currency translation differences		(2,131)	(1,308)
Related income tax impact		-	-
Total comprehensive income/ (loss) for the year		(1,236)	2,605
Total comprehensive income/ (loss) attributable to:			
Owners of the Company		(1,526)	1,689
Non-controlling interests		290	916
Total comprehensive income/ (loss) for the year		(1,236)	2,605

Approved for issue and signed on behalf of the Board of Directors on 30 April 2018.

A.V. Skorokhod
(Chief Executive Officer)L.L. Omelchenko
(Chief Financial Officer)

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.
Unaudited Consolidated Statement of Cash Flows
for the year ended 31 December 2017

In thousands of US dollars	Note	2017 (unaudited)	2016
Cash flows from operating activities			
Profit/ (loss) before tax		837	3,846
Adjustments for:			
Depreciation and amortization	8,9	1,495	1,346
Impairment and write-off of trade and other accounts receivable and VAT	23	2,852	4,226
Impairment of LLR	9	-	169
Write off of accounts payable	22	(586)	(3,325)
Impairment of inventory	10	1,215	373
Gain on initial recognition of biological assets and agricultural produced	11	(9,666)	(10,595)
Exchange differences	33	4,399	3,370
Finance expenses	24	2,141	3,934
Finance income	24	(671)	(1,492)
Gain/(loss) on subsidiaries disposal		56	-
Goodwill impairment	9	-	315
Operating cash flows before working capital changes		2,072	2,167
Change in trade and other accounts receivable		(1,543)	(862)
Change in current biological assets		1,587	325
Change in inventories and agricultural produce		563	4,093
Change in trade and other accounts payable		(420)	(2,063)
Cash generated from operations		2,259	3,660
Interest paid		(1,199)	(1,653)
Income tax paid		(7)	7
Cash generated from / (used in) operating activities		1,053	2,000
Cash flow from investment activities			
Acquisition of property, plant and equipment		(1,206)	(668)
Disposal of subsidiaries/(assets held for sale), net of cash disposed		(20)	-
Interest received		138	521
Settlement of accounts payable related to investment activities		(88)	(1,753)
Net cash generated from / (used in) investment activities		(1,176)	(1,900)

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.**Unaudited Consolidated Statement of Cash Flows (continued)***for the year ended 31 December 2017*

<i>In thousands of US dollars</i>	Note	2017 (unaudited)	2016
Cash flow from financing activities			
Proceeds from bank loans and other borrowings		6,497	65
Repayment of bank loans		(6,655)	(109)
Repayment of financial lease liabilities		(38)	(69)
Net cash (used in) / received from financing activities		(196)	(113)
Net (decrease)/increase in cash and cash equivalents		(319)	(13)
Cash and cash equivalents at the beginning of the year	12	1,107	1,147
Effect of exchange rate differences on cash and cash equivalents		(28)	(27)
Cash and cash equivalents at the end of the year	12	760	1,107

Approved for issue and signed on behalf of the Board of Directors on 30 April 2018.

A.V. Skorokhod
(Chief Executive Officer)L.L. Omelchenko
(Chief Financial Officer)

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.**Unaudited Consolidated Statement of Changes in Equity**

for the year ended 31 December 2017

Note	Attributable to owners of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Currency translation reserve	Retained earnings	Total attributable to owners of the Company		
<i>In thousands of US dollars</i>								
Balance as at 31 December 2015	150	37,366	(112)	(8,961)	(41,271)	(12,828)	5,872	(6,956)
Loss for the year	-	-	-	-	1,831	1,831	2,082	3,913
Other comprehensive income/ (loss)	-	-	-	(142)	-	(142)	(1,166)	(1,308)
Total comprehensive loss for the year	-	-	-	(142)	1,831	1,689	916	2,605
Balance as at 31 December 2016	150	37,366	(112)	(9,103)	(39,440)	(11,139)	6,788	(4,351)
Profit/ (loss) for the year	-	-	-	-	358	358	537	895
Other comprehensive income/ (loss)	-	-	-	(1,884)	-	(1,884)	(247)	(2,131)
Total comprehensive income/ (loss) for the year	-	-	-	(1,884)	358	(1,526)	290	(1,236)
Balance as at 31 December 2017 (unaudited)	150	37,366	(112)	(10,987)	(39,082)	(12,665)	7,078	(5,587)

Approved for issue and signed on behalf of the Board of Directors on 30 April 2018.


A.V. Skorokhod
(Chief Executive Officer)

L.L. Omelchenko
(Chief Financial Officer)

The accompanying notes are an integral part of these consolidated financial statements

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

1. Background

KSG Agro S.A. (the "Company") was incorporated under the name Borquest S.A. on 16 November 2010 as a "Société Anonyme" under Luxembourg company law for an unlimited period. On 08 March 2011 the Company's name was changed to KSG Agro S.A.

The registered office of the Company is at 24, rue Astrid, L-1143 Luxembourg and the Company number with the Registre de Commerce is B 156 864.

The Company, its subsidiaries and joint operation (together referred to as the "Group") produces, processes and sells agricultural products and its business activities are conducted mainly in Ukraine.

The number of employees of the Group as at 31 December 2017 was 565 employees (31 December 2016: 577 employees).

2. Scope of consolidation.

The Group's parent is OLBIS Investments LTD S.A. (65%), registered in Panama and the ultimate controlling party is Mr. Sergiy Kasianov. Remain Group's shares (35%) listed on the Warsaw Stock Exchange.

The subsidiaries and principal activities of the companies forming the Group and the Parent's effective ownership interest as at 31 December 2017 and 2016 were as follows:

Operating entity	Principal activity	Country of registration	Effective ownership ratio, %	
			31 December 2017	31 December 2016
KSG Agro S.A.	Holding company	Luxembourg	Parent	Parent
KSG Agricultural and Industrial Holding LTD	Subholding company	Cyprus	100%	100%
KSG Agro Polska	Trade of agricultural products	Poland	100%	100%
KSG Energy Group LTD	Trade of pellet, dormant	Cyprus	50%	50%
Parisifia LTD	Intermediate holding company	Cyprus	50%	50%
Abbondanza SA	Trade of agricultural products	Switzerland	50%	50%
Enterprise №2 of Ukrainian agricultural and industrial holding LLC	Agricultural production	Ukraine	100%	100%
Scorpio Agro LLC	Agricultural production	Ukraine	100%	100%
Goncharovo Agricultural LLC	Agricultural production	Ukraine	100%	100%
Agro-Trade House Dnirovsky LLC	Agricultural production	Ukraine	100%	100%
Dnipro LLC	Agricultural production	Ukraine	100%	100%
KSG Trade House LTD	Trade of agricultural products	Ukraine	100%	100%
Trade House of the Ukrainian Agroindustrial Holding LLC	Agricultural production	Ukraine	100%	100%
Askoninteks LLC	Agricultural production	Ukraine	100%	100%
Agro Golden LLC	Agricultural production	Ukraine	100%	100%
Agro LLC	Lessor of equipment	Ukraine	100%	100%
SPE Promvok LLC	Lessor of equipment	Ukraine	100%	100%
Meat plant Dnipro LLC	Manufacture	Ukraine	100%	100%
Hlebna Liga LLC	Trader	Ukraine	100%	100%
Agrofirm Vesna LLC	Agricultural production	Ukraine	100%	100%
Agrotrade LLC	Agricultural production	Ukraine	50%	50%
Factor D LLC	Agricultural production	Ukraine	50%	50%
Rantye LLC	Agricultural production	Ukraine	50%	50%

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Operating entity	Principal activity	Country of registration	Effective ownership ratio, %	
			31 December 2017	31 December 2016
PrJSC Pererobnyk	Flour and animals' feed producing	Ukraine	25%	25%
Agroplaza LLC	Intermediate holding company	Ukraine	50%	50%
Stepove LLC	Agricultural production	Ukraine	50%	50%
Dzherelo LLC	Agricultural production	Ukraine	50%	50%
Kolosyste LLC	Agricultural production	Ukraine	50%	50%
Hlebodar LLC ***	Agricultural production	Ukraine	-	50%
Ukrzernoprom - Prudy LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Uytne LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Kirovske LLC *	Agricultural production	Ukraine	50%	50%
Ukrzernoprom - Yelizavetove LLC *	Agricultural production	Ukraine	50%	50%
KSG Dnipro LLC (SFG Bulah LLC)	Agricultural production	Ukraine	100%	100%
Ranniy Ranok LLC**	Agricultural production	Ukraine	-	100%
Pererobnyk LLC PE	Flour and animals' feed producing, dormant	Ukraine	25%	25%

Companies marked with * are located in Crimea. The Group has no operating control over them starting from 01 October 2014, so deconsolidation of these companies was provided and net assets were written off to zero.

On the annual basis companies with voting rights less than 51% tests for the compliance with IFRS 10 regarding existence of control. In these consolidated financial statements presented subsidiaries with absolute control over operating activity and cash flows and total responsibilities for the incurred profits or losses.

The 100% of the ownership rights in Ranniy Ranok LLC** was disposed in 2017.

The 50% of the ownership rights in Hlebodar LLC*** was disposed in 2017. The Group has no operating control over it starting from 01 October 2014, so deconsolidation of this company was provided and net assets were written off to zero.

These consolidated financial statements are presented in thousand of US dollars ("USD"), unless otherwise stated.

3. Summary of Significant Accounting Policies***Basis of preparation.***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of IFRS issued by International Financial Reporting Interpretations Committee ("IFRIC") and as adopted by the European Union. These consolidated financial statements have been prepared under the historical cost convention, as modified by the recognition of biological assets and agricultural produce based on fair value less costs to sell.

Operating Environment of the Group

Ukrainian economy suffered a deep slump in 2014-2016 due to the political instability, the escalation of the conflict in the Donetsk and Luhansk regions and unfavorable global markets for key export-oriented sectors. Since 2017 the Ukrainian economy has demonstrated a slight recovery amid overall macroeconomics stabilization supported by a rise in domestic investment, revival in household consumption, increase in agricultural and industrial production, construction activity and improved environment on external markets. Ukraine returned to international debt capital markets, having issued a record USD 3 billion 15-year Eurobond at 7.375% in September 2017, which smoothed external debt maturity profile of Ukraine.

The inflation rate in Ukraine stood at 13.7% for 2017 (as compared to 12.4% for 2016 and 43.3% for 2015) while GDP continued to grow at 2.1% (1% in 2016).

As at the date of this report the official NBU exchange rate of Hryvnia against US dollar was UAH 26.20 per USD 1, compared to UAH 28.07 per USD 1 as at 31 December 2017 and UAH 27.19 per USD 1 as at 31 December 2016. In 2017 there has been a further easing of currency control restrictions that were introduced in 2014–2015. In particular, the

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

required share of foreign currency for mandatory sale was decreased from 75% to 50% starting from 4 April 2017 and the settlement period for export-import transactions in foreign currency was increased from 90 to 180 days starting from 26 May 2017. In addition, starting from 13 June 2016 Ukrainian companies are permitted to pay dividends to non-residents with a limit of USD 5 million per month. Starting from 15 November 2017 the limit for dividends related to the periods up to 2013 was set at USD 2 million per month.

The IMF has continued to support the Ukrainian government under the four-year Extended Fund Facility (“EFF”) Programme approved in March 2015, providing the fourth tranche of approximately USD 1 billion in April 2017. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other factors.

The relationships between Ukraine and the Russian Federation have remained strained. On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Just after that, the Russian government implemented a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date. In January–March 2017, there was some escalation of military confrontation along the line of contact of the conflicting parties. The National Security and Defence Council of Ukraine issued resolution in March 2017 that completely suspended any freight transportation between the controlled and non-controlled territory of Ukraine, and this continues to date. In February–March 2017, the self-proclaimed authorities in the non-controlled territory announced their intention to seize business assets located in the non-controlled territory and to require businesses to comply with various local fiscal, regulatory and other requirements which contravene Ukrainian legislation.

Going concern assumption

In determining the appropriate basis of preparation of the consolidated financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The financial performance of the Group is naturally dependent upon the weather conditions in areas of operations and wider economic environment of Ukraine.

Due to loss of control over Crimea subsidiaries, the Group’s financial position and performance in 2014 significantly deteriorated. That caused significant difficulties with timely debt repayment and breach of loan covenants. Also Group’s ability to continue its operations within foreseeable future was questioned. To deal with new challenges, In September 2014 the Group’s management changed their development strategy. New strategy focused on: optimization of internal operating processes; focus on farming and pig breeding; decrease of loan burden; focusing on export contracts with existing customers. Still the Group management has been successful in implementation of changed strategy and stabilisation of Group financial performance:

- Focus on farming & pigs breeding and increase its efficiency
- Searching new contractors and signing agreements for sale of crops using USD prices
- Reduction of current debt and the extension period of credit

Also at the beginning of June 2016, Group Management signed new international sales contracts with Georgian retailers on sales of pork. These contracts allow to guaranty 25% of sales from pig breeding.

• Focus on farming & pigs breeding and increase its efficiency; Searching new contractors and signing agreements for sale of crops using USD prices

- The Group continues to perform its business strategy by increasing meat production and harvested crop in proportion applicable for future growth. Developing meat production segment requires some time and investments. However, during 2017 the company increased volume of sales of pigs by 35% from 5,862 tons to 9,001 tons. There were no export sales of pigs in 2017 due to more favorable domestic market prices (in 2016 – 493 tons or USD 0.7 mln.). During 2017 the Company concentrated on crop production. Thus total Wheat sales increased for 3,364 tons respectively. Favourable conjuncture and growing prices on wheat resulted in increased sales revenue by 35% from USD 1,7 mln to USD 2,3 mln, including sales for export USD 1,3 mln (during 2016 1 mln).
- The Group’s revenue increased by 10.8% for the year ended 31 December 2017.
- The Company’s gross profit decreased by 10.6% from USD 13,0 mln for 2016 to USD 11,6 mln for 2017.

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

• Reduction of current debt and the extension period of credit

- Negotiations with International Creditors and suppliers related to the restructuring of the total debt in the amount of USD 18 mln signed in 2017 of a letter of intent where agreed preliminary debt restructuring terms. According to signed letters of intent, the Group obliged to repay capital amount of debts in ten years' time starting at the 2018.
- In December 2017, the Group Management took final decision on selection of legal advisor and commenced process of services agreement preparation.
- On 24 February 2017 the Company signed restructuring agreements on loans that were overdue as at 31 December 2016 with one of the International Creditors - Big Dutchman Pig Equipment - principal USD 4,174 thousand, interest USD 535 thousand – repayable within 10 years, starting at the 2017.
- The loans to Group's parent principal USD 10,388 thousand, interest USD 2,997 thousand will be payable in 2026.
- Repayment of overdue loan to one of the Ukrainian banks, in the amount of USD 997 thousand, nominated in USD, during 2017 was postponed till 27 December 2018.
- Credit to the Ukrainian bank in the amount of 3 135 thousand US dollars, denominated in UAH was transferred to USD and EUR with an interest rate of 9% and 8% respectively (instead of 23.68% for UAH).
- The Group reached a settlement agreement with Agroscope LLC and Agroscope Ukraine LLC in London Arbitration Court on 17 October 2016 and will be repaid according to the schedule in October 2018.

• The Group continues increase the volume of production of fuel pellets and the production of thermal energy

All above mentioned Management actions resulted in stabilizing of the Group financial position and performance in 2017. For the year ended 31 December 2017, the Company had comprehensive loss of USD 1,236 thousand (2016: comprehensive income of USD 2,605 thousand). On the results of operation activity, in 2017 the Company received operating profit USD 11,239 thousand (2016: operating profit USD 15,958 thousand).

The Group Management concludes that, as the risks and uncertainties described above included in the cash flow forecast with conservative assumptions are covered by restructuring of overdue borrowings, there is a reasonable expectation that the Company can continue its operations in the foreseeable future and, accordingly, has formed a judgment that it is appropriate to prepare the consolidated financial statements as at and for the year ended 31 December 2017 on a going concern basis. If the Company is not successful in debt restructuring plan, the going concern assumption might not be relevant any longer for the Group or its components. The consolidated financial statements would then need to be totally or partially amended to an extent which today cannot be estimated in respect of: the valuation of the assets at their liquidation value, the incorporation of any potential liability and the reclassification of non-current assets and liabilities into current assets and liabilities.

Consolidated financial statements.

Group recognises controls on subsidiary if next criteria are met:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the Group's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group subsidiaries are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest is recorded as a separate component of the Group's equity.

Goodwill. Goodwill on acquisitions of subsidiaries is presented within intangible assets in the consolidated statement of financial position. It is carried at cost less accumulated impairment, 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 cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business from which the goodwill arose. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Joint operations. The Group accounts for the interest in the joint operations to the extent of:

- the assets that it controls and the liabilities that it incurs; and
- the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Financial instruments

Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies all of its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are accounted for at amortized cost using the effective interest method, net of provision for impairment after their initial evaluation. Loans and receivables that mature more than 12 months after the consolidated statement of financial position date are included into non-current assets. The Group's financial assets are long term receivables, promissory note receivables, term deposits, trade and other accounts receivable, cash and cash equivalents.

Classification of financial liabilities. The Group's financial liabilities include loans, borrowings, trade and other payables, financial lease, promissory notes issued and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Loans and borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Financial assistance payable. Financial assistance payable is initially recognised at the fair value and carried at amortised cost using the effective interest method. Financial assistance is disclosed within trade and other payables.

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Land lease rights. Land lease rights acquired in business combinations are initially recognised at their fair value and subsequently are carried at cost less accumulated amortisation and impairment. When agreements on the right to lease land are renegotiated, the Group capitalises incurred costs relating to the agreement prolongation and revises useful lives of land lease rights based on the prolonged term. Recognized on consolidation lease agreements are amortized on straight line method over the term of the agreements without considering possible prolongation.

Property, plant and equipment. Property, plant and equipment items are stated at cost less accumulated depreciation and, where applicable, accumulated impairment. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects, if the recognition criteria are met. All repair and maintenance costs are expensed as incurred. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. The assets residual

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress represents the cost of properties, plant and equipment which have not yet been completed less any accumulated impairment. This includes cost of construction works, cost of plant and equipment and other direct costs.

The Group leases the land on which its operations are located under operating lease agreements and therefore land is not included in the consolidated financial statements.

At each end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment is recognised in profit or loss. An impairment recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings and structures	5-30
Agricultural equipment	3-15
Vehicles and office equipment	3-17

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

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 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.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

Special tax for agricultural producers. The Company's subsidiaries in Ukraine engaged in the production, processing and sale of agricultural products may opt for paying a *special tax for agricultural producers* ("Group #4 of Tax payers defined in Tax Code of Ukraine") in lieu of corporate income tax, land tax, duties for special use of water objects, municipal tax, vehicle tax, duties for geological survey works and duties for trade patents if the revenues from sale of their self-grown agricultural products constitute not less than 75% of their total gross revenues. The amount of *special tax for agricultural producers* is assessed at 0.81% on the deemed value of the land plots owned or leased by the entity (as determined by the relevant State authorities). As at 31 December 2017 four Ukrainian subsidiaries of the Group elected to pay *special tax* (31 December 2016: 5). The rest of the Group's entities are subject to regular income tax.

Value added tax. In Ukraine VAT is levied at two rates: 20% on sales and imports of goods within the country, works and services and 0% on the export of goods and provision of works or services to be used outside Ukraine. Output VAT on the sale of goods and services is accounted for on the date the goods/services are delivered to a customer or the date the payment is received from the customer, whichever is earlier. Input VAT is accounted for as follows: entitlement to an input tax credit for purchases arises when VAT invoice is received which is issued on the earlier of the date of payment to the supplier or the date, on which the goods/services are received or entitlement to an input tax credit for imported goods or services arises on the date the tax is paid.

VAT related to sales and purchases is recognised in the statement of financial position on a net basis and disclosed as an asset or liability to the extent it has been recorded in VAT declarations. Prepayments issued and prepayments received are disclosed in these consolidated financial statements net of VAT balances as it is expected that such balances will be settled by delivery of the underlying product or service.

The Group's subsidiaries involved in the production and sale of agricultural produce and that meet certain other criteria are subject to a privileged VAT regime. For such qualifying entities, the net VAT payable is not transferred to the State authorities, but is retained in the business for use in agricultural production. Such net VAT liabilities are credited to profit and loss as government grants.

Government grants. According to the Ukrainian VAT legislation VAT which agricultural producers charge on sales of agricultural produce, net of VAT paid on purchases, is not transferred to the State budget but can be retained for use in agricultural production. These government grants are recognised in profit or loss for the year once the Group makes the qualifying expenditures on agricultural supplies or equipment.

Biological assets. Biological assets represent crops in the field and livestock and are measured at fair value less costs to sell.

Crops in the field. The fair value of crops in the field is determined by using valuation techniques, as there is no market for winter crops and other long-term crops of the same physical condition. The fair value of the Group's biological assets is calculated as the present value of anticipated future cash flows from the asset before tax. The fair value calculation of crops in the field is based on the existing field under crops and the assessments regarding expected crop yield on harvest, time of harvest, future cultivation, treatment, harvest costs and selling prices. The discount rate is determined by reference to weighted-average cost capital based on risk profile of the Group.

Livestock. The fair value of non-current livestock is determined by using valuation techniques, as there is no market for sows of the same physical conditions, such as weight, age and breed. The fair value of livestock is based on expected litter of piglets, expected volume of meat at the date of slaughter, respective anticipated prices, average expected productive lives of the livestock and future production costs. The discount rate is determined by reference to current market determined pre-tax rate.

A gain or loss arising on initial recognition of a biological asset at the fair value less costs to sell and from a change in the fair value less costs to sell of a biological asset at each subsequent reporting date is included in income statement in the period in which it arises.

The biological assets are classified as current or non-current depending on the expected pattern of consumption of the economic benefits embodied in the biological assets. Dairy cattle, sows, fruit gardens and long-term grass are classified as non-current and livestock husbandry and winter crops are classified as current biological assets.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding the cost of field preparation is reclassified to biological assets held at fair value.

Agricultural produce. Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the date of harvest.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. The cost of work in progress comprises fuel and other raw material, direct labour, depreciation and amortization, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Advances issued. Advances issued to suppliers are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances issued to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets or services relating to an advance will not be received, the carrying value of the advance is written down accordingly and a corresponding impairment is recognised in profit or loss.

Impairment of financial assets carried at amortised cost. Impairment are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment has occurred:

- any portion or installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Uncollectible assets are written off against the related impairment provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment account within the profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts, if any.

Share capital. Ordinary shares are classified as equity. Share premium is the difference between the fair value of the consideration received for the issue of shares and the nominal value of the shares. The share premium account can only be used for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the legislation in Luxembourg on reduction of share capital.

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

Borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee benefits - defined contribution plan. The Group makes statutory unified social contribution to the Pension Fund of Ukraine in respect of its Ukrainian based employees. The contributions are calculated as a percentage of current gross salary and are expensed when incurred.

Wages, salaries, unified social contribution to Pension Fund of Ukraine, paid annual leave and sick leave, bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

Functional and presentation currency. The currency of each consolidated entity is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is the Ukrainian hryvnia. 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. All information in USD has been rounded to the nearest thousand, except when otherwise indicated. The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

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 profit or loss. Translation at year end does not apply to nonmonetary items.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for translating foreign currency balances were:

	2017 (unaudited)	2016
USD/UAH as of 31 December	28.0672	27.1909
USD/UAH average for the year	26.6006	25.5873
EUR/UAH as of 31 December	33.4954	28.4226
EUR/UAH average for the year	30.0753	28.3116

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues from rendering of services are recognised 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

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

proportion of the total services to be provided.

Revenues are shown net of Value Added Tax and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Finance income and costs. Finance income and costs mainly comprise interest income and cash on equivalents and bank deposits, interest expense on borrowings and finance leases and exchange differences on borrowings.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the Group's accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next year are:

Biological assets. In the absence of observable market prices for biological assets in their condition at the reporting dates, the fair value of biological assets was estimated as the present value of future net cash flows expected to be generated from the assets discounted at a current market-determined pre-tax rate.

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

- expected crop yield on harvest is based on the prior years results;
- the average productive life of livestock is determined based on internal statistical information;
- evaluation of non-current livestock based on restorable principle;
- market prices for grains and meat are obtained from external sources (commodity exchanges, purchase prices stipulated by the State Reserve Fund in Ukraine etc.);
- cultivation, treatment, harvesting and production costs, including land lease costs are projected based on historical information and adjusted, where necessary, to conform with new raw materials and production techniques currently in use;
- time of harvest is estimated based on the historical data;
- the discount rate is estimated as weighted average cost of capital.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers. The key assumptions used to determine the fair value of biological assets presented in Note 11.

Agricultural produce. Agricultural produce is the harvested product of the Group's biological assets. It is recorded at its estimated fair value less costs to sell, at the point of harvest. The determination of fair value for a biological asset or agricultural produce is facilitated by grouping the produce according to significant attributes; for example, by type or quality. The fair value of each group of agricultural produce at the end of the reporting period is determined as lower of the available average market price for similar products at the point of harvest and net realizable value. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual numbers. A 10% increase or decrease in market prices compared to the selling prices used would result in an increase or decrease in the fair value of agricultural produce of USD 442 thousand (31 December 2016: USD 321 thousand).

Allowance for doubtful receivables. The Group periodically assesses recoverability of receivables from main debtors. In the case objective evidence of uncollectability is in place, allowance is provided for the amount of doubtful receivables. No allowance for receivables from related parties is charged. Additionally a general provision for doubtful debts is provided on all receivables due for more than 365 days.

Cost of inventories. At each reporting date the Group carries out assessment of goods for signs impairment of initial value. As at 31 December 2017 the Group's Management uses method of individual assessment of each unit of goods. The same approach was used in 2016.

Goodwill. Goodwill arising from the acquisition of subsidiaries is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

assessing the recoverable amount (estimated under five-year cash flows financial plans) of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment is recognised. Impairment relating to goodwill cannot be reversed in the future periods.

Useful lives. Management estimates are necessary to identify the useful lives of property, plant and equipment. Management uses its expertise and judgment in reassessing the remaining useful lives of major items at each reporting date.

Subsidiaries. The Group consolidates the result of Parisifia Trading Ltd (Cyprus), KSG Energy Group Ltd (Cyprus) and Abondanza S.A. (Switzerland) although it only holds 50% of the voting rights, because it has the power to govern its financial and operating policies through arrangements with the other 50% shareholder. The Group also consolidates the results of Pererobnyk PrJSC, a company in which it holds 25% of the voting rights, because it has the power to govern its financial and operating policies through its sole presence in the supervisory and management boards of the company and ability to determine remuneration of its representatives in these governance bodies. Majority of the supervisory and management board members are employees of other entities of the Group. Judgement is required to determine whether the substance of the relationship between the Group and a subsidiary indicates that the entity is controlled by the Group. In making this judgement management considered arrangements with the other shareholders of the subsidiary.

Fair value measurement. Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available – Note 16) and non-financial assets (Note 9, 11). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Income tax and deferred taxes The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

5. Business Acquisitions and Disposals.

During the year ended 31 December 2017, the Group disposed 100% of the ownership in Ranniy Ranok LLC. During the years 2017 and 2016, no acquisitions took place as well as during the year ended 31 December 2016 there were no disposals.

As at 13 August 2017, the 100% share of subsidiary Ranniy Ranok LLC was disposed for UAH 10,000 (USD 389). Based on subsidiary financials as at the date of the disposal the related impacts were as follows:

<i>In thousands of US dollars</i>	Ranniy Ranok LLC
Voting right disposed	(100)%
Effective interest attributable to the owners of the Company	(100)%
Inventories	46
Cash and cash equivalents	20
Biological assets	263
Taxes receivable	3
Accounts receivable	765
Accounts payable	(1,041)
Fair value of 100% of net assets	56
Loss on disposal	(56)
Total consideration received	-
Cash and cash equivalents disposed	(20)
Outflow of cash on disposal	(20)

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

6. Material non-controlling interests in subsidiaries

The summary disclosure of non-controlling interest as at 31 December 2017 and 2016 is presented below:

<i>In thousands of US dollars</i>	Portion	Voting rights	Profit or loss attributable to NCI	OCI attributable to NCI	Net assets attributable to NCI	Dividends paid to NCI
As at 31 December 2017 (unaudited)						
Parisifia ltd Group	50%	50%	537	(275)	9,421	-
PrJSC Pererobnyk	75%	50%	-	28	(2,354)	-
Total			537	(247)	7,067	-
As at 31 December 2016						
Parisifia ltd Group	50%	50%	3,134	(1,329)	9,159	-
PrJSC Pererobnyk	75%	50%	(1,052)	163	(2,382)	-
Total			2,082	(1,166)	6,777	-

“Parisifia ltd Group” contains next companies: Agrotrade LLC; Factor D LLC; Rantye LLC; Agroplaza LLC; Stepove LLC; Dzherelo LLC; Kolosyste LLC..

KSG Energy Group LTD, Parisifia LTD and Abbondanza SA companies have immaterial NCI effect thus in current note such companies were not considered.

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations) was as follows at 31 December 2017 and 2016:

<i>In thousands of US dollars</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2017 (unaudited)					
Parisifia LTD Group	15,249	38,315	(33,304)	(1,430)	18,830
PrJSC Pererobnyk	1,737	(1,452)	(2,931)	(493)	(3,139)
Total	16,986	36,863	(36,235)	(1,923)	15,691
As at 31 December 2016					
Parisifia LTD Group	13,486	44,700	(31,811)	(3,190)	23,185
PrJSC Pererobnyk	1,190	41	(2,552)	(509)	(1,830)
Total	14,676	44,741	(34,363)	(3,699)	21,355

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations) was as follows at 31 December 2017 and 2016:

<i>In thousands of US dollars</i>	Revenue	Profit/(loss)	Total comprehensive income / (loss)
For the year ended 31 December 2017 (unaudited)			
Parisifia LTD Group	13,153	1,074	525
PrJSC Pererobnyk	-	-	38
Total	13,153	1,074	563
For the year ended 31 December 2016			
Parisifia LTD Group	10,346	8,255	5,292
PrJSC Pererobnyk	18	(214)	(67)
Total	10,364	8,041	5,225

7. Adoption of New or Revised Standards and Interpretations

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

- **Amendments to IAS 7: Disclosure Initiative** The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities see Note 19.
- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The above amendment did not have any significant impact on the Group's financial statements.

The following new standards, which are relevant to the Group's consolidated financial statements, have been issued, but have not been endorsed by European Union:

- **Annual Improvements to IFRS Standards 2014-2016 Cycle** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 and 1 January 2018);
- **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- **IFRIC 23 Uncertainty over Income Tax Treatments** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- **Annual Improvements to IFRS Standards 2015-2017 Cycle** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

The following new standards which are relevant to the Group's consolidated financial statements, have been issued and endorsed by European Union, but have not been effective for financial periods beginning on or after 1 January 2017:

- **IFRS 9, Financial Instruments** (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018);

The new standard IFRS 9 Financial Instruments issued by the Board in July 2014 is obligatory for implementation for the periods beginning on or after January 1, 2018. The standard replaces IAS 39 previously regulated operations with financial instruments.

The objective of the new standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The standard also regulates hedge accounting and provide explicit rules for calculation of loss allowance.

The management examined all material financial instruments according to new models for classifying and measuring financial assets and liabilities after initial recognition. They were checked through both Business Model test and SPPI test.

Management tested financial assets as an object to another fundamental change – implementation of “expected credit loss” model, which generally focuses on the risk that an instrument will default rather than whether a loss has been incurred.

During prior analysis management did not identify any financial instrument that would change its classification due to new requirement of IFRS 9 based on Business model and SPPI test.

However, implementation of the “expected credit loss” model will lead to increase in impairment charges. This is due to the fact that under IFRS 9 the Group is obliged to accrue provision on amounts that were previously out of bad debt analysis due to accounting policy rules. Particularly that would concern financial assets from related parties and newly created financial assets from third parties.

IFRS 15 - Revenue from Contracts with Customers (issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018);

- **Clarifications to IFRS 15 Revenue from Contracts with Customers** (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018);

Starting from 1 January 2018 the Group is obliged to apply IFRS 15 Revenue from Contracts with Customers. The new standard recognition requirements provide more advanced guidance on complex transactions, such as accounting for multiple-element arrangements.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

For the purpose of transition to accounting according to IFRS 15 the Group decided to apply method of retrospective presentation with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings of the annual reporting period that starts from 1 January 2018.

The Group will apply the standard retrospectively only to contracts that are not completed as at 1 January 2018.

During prior accounting analysis, the management reviewed number of typical sales agreements. Examining the sales recognition procedures the management tried to identify all performance obligations (if more than one), their interrelations, separability and contract costs.

Taking into account specific of business activity of the Group, current sales structure and near future business development, management does not expect sales contracts with multiple performance obligations to be common business practice, except those described below. Consequently, management does not consider IFRS 15 will bring material changes in sales recognition rules and, therefore, Its possible misapplication will not result in mistakes or omissions that may influence the consolidated financial statements user decision. Nevertheless, management regularly reviews business changes and all new or unusual transactions are separately examined for proper treatment, recognition and disclosure within consolidated financial statements.

Management assesses that possible correction of retained earnings opening balances as at 1 January 2018 may constitute immaterial.

Management believes that the new standard requirements in respect of disclosures are extensively satisfied with existing disclosures, except cases where the Group is obliged to describe the judgements, and changes in the judgements concerning multiple performance obligation such as: the timing of satisfaction of performance obligations; the transaction price and the amounts allocated to performance obligations. Management will implement such disclosures within consolidated financial statements for the transactions when it is appropriate from materiality and substance view.

IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The Group is still assessing the impact of IFRS 16. It is expected that a number of leases currently accounted as operating leases will need to be capitalised. The impact for IFRS 16 will be assessed as at 31 December 2018 that will be comparative period subject to change when the standard will be adopted.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

8. Property, Plant and Equipment

Movement of property, plant and equipment for the years ended 31 December 2017 and 2016 was as follows:

<i>In thousands of US dollars</i>	Buildings	Agricultural equipment	Vehicles and office equipment	Construction in progress	Total
At 01 January 2016					
Cost	14,994	6,599	2,001	8,760	32,354
Accumulated depreciation	(3,942)	(4,329)	(1,583)	-	(9,854)
Carrying amount as at 01 January 2016	11,052	2,270	418	8,760	22,500
Additions	13	167	105	538	823
Disposals	(2)	(327)	-	-	(329)
Transfers	-	162	268	(430)	-
Depreciation charge	(735)	(467)	(129)	-	(1,331)
Exchange differences, cost	(1,759)	(927)	(509)	(629)	(3,824)
Exchange difference, depreciation	506	535	193	-	1,234
Carrying amount as at 31 December 2016	9,075	1,413	346	8,239	19,073
At 31 December 2016					
Cost	13,246	5,674	1,865	8,239	29,024
Accumulated depreciation	(4,171)	(4,261)	(1,519)	-	(9,951)
Carrying amount as at 31 December 2016	9,075	1,413	346	8,239	19,073
Additions	391	510	165	73	1,139
Disposals	-	(57)	(1)	(20)	(78)
Transfers	2,043	1,099	3,466	(6,608)	-
Depreciation charge	(923)	(427)	(112)	-	(1,462)
Exchange differences, cost	(542)	(258)	(248)	86	(962)
Exchange difference, depreciation	178	156	53	-	387
Carrying amount as at 31 December 2017 (unaudited)	10,222	2,436	3,669	1,770	18,097
At 31 December 2017					
Cost	15,138	6,968	5,247	1,770	29,123
Accumulated depreciation	(4,916)	(4,532)	(1,578)	-	(11,026)
Carrying amount as at 31 December 2017 (unaudited)	10,222	2,436	3,669	1,770	18,097

During 2017 the Group did not capitalise borrowing costs (2016: USD nil thousand) on the construction of a pig-breeding complex.

Included in agricultural equipment are assets held under finance leases with a carrying value of USD 112 thousand (2016: USD 152 thousand) (Note 16).

For amount of property, plant and equipment pledged to secure bank loans refer to Note 16.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

9. Intangible Assets

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Land lease rights	-	33
Total intangible assets	-	33

The following table represents movements in land lease rights:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
At 1 January		
Cost	1,920	2,357
Accumulated amortisation	(1,887)	(2,123)
Carrying amount as at 1 January	33	234
Amortization charge	(32)	(15)
Impairment	-	(169)
Exchange difference, cost	(1)	(268)
Exchange difference, amortisation	-	251
At as at 30 December	-	33
Cost	-	1,920
Accumulated amortisation	-	(1,887)
Carrying amount as at 30 December	-	33

10. Inventories and Agricultural Produced

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Agricultural produce	513	14
Work in progress	549	210
Semi-finished goods	455	219
Agricultural stock	288	207
Raw materials	207	152
Goods for resale	97	24
Finished goods	164	206
Other	59	70
Total inventories and agricultural produced	2,332	1,102

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. The cost of work in progress comprises fuel and other raw material, direct labour, depreciation and amortization, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Agricultural produce harvested from the Group's biological assets is measured at its fair value less estimated costs to sell at the date of harvest.

Finished products consist mainly of livestock mixed fodder used for pig breeding. Semi-finished products are pig processed foods used for sale to a final consumers. Work in progress is accumulated expenses related to land cultivation for a spring crops sowing (fuel, fertilizers, irrigation, payroll expenses, depreciation and amortization). Agricultural stocks represent by inventories used in crops sowing process (seeds, fertilizers, weed killers, chemical products and crop protection products). Agricultural produce consists of own produced wheat, sunflower, barley, rapeseed, corn and sorgho used for future sales or in the Group's operational activity.

In 2017 the Group recognized the value of previously written-off stocks USD 285 thousand (2016: written-off USD 373 thousand).

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

11. Biological Assets

	31 December 2017 (unaudited)		31 December 2016	
	Units	Amount	Units	Amount
Non-current biological assets (livestock)				
Cattle	334	189	339	139
Sows	4,841	22,261	5,121	21,912
Boars	27	7	28	8
	Area, ha	Amount	Area, ha	Amount
Non-current biological assets (crops)				
Other perennial grasses	33	101	33	104
Total non-current biological assets		22,558		22,163
	31 December 2017 (unaudited)		31 December 2016	
	Units	Amount	Units	Amount
Current biological assets (livestock)				
Cattle	278	91	268	76
Pigs	53,493	3,194	52,479	2,216
	Area, ha	Amount	Area, ha	Amount
Current biological assets (crops)				
Wheat	6,351	1,899	7,866	1,427
Barley	951	92	2,082	193
Rapeseed	4,055	2,384	628	249
Sunflower	101	41	241	11
Total current biological assets		7,701		4,172
Total biological assets		30,259		26,335

The total area of agricultural land used by the Group is approximately 30 thousand hectares, including approximately 11,4 thousand hectares under winter crops as at 31 December 2017. (34 thousand hectares, including approximately 11 thousand hectares under winter crops as at 31 December 2016)

Significant quantity of Danish breed pigs (recorded as non-current biological assets) was purchased in April 2013 in order to produce piglets of given breed and to sell them in live weight.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

The following table represents the changes during the years in the carrying amounts of non-current and current biological assets:

<i>In thousands of US dollars</i>	Crops	Livestock	Total
Carrying amount as at 01 January 2016	2,029	18,720	20,749
Purchases	-	-	-
Investments into future crops and livestock	5,286	9,073	14,359
Sales	(28)	(8,485)	(8,513)
Gain/(loss) arising from changes in fair value attributable to physical changes and changes in market prices	3,509	7,086	10,595
Harvested during the period	(7,698)	-	(7,698)
Loss from dead crops	(224)	-	(224)
Exchange differences	(890)	(2,043)	(2,933)
Carrying amount as at 31 December 2016	1,984	24,351	26,335
Purchases	-	34	34
Investments into future crops and livestock	7,104	9,787	16,891
Sales	-	(10,963)	(10,963)
Gain/(loss) arising from changes in fair value attributable to physical changes and changes in market prices	6,640	3,026	9,666
Harvested during the period	(10,801)	-	(10,801)
Disposals of subsidiaries	(172)	-	(172)
Loss from dead crops	(19)	-	(19)
Exchange differences	(219)	(493)	(712)
Carrying amount as at 31 December 2017 (unaudited)	4,517	25,742	30,259

Other costs incurred on crops in the field are mostly consist of services of land processing and cultivation, harvesting and transportation.

Costs incurred during the period ended 31 December 2017 on crops in the field and livestock were as follows:

<i>In thousands of US dollars</i>	Crops	Livestock	Total
Raw materials	3,261	8,381	11,642
Land lease expenses	1,139	-	1,139
Staff costs	371	328	699
Depreciation and amortisation	227	996	1,223
Other	2,106	82	2,188
Total costs incurred during the period (unaudited)	7,104	9,787	16,891

Costs incurred during the period ended 31 December 2016 on crops in the field and livestock were as follows:

<i>In thousands of US dollars</i>	Crops	Livestock	Total
Raw materials	2,601	8,015	10,616
Land lease expenses	1,130	-	1,130
Staff costs	215	206	421
Depreciation and amortisation	117	795	912
Other	1,223	57	1,280
Total costs incurred during the period	5,286	9,073	14,359

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Gain on initial recognition at fair value and net change in fair value of biological assets for the years ended 31 December 2017 and 2016 were as follows

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Crops in the field	3,668	1,258
Agricultural produced at the date of harvesting	2,972	2,251
Sows	1,198	7,763
Livestock husbandry	1,797	(687)
Dairy cows	31	10
Total gain on initial recognition at fair value and net change in fair value of biological assets	9,666	10,595

Description fair value as of 31 December 2017 evaluation method unattended inputs range of unobservable inputs

Description	Fair value as at 31 December 2017 (unaudited)	Valuation technique	Unobservable inputs	Range of unobservable inputs
	1,899		Crop yield - tonnes per ha	2.59
			Crops price, USD	171 per tonne
			Discount rate	17.17%
	92		Crop yield - tonnes per ha	1.97
			Crops price, USD	128 per tonne
			Discount rate	17.17%
	2,384		Crop yield - tonnes per ha	2.11
			Crops price, USD	392 per tonne
			Discount rate	17.17%
			Crop yield - tonnes per ha	1.72
			Crops price, USD	315 per tonne
			Discount rate	17.17%
Cattle	280	Market Price	Meat price, USD	1169 per tonne
			Piglets production, heads (average)	124,037 per year
			Price, USD	945–1709 per tonne
			Discount rate	17.17%
Pigs	3,194	Market Price	Meat price, USD	1,343–2,523 per tonne

Agricultural produced crops harvested during the years ended 31 December 2017 and 2016 were presented in bunker weight as follows:

Crop harvested	2017 (unaudited) in tonnes	2016 in tonnes
Wheat	19,667	17,497
Barley	5,173	6,173
Rapeseed	790	244
Sunflower	18,413	20,247
Corn	1,659	486
Total	45,702	44,647

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

For amount of biological assets pledged to secure bank loans refer to Note 16. Changes in key assumptions used to estimate biological assets fair value would have the following effect on the fair value of biological assets:

<i>In thousands of US dollars</i>	Effect on fair value of biological assets (unaudited)
10 % increase in price for meat	402
10 % decrease in price for meat	(402)
10 % increase in prices for crops	442
10 % decrease in prices for crops	(442)
10 % increase in yield for crops	442
10 % decrease in yield for crops	(442)
10 % increase in production costs until harvest	(126)
10 % decrease in production costs until harvest	126
5 pp increase in discount rate	(5,721)
5 pp decrease in discount rate	11,586

12. Cash, Cash Equivalents and Term Deposits

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Cash in bank / (Overdraft)	760	1,107
Total cash and cash equivalents	760	1,107
Term deposits – non-current	-	1,534
Term deposits – current	534	-
Total deposits	534	1,534

Cash and cash equivalents and term deposits were denominated in the following currencies:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)		31 December 2016	
	Cash and cash equivalents	Term deposits	Cash and cash equivalents	Term Deposits
UAH	681	534	941	1,534
EUR	7	-	14	-
USD	67	-	141	-
PLN	3	-	3	-
CHF	2	-	8	-
Total	760	534	1,107	1,534

For amount of deposits pledged to secure bank loans refer to Note 16.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

13. Trade and Other Accounts Receivable

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Trade accounts receivable	4,754	4,939
Less: provision for trade accounts receivable	(2,417)	(1,824)
Loans issued	2,983	1,071
Less: provision for loans issued	(481)	(350)
Other financial receivables	3,181	4,989
Less: provision for other financial receivables	(2,449)	(1,542)
Total financial trade and other receivables	5,571	7,283
Advances issued	742	154
Less: provision for advances issued	(116)	(116)
Total trade and other accounts receivables	6,197	7,321

As at 31 December 2017, the most of all financial receivables were denominated in UAH (As at 31 December 2016 almost all financial receivables were denominated in UAH too), detailed information presented in note 29 - Currency risk.

Loans issued represent interest-free loans and are repayable within twelve months. The fair value of each class of trade and other receivables as at 31 December 2017 and 2016 approximates their carrying amount as of these dates. For amount of receivables pledged to secure bank loans refer to Note 16.

Long-term accounts receivable in amount USD 984 thousand are presented at amortised cost. These receivables consist of Loans issued in amount 984.

Movement in the impairment for trade and other receivables were as follows:

<i>In thousands of US dollars</i>	Trade receivables	Other receivables	Loans issued	Advances issued
Impairment at 31 December 2015	579	1,731	279	74
Impairment during the year	1,396	16	111	54
Exchange differences	(151)	(205)	(40)	(12)
Impairment at 31 December 2016	1,824	1,542	350	116
Impairment during the year	686	1,008	150	4
Exchange differences	(93)	(101)	(19)	(4)
Impairment at 31 December 2017 (unaudited)	2,417	2,449	481	116

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Analysis by credit quality of financial receivables is as follows:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)			31 December 2016		
	Trade receivables	Loans issued	Other receivables	Trade receivables	Loans issued	Other receivables
<i>Neither past due nor impaired</i>						
- Related parties	-	-	-	627	83	315
Total neither past due nor impaired	-	-	-	627	83	315
<i>Total overdue</i>						
- less than 90 days overdue	904	2,271	16	955	127	267
- 91 to 180 days overdue	1,150	69	219	1,039	-	408
- 181 to 360 days overdue	287	162	497	444	83	2,320
- over 360 days overdue	2,413	481	2,449	1,874	778	1,679
Total overdue	4,754	2,983	3,181	4,312	988	4,674
Less: provision for impairment	(2,417)	(481)	(2,449)	(1,824)	(350)	(1,542)
Total trade and other receivables	2,337	2,502	732	3,115	721	3,447

Related parties are presented by the private companies controlled by the majority shareholder of the Group.

Not overdue accounts receivable from related parties were mainly presented by the amounts due from the entities under common control (refer to Note 27). Thus, management believes that all accounts receivable are recoverable in full amounts. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

14. Taxes recoverable and prepaid, government grants received

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
VAT recoverable	-	127
Other taxes receivable	-	80
Total taxes recoverable and prepaid	-	207

The Ukrainian legislation provides for a number of different grants and tax benefits for companies involved in agricultural operations. The below mentioned grants and similar privileges are established by Verkhovna Rada (the Parliament) of Ukraine, as well as by the Ministry of Agrarian Policy of Ukraine, the Ministry of Finance of Ukraine, the State Committee of Water Industry, the customs authorities and local district administrations.

Government grants recognised by the Group as income during the years ended 31 December 2017 and 2016 were presented by VAT refunds amounting to USD 350 thousand and USD 178 thousand respectively.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

15. Share Capital and Share Premium

As of 31 December 2017 and 2016, the registered share capital of KSG AGRO S.A. amounted to USD 150,200 and comprised of 15 020 thousand ordinary shares with a par value of USD 0.01 each. All issued shares were fully paid.

<i>In thousands of US dollars, except number of shares</i>	Number of shares	Ordinary shares	Share premium	Total
At 01 January 2016	15,020,000	150	37,254	37,404
Share issue	-	-	-	-
At 31 December 2016	15,020,000	150	37,254	37,404
Changes in Equity	-	-	-	-
At 31 December 2017 (unaudited)	15,020,000	150	37,254	37,404

Earnings per share calculation

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:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Profit for the year attributable to owners of the Company – basic	358	1,831
Profit/(loss) from discontinued operations attributable to ordinary shareholders of the parent company	-	-
Interest on convertible preference shares	-	-
Profit for the year attributable to owners of the Company – diluted	358	1,831
Weighted-average number of shares in issue – basic	15,020,000	15,020,000
Dilutive effect	-	-
Stock option	-	-
Convertible preference shares	-	-
Weighted-average number of shares in issue – diluted	15,020,000	15,020,000
Basic earnings per share, USD	0.02	0.12
Diluted earnings per share, USD	0.02	0.12

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

16. Loans and Borrowings

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Long-term		
Financial lease liabilities	52	83
Bank loans	22,479	20,813
Total long-term loans and borrowings	22,531	20,896
Current		
Financial lease liabilities	28	30
Bank loans	24,631	24,363
Total current loans and borrowings	24,659	24,393

As a result of Ukrainian crises, in 2015 several banks of Ukraine have been forced to start liquidation process. In order to ensure repayment due to bank depositors it was decided to sign three side agreements with borrower (the Group), bank (Cambio Bank PJSC) and individuals. As a result such borrowings in consolidated financial statements as at 31 December 2017 and 2016 were presented as bank loans amounted USD 3,513 thousand.

As at 31 December 2017 and 2016, the Group's loans and borrowings were denominated in the following currencies:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
<i>Borrowings denominated in:</i>		
- USD	29,552	24,849
- UAH	80	6,728
- EUR	17,558	13,712
Total loans and borrowings	47,190	45,289

The Group was not in compliance with repayment terms with respect to a loan of USD 10,308 thousand as at 31 December 2017 (2016: USD 9,003 thousand). Consequently, the non-current loan, which contractually matured in 2021, was classified as current and payable on demand.

The Group also had overdue balances with PJSC Credit Agricole, sued several of the Group's entities (Note 27). The amount of debt outstanding as at 31 December 2017 was USD 3,861 thousand (2016: USD 3,594 thousand). On 19 January 2018, the liability was purchased from the bank by a third party and restructured for 30 years (Note 32).

On February 24, 2017 the Company signed restructuring agreements on loans that were overdue as at 31 December 2016 with Big Dutchman Pig Equipment (principal USD 4,174 thousand, interest USD 535 thousand, repayable within 10 years).

As of 31 December 2017, the Group had loans payable (including interests) with overdue payments in amount of USD 8,201 thousand (2016: USD 6,731 thousand). At the same time the Group is in negotiations with its creditors to achieve restructuring of its debts. Due to this breach and the fact that the negotiations with its finance providers had not been finalised by the end of the year, all the loans were classified into the current borrowings of the Group. No pending litigation exists in respect with these cases.

The loans from Olbis Investments SA (principal USD 10,363 thousand, interest USD 3,242 thousand as at 31 December 2017) will be payable in 2026 based on the transfer agreement from ICD Investments SA to Olbis Investments SA signed on November 2016.

The Group's loans and borrowings obtained by Ukrainian and Cypriot subsidiaries carried at amortized cost. Different interest rates for such loans and borrowings defined by market conditions based on country and currency risks by independent banks and borrowers. Loan obtained from related party with fixed interest rate has the equal interest rate as non-related banks with flexible interest rates obtained by Cypriot subsidiary (in range from 1.1 up to 3.4% and based on official LIBOR and EURIBOR rates). Due to close correspondence of fixed and variable interest rates, management permit to assess that the carrying value of its loans is a reasonable approximation of the fair value.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

As at 31 December 2017 and 2016, the Group's loans and borrowings maturity were as follows:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
<i>Loans and borrowings due:</i>		
- within 1 year	24,659	24,393
- between 1 and over 5 years	22,531	20,896
Total borrowings	47,190	45,289

The Group's loans and borrowings consisted from the following categories:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Bank loans	27,461	24,057
Loan from related party	10,363	12,471
Interest payable	5,773	5,135
Accrued provision (reserve) for contingent liabilities	3,513	3,513
Financial lease liabilities	80	113
Total bank and other loans	47,190	45,289

Accrued provision (reserve) for contingent liabilities is amount of loan from Cambio bank, which was replaced by individuals and was accrued in amount of USD 3,513 as at 31 December 2017. During the year there were no changes in amount due to the absence of changes in the conditions of this liability which was amounted USD 3,513 as at 31 December 2016. The Group is in the process of setting up terms of restructure and payments with the above-mentioned individuals.

Movements in the Bank loans during the period consist of:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Carrying amount as at 1 January	45,176	45,697
Loan received	6,499	65
Loan repayment	(7,134)	(853)
Interest accrued for the period	2,202	3,450
Interest on loan paid	(1,627)	(1,644)
Other IFRS adj effect	(33)	(209)
Exchange differences	2,027	(1,330)
Carrying amount as at 31 December	47,110	45,176

The carrying value of the Groups' assets pledged as collateral for the Group's bank loans is as follows:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Property, plant and equipment	692	3,172
Term deposit	-	1,534
Biological assets	280	1,057
Share in subsidiaries (Property rights)	-	1,549
Total carrying amount of collateral	972	7,312

As at 31 December 2017, a related party pledged as collateral real estate of contractual value of USD 10,600 thousand for respective liabilities of the Group to the amount of USD 5,918 thousand (2016: contractual value of USD 6,523 thousand for respective liabilities of the Group to the amount USD 4,230 thousand).

Leased assets with the carrying amount of USD 124 thousand (31 December 2016: USD 152 thousand) are presented as a collateral for the Group's obligations under the finance lease agreements. The Group has not delayed any payments on these leases as at 31 December 2017 and therefore, according to the lease agreements, the lessor can't require the immediate return of those assets.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

As at 31 December 2017 and 2016, obligations under financial lease liabilities were:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Long-term	52	83
Short-term	28	30
Total finance lease liabilities	80	113
Total future minimum lease payments	109	167
Less: interest expenses	(29)	(54)
Discounted value of future minimum lease payments	80	113

As at 31 December 2017, 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:

<i>In thousands of US dollars</i>	2018	2019	2020	2021	Total
Future minimum lease payments	45	39	25	-	109
Less: interest expenses	(17)	(10)	(2)	-	(29)
Discounted value of future minimum lease payments (unaudited)	28	29	23	-	80

As at 31 December 2016, 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:

<i>In thousands of US dollars</i>	2017	2018	2019	2020	Total
Future minimum lease payments	55	46	40	26	167
Less: interest expenses	(25)	(17)	(10)	(2)	(54)
Discounted value of future minimum lease payments	30	29	30	24	113

As at 31 December 2017 and 2016, minimum lease payments were as follows:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Amounts payable under financial lease agreements:		
During 1 year	45	55
Over 1 year but no more than 5 years	64	112
Total lease payments	109	167

17. Trade and Other Accounts Payable

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Trade payables	5,990	5,561
Financial assistance received	6,198	6,979
Land lease payables	697	460
Other accounts payable	509	185
Total financial trade and other payables	13,394	13,185
Prepayments received	2,228	2,535
Litigation reserve	-	174
Wages and salaries accrued	90	26
Total trade and other payables	15,712	15,920

Accounts payable and prepayments received are interest-free and settled in the normal course of business. Financial assistance received consists of amounts received from counterparties for activity financing with maturity less than one year and interest-free too. Majority of these balances relates to the trading activity with agricultural produce.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

18. Promissory notes issued

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Current promissory notes issued	1,384	1,365
Total promissory notes issued	1,384	1,365

Short term promissory notes issued in amount USD 1,384 thousand are presented at amortised cost.

19. Revenue

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Sale of agricultural produced and processed food	21,838	20,416
Rendering of services	1,349	508
Total revenue	23,187	20,924

20. Cost of Sales

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Cost of agricultural produced and processed food	20,128	17,999
Cost of rendered services	1,084	505
Total cost of sales	21,212	18,504

Cost of goods sold for the years 2017 and 2016 contains of the following components:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Incurred costs	17,865	16,456
Revaluation effects	3,347	2,048
Other IFRS adj effect	-	-
Total cost of sales	21,212	18,504

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Cost of sales incurred during the period ended 31 December 2017 and 2016 respectfully were as follows:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Feeds	4,326	3,952
Raw materials	3,933	3,447
Goods for resale	2,057	1,841
Maintenance of equipment	1,564	355
Land lease expenses	1,397	1,178
Fuel	1,108	1,064
Other raw materials- fertilizer	872	352
Depreciation and amortisation	863	974
Raw materials - seed	782	997
Other expenses	718	1,018
Other raw materials	615	482
Other raw materials- plant protection products	598	469
Payroll	579	422
Electricity	426	328
Agricultural stock	413	127
Taxes	326	281
Heating	316	256
Veterinary medicine	150	180
Water consumption	85	70
Transport service	31	59
Rent of buildings	22	13
Rent of equipment	16	8
Slaughter and processing service	9	19
Agricultural produce	-	55
Other materials	6	2
Total cost of sales	21,212	17,949

The cost of sales on nature of expense for year ended 31 December 2016 does not contain USD nil thousand the cost of sales of Agricultural produce of the harvest in 2016. The cost of sales on nature of expense for year ended 31 December 2016 does not contain USD 555 thousand the cost of sales of Agricultural produce of the harvest in 2015.

21. Selling, General and Administrative Expenses

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Wages and salaries	321	326
Informational, expert and consulting services	140	367
Transport services	128	99
Crops storage services	106	36
Depreciation and amortisation	97	76
Taxes, other than income tax	74	137
Bank services	50	28
Fuel and other materials	35	73
Other expenses	536	488
Total selling, general and administrative expenses	1,487	1,630

The total fees for audit services provided to the Group for the year 2017 are USD 100 thousand (for the year 2016 – USD 91 thousand).

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements***for the year ended 31 December 2017***22. Other operating income**

For the years ended 31 December 2017 and 2016 other operating income of the Group was USD 735 thousand and USD 4 395 thousand respectively. During 2017 the most significant element of other operating income was the write-off of payables in the amount of USD 586 thousand. During 2016 the most significant element of other operating income was write-off of payables in the amount of USD 3,325 thousand.

23. Other Expenses

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Impairment of accounts receivable	2,683	3,929
Inventory write-off	1,196	-
Fines and penalties	395	295
VAT written off	169	297
Write-off cost of crop production and loss of harvest	19	1,464
Loss of current's assets sales	15	-
Total other expenses	4,477	5,985

For the year ended 31 December 2017 Impairment of accounts receivable includes impairment of long-term promissory notes in full amount.

24. Finance Income and Expenses

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Finance income		
Interest income	138	522
Other finance income	533	970
Total finance income	671	1,492
Finance expenses		
Interest expense on bank loans	(2,114)	(3,846)
Other finance expenses	(27)	(88)
Finance expenses	(2,141)	(3,934)
Less: amounts capitalised on qualifying assets (Note 8)	-	-
Total finance expenses	(2,141)	(3,934)

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

25. Income Tax

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code.

The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognised in the income statement within item cost of sales.

During the year ended 31 December 2017, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a rate of 18% (for the year ended 31 December 2016: 18%).

The deferred income tax assets and liabilities as of 31 December 2017 and 2016 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

Income tax expense comprises the following:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Current tax expense	(10)	(8)
Deferred tax benefit	68	75
Income tax benefit	58	67

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

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Gain / (Loss) before tax	837	3,846
- Gain attributable to FAT payers	2,899	4,766
- (Loss) attributable to Ukrainian subsidiaries	(155)	(104)
- (Loss) attributable to other Group companies	(1,907)	(816)
Income tax (benefit) / expense related to Ukrainian subsidiaries	28	19
Income tax (benefit) / expense related to other Group companies	263	117
• non-deductible expense	-	-
• change in unrecognised deferred tax asset	(233)	(69)
Income tax benefit/(expense)	58	67

Deferred taxes movement for the year ended 2017 is presented below:

<i>In thousands of US dollars</i>	31 December 2016	Credited/ (charged) to income statement	Translation difference	31 December 2017 (unaudited)
Tax effect of deductible temporary differences				
Accounts receivable	317	43	(12)	348
Gross deferred tax asset	317	43	(12)	348
Tax effect of taxable temporary differences				
Property, plant and equipment	(144)	25	4	(115)
Gross deferred tax liability	(144)	25	4	(115)
Recognised deferred tax asset/(liability)	173	68	(8)	233

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Deferred taxes movement for the year ended 2016 presented below:

<i>In thousands of US dollars</i>	31 December 2015	Credited/ (charged) to income statement	Translation difference	31 December 2016
Tax effect of deductible temporary differences				
Accounts receivable	87	255	(25)	317
Gross deferred tax asset	87	255	(25)	317
Tax effect of taxable temporary differences				
Property, plant and equipment	30	(181)	7	(144)
Gross deferred tax liability	30	(181)	7	(144)
Recognised deferred tax asset/(liability)	117	74	(18)	173

26. Operating Segments

The Group has four reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and 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 quarterly basis. The operation in each of the Group's reporting segments are:

- *Crop production.* Crop production is the core business of the Group. It is generally focused on production of sunflower, wheat, barley, coleseed (rape), soybeans and other crops, such as corn, triticale, pea, and buckwheat. The main factors affecting the crop production segment are climatic conditions, land quality, plant nutrition and moisture levels in the arable land.
- *Food Processing.* Established relationships with retail chains provide the Group with opportunities to sell groceries and meat products. Currently the Group produces flour, sunflower oil, packaged crops, macaroni and meat products such as sausages and meat delicacies and supplies to retail chains.
- *Livestock breeding.* A segment which deals with pigs breeding and sale of respective livestock (cattle). Basic assets for sale in this segment are pigs in live weight
- *Other operations.* This operating segment includes fruit and vegetable production; the production of fuel pellets and the thermal energy; rendering of services to third parties. While this segment does not currently meet the threshold requiring separate segment disclosure, management believes it useful to distinguish this segment in its reporting.

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

Items which are not disclosed separately in segment income and expenses are as follows: Government grant received, Gain/(loss) on acquisition/(disposal) of subsidiaries/assets held for sale, Other operating income, Selling, general and administrative expenses, Other operating expenses, Finance income, Finance expenses, Loss on share purchase warrant and Income tax benefit.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Information about operating segments for year ended 31 December 2017 presented below:

<i>In thousands of US dollars</i>	Crop production	Food processing	Livestock breeding	Other operations	Total
Revenue	8,363	5,007	7,717	2,100	23,187
including:					
- sales of goods	8,363	5,007	7,717	751	21,838
- rendering of services	-	-	-	1,349	1,349
Inter-segment transactions	-	-	-	-	-
Revenue from external customers	8,363	5,007	7,717	2,100	23,187
Change in fair value of biological assets less estimated point-of-sale costs	6,641	-	3,025	-	9,666
Cost of sales	(7,655)	(4,702)	(5,879)	(2,976)	(21,212)
Segment profit/(loss)	7,349	305	4,863	(876)	11,641
Government grant received					350
Selling, general and administrative expenses					(1,487)
Other operating income / (expense), net					735
Operating profit					11,239
Finance income					671
Finance expenses					(2,141)
Foreign currency exchange gain/(loss), net					(4,399)
Other income/(expenses), net					(4,477)
Gain/(Loss) on acquisition/(disposal) of subsidiaries and associates					(56)
Profit before tax					837
Income tax benefit					58
Profit for the period					895
Other segment information:					
Depreciation and amortisation	423	69	871	131	1,494
Capital expenditure	674	3	404	58	1,139

Cost of sales allocated into other operations segment includes the cost of overall production cycle of the whole Group activity and thus the cost of sales allocated to that segment can be split into other segments if to be reviewed under a different point of interest.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Information about operating segments for the year ended 31 December 2016 is as follows:

<i>In thousands of US dollars</i>	Crop production	Food processing	Livestock breeding	Other operations	Total
Revenue	8,230	4,335	8,621	3,923	25,109
<i>including:</i>					
- sales of goods	8,230	4,335	8,621	2,972	24,158
- rendering of services	-	-	-	951	951
Inter-segment transactions	(388)	(127)	(3,227)	(443)	(4,185)
Revenue from external customers	7,842	4,208	5,394	3,480	20,924
Change in fair value of biological assets less estimated point-of-sale costs	3,509	-	7,086	-	10,595
Cost of sales	(6,878)	(4,015)	(5,432)	(2,179)	(18,504)
Segment profit/(loss)	4,473	193	7,048	1,301	13,015
Government grant received					178
Selling, general and administrative expenses					(1,630)
Other operating income / (expense), net					4,395
Operating profit					15,958
Finance income					1,492
Finance expenses					(3,934)
Foreign currency exchange gain/(loss), net					(3,370)
Loss on impairment of goodwill					(315)
Other income/(expenses), net					(5,985)
Gain/(Loss) on acquisition/(disposal) of subsidiaries and associates					-
Profit before tax					3,846
Income tax benefit					67
Profit for the period					3,913
Other segment information:					
Depreciation and amortisation	461	59	729	97	1,346
Capital expenditure	298	12	340	18	668

Breakdown of revenue by geographical segments is based on the domicile of the customers and is as follows:

<i>In thousands of US dollars</i>	2017	2016
Ukraine	21,013	16,609
Europe	2,174	4,315
Total revenue	23,187	20,924

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

27. Related Parties

Significant related party balances outstanding at the reporting dates are:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)		31 December 2016	
	Parent and owners	Entities under common control	Parent and owners	Entities under common control
Assets				
Trade and other accounts receivable	-	121	-	627
Other financial receivables	-	389	-	315
Loans issued	-	12	-	83
Advances issued	-	13	-	17
Liabilities				
Loans	10,363	-	10,388	2,083
Interest payable	3,242	-	2,997	210
Financial assistance received	-	1,061	21	1,904
Trade and other accounts payable	27	87	-	7

Revenue and expenses transactions with related parties during the years 2017 and 2016 were as follows:

<i>In thousands of US dollars</i>	2017 (unaudited)		2016	
	Parent and owners	Entities under common control	Parent and owners	Entities under common control
Finance expenses	199	193	692	562

Entities under common control are companies controlled by majority shareholder – Sergey Kasianov.

As of 31 December 2017, the ultimate controlling party and other related parties provided collateral for the Group's loan of USD 5,827 thousand and USD 4,773 thousand respectively (2016: USD 4,120 thousand and USD 2,403 thousand respectively).

Transactions with key management personnel. 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 consist of five members of the Board of Directors.

Remuneration of key management personnel for 2017 comprised short-term benefits totalling USD 66 thousand (2016: USD 58 thousand).

There are no other compensations for key management personnel, information about which need to be disclosed.

28. Contingencies and commitments

Legal suits against the Group. As of 31 December 2017 and 2016, the Group had no litigations that could result in material outflow of economic benefits except those relating to its borrowings, other than those disclosed below.

Loans and borrowings. As of 31 December 2017, the Group had loans payable (including interests) with overdue payments in amount of USD 8,201 thousand (2016: USD 6,731 thousand). In case the banks (other than mentioned below) sue the Group, penalties could be charged, but as at 31 December 2017 the Group deems the probability of such to be remote (31 December 2016: penalties to the additional total amount USD 624 thousand could be charged). The Group's Management actively conducts negotiations with banks and expects to agree on restructuring of debts with favorable conditions for both parties.

In April 2015, one of the banks (PJSC Credit Agricole) sued several of the Group's entities with requirement for collection of debt in respect of overdue debt balances in total amount of USD 3,861 thousand as at 31 December 2017 (2016: USD 3,594 thousand). The amount of the initial claim was USD 3,602 thousand. On 19 January 2018, bank agreed to cede the liabilities to a third party which restructured them for 30 years.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

In February 2016, the bank PJSC Credit Agricole also sued the Group with requirement to claim property pledged as collateral to the debt. The amount of the claim is USD 1,061 thousand, being hypothecation value of the property pledged. Carrying value of the property is USD 609 thousand as of 31 December 2016. The court of first instance ruled in favour of the claimant, an appeal was filed by the Group to the appeal court. On 2 March 2018, the bank agreed to cede its right to claim the assets pledged to the third party which restructured the debt for 30 years.

Operating lease. The Group leases land plots for agricultural purposes, mostly from individuals.

The Group had the following future liabilities under non-cancellable contracts of operating lease of land:

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Within one year	897	956
From one to five years	2,755	3,035
More than five years	959	814
Total	4,611	4,805

As at 31 December 2017 the total size of land leased by Group was 30.7 thousand hectares (2016: 33.6 thousand hectares).

The total rental payment for leased plough-land for the year ended 31 December 2017 amounted to USD 784 thousand (2016: USD 1,130 thousand). These costs were recorded within expenses capitalized during the period into biological assets of crops (Note 10).

29. Risk management policies

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position and as summarised below:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Financial assets		
Long-term receivables	-	937
Promissory notes receivable	-	266
Term deposits	534	1,534
Trade and other accounts receivable	5,571	7,283
Cash and cash equivalents	760	1,107
Total financial assets	6,865	11,127
Financial liabilities		
Trade and other accounts payable	13,394	13,185
Loans and borrowings	47,190	45,289
Promissory notes issued	1,384	1,365
Total financial liabilities	61,968	59,839

Credit risk concentration. The Group is exposed to the concentration of credit risk. Management monitors and discloses concentrations of credit risk by obtaining monthly reports with exposures to counterparties with individually material balances.

As of 31 December 2017, the Group had 8 counterparties (31 December 2016: 6 counterparties) with aggregated receivable balances above USD 150 thousand (2015: USD 150 thousand) each. The total aggregate amount of these balances was USD 4,016 thousand (31 December 2016: USD 5,869 thousand) or 88% of the net amount of trade and other receivables (31 December 2016: 81%).

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

Market risk. The Group takes an exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

The Group does not have significant interest-bearing financial assets. Loans and borrowings issued at variable interest rates expose the Group to the interest rate risk. Loans and borrowings issued at fixed rates expose the Group to the fair value risk.

The sensitivities to market risks disclosed below are based on a change in one factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Interest rate risk. Risk of changes in interest rate is generally related to interest-bearing loans. Loans issued at variable rates expose the Group to cash flow interest rate risk. Loans issued at fixed rates expose the Group to fair value interest rate risk. The Group is currently developing its policy on structure of fixed and variable rates loan portfolio. The Group's management analyses market interest rates to minimize interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. As of 31 December 2017, if interest rate had been 5% higher with all other variables held constant, post-tax profit for the year then ended would have been USD 2,301 thousand lower (2016: USD 2,176 thousand), respectively if interest rate had been 5% lower then profit after tax would have been increased by the same amount. The impact on Equity would be the same as on the Profit&Losses.

Currency risk. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

As of 31 December 2017, the Group had financial assets and liabilities denominated in foreign currency, net position of which is presented below:

<i>In thousands of US dollars</i>	USD	EUR	PLN	CHF	UAH	Total
Financial assets						
Long-term receivables	-	-	-	-	-	984
Promissory notes receivable	-	-	-	-	-	-
Term deposits	-	-	-	-	534	534
Trade and other accounts receivable	1,211	410	-	-	3,950	5,571
Cash and cash equivalents	65	10	2	2	681	760
Total financial assets (unaudited)	1,276	420	2	2	5,165	6,865
Financial liabilities						
Trade and other accounts payable	2,591	2,253	4	189	8,357	13,394
Loans and borrowings	29,552	17,558	-	-	80	47,190
Promissory notes issued	-	1,189	164	-	31	1,384
Total financial liabilities (unaudited)	32,143	21,000	168	189	8,468	61,968
Total: net value (unaudited)	(30,866)	(20,580)	(166)	(187)	(3,303)	(55,102)

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements**

for the year ended 31 December 2017

As of 31 December 2016, the Group has financial assets and liabilities denominated in foreign currency, net position of which is presented below:

<i>In thousands of US dollars</i>	USD	EUR	PLN	CHF	UAH	Total
Financial assets						
Long-term receivables	937	-	-	-	-	937
Promissory notes receivable	-	-	-	-	266	266
Term deposits	-	-	-	-	1,534	1,534
Trade and other accounts receivable	139	417	-	-	6,727	7,283
Cash and cash equivalents	141	14	3	8	941	1,107
Total financial assets	1,217	431	3	8	9,468	11,127
Financial liabilities						
Trade and other accounts payable	2,149	474	12	209	10,341	13,185
Loans and borrowings	24,849	13,712	-	-	6,728	45,289
Promissory notes issued	-	1,151	182	-	32	1,365
Total financial liabilities	26,998	15,337	194	209	17,101	59,839
Total: net value	(25,781)	(14,906)	(191)	(201)	(7,633)	(48,712)

Because of this exposure, if the US dollar were to strengthen or weaken by 20 percent against the UAH, it would decrease or increase the Group's profit before tax by USD 6,173 thousand, respectively (31 December 2016: 20% and USD 5,156 thousand).

Because of this exposure, if the Euro were to strengthen or weaken by 20 percent against the UAH, it would decrease or increase the Group's profit before tax by USD 4,116 thousand, respectively (31 December 2016: 20% and USD 2,981 thousand).

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group management who monitors monthly rolling forecasts of the Group's cash flows.

The Group seeks to maintain a stable funding base primarily consisting of borrowings and trade and other payables.

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the statement of financial position is based on discounted cash flows.

The maturity analysis of financial liabilities at 31 December 2017 was as follows:

<i>In thousands of US dollars</i>	Less than 1 year	From 1 year to 2 years	From 2 years to 5 years	Over 5 years	Total	Carrying amount
Loans and borrowings	24,631	2,259	4,305	15,915	47,110	47,110
Future interest cash flow – loans	798	654	853	3,068	5,373	-
Financial lease	28	29	23	-	80	80
Future interest cash flow – financial lease	17	10	2	-	29	-
Trade and other payables	13,394	-	-	-	13,394	13,394
Promissory notes issued	1,384	-	-	-	1,384	1,384
Total (unaudited)	40,252	2,952	5,183	18,983	67,370	61,968

KSG Agro S.A.

Notes to the unaudited Consolidated Financial Statements

for the year ended 31 December 2017

The maturity analysis of financial liabilities at 31 December 2016 was as follows:

<i>In thousands of US dollars</i>	Less than 1 year	From 1 year to 2 years	From 2 years to 5 years	Over 5 years	Total	Carrying amount
Loans and borrowings	22,281	1,308	3,568	18,019	45,176	45,176
Future interest cash flow – loans	1,716	1,387	2,525	5,450	11,078	-
Financial lease	30	29	54	-	113	113
Future interest cash flow – financial lease	25	17	12	-	54	-
Trade and other payables	13,023	379	-	-	13,402	13,185
Promissory notes issued	1,365	-	-	-	1,365	1,365
Total	38,440	3,120	6,159	23,469	71,188	59,839

The Group primary manages business risks and does not have formalised policies and procedures for managing financial risks.

30. Capital Risk Management

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.

<i>In thousands of US dollars</i>	31 December 2017 (unaudited)	31 December 2016
Total amount of borrowings	48,574	46,654
Less cash and cash equivalents	(760)	(1,107)
Net debt	47,814	45,547
Total capital	(5,587)	(4,351)
Debt to capital ratio	(8,558)%	(10,468)%

The Group is currently developing its capital management policy. 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.

31. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

Fair value estimation. As at 31 December 2017 and 2016, the Group did not has financial assets carried at fair value.

Financial assets carried at amortized cost. Carrying amounts of trade and other financial receivables approximate their fair value.

Financial liabilities carried at amortized cost. Carrying amounts of trade and other payables, financial lease liabilities, promissory notes issued borrowings approximate their fair values as at 31 December 2017 and 2016.

The Group's loans and borrowings obtained by Ukrainian and Cypriot subsidiaries carried at amortized cost. Different interest rates for such loans and borrowings are defined by market conditions based on country and currency risks by independent banks and borrowers. Loan obtained from related party with fixed interest rate has the equal interest rate as non-related banks with flexible interest rates obtained by Cypriot subsidiary (in range from 1.1 up to 3.4% and based on official LIBOR and EURIBOR rates). Management provided assessment of fair value of bank and other borrowings as at 31 December 2017 and 2016. Fair value of Group's bank and other borrowings amounted USD 46,553 thousand (carrying amount is USD 47,110 thousand) as at 31 December 2017. Carrying amount of bank and other borrowings approximate their fair value as at 31 December 2016 and amounted USD 45,176 thousand.

KSG Agro S.A.**Notes to the unaudited Consolidated Financial Statements***for the year ended 31 December 2017***32. Events after the Reporting Period**

On 19 January 2018, the Group's loans payable to bank PJSC Credit Agricole, to the amount of USD 3,881 thousand, were ceded by the bank to a third party which restructured them for 30 years. On 2 March 2018, the bank also ceded its right to claim the assets pledged as collateral to the loan.

For Soyuz-3 LLC (formerly part of the Group), a court decision on reorganization was passed on 20 February 2018. On 26 February 2018, the court approved a reorganization plan, in which Agro Golden LLC (an entity of the Group) was appointed as the main reorganizer. Soyuz-3 LLC owns rights to lease 2000 hectares of agricultural land.

As of the date of approval of these consolidated financial statements, a preliminary agreement was reached with the minority shareholders of Parisifia ltd Group on purchase by the related party of the 50% minority share in that company, which controls the following entities: Agrottrade LLC; Factor D LLC; Rantye LLC; Agroplaza LLC; Stepove LLC; Dzhereho LLC; Kolosyste LLC.

33. Foreign currency exchange gain/(loss), net

The foreign currency exchange losses, net for the years ended 31 December 2017 and 2016 were as follows:

<i>In thousands of US dollars</i>	2017 (unaudited)	2016
Foreign currency exchange gain	2,908	2,242
Foreign currency exchange loss	(7,307)	(5,612)
Net amount	(4,399)	(3,370)