



KSG Agro S.A.

REPORT OF THE BOARD OF DIRECTORS

Principal activities

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

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

During the first half of 2011 the Group increased its Land bank from 26.5 thousand hectares to 52, 9 thousand hectares by acquiring ten new companies. Total amount of acquisitions is USD 22, 279 thousand.

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

The profit of the Group for the interim period ended 30.06.2011 was USD 18,750 thousand (30.06.2010: USD 1,352 thousand). On 30.06.2011 the total assets of the Group were USD 97,482 thousand (30.06.2010: USD 34,054 thousand) and the net assets of the Group were USD 64,578 thousand (30.06.2010: USD 6,411 thousand). Thus, the financial position, development and performance of the Group as presented in these consolidated financial statements, is considered satisfactory.

Share capital

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

Financial highlights for the six-month period ended 30 June 2011

The Group's management wants to draw this financial reports users' attention to the following: the biggest part of financial result is represented by net change in fair value of biological assets. This is typical for agricultural companies, which main activity is grain growing. Thus, as at 30.06.2011 main Group's commodities were still at growing stage and not matured.

Please see details of major biological assets in field which effected financial result for period:

crop	sowed area, ha thous	yeild, t	cost, usd	price, usd	Discounted** total revenue, usd thous	discounted ** total cost, usd thous	Pl. effect, usd thous
sunflower	23,8	2,0	222	523	24 090	10 255	13 835
wheat*	11,9	3,1	110	183	6 573	3 947	2 626
barley*	4,5	1,9	111	193	1 623	936	688
corn	1,9	5,0	131	157	1 396	1 169	227
rapeseed*	1,3	1,3	145	502	808	233	575
other	n/a						1,454
total	46,1						19,405
*less winter crops revaluated at 31.12.2010							-1,768
Net effect of FV change							17,637

**Discount factor was used at the level of 21, 3%, which is in line with Notes to reviewed interim consolidated financial statements.

Note: yield of winter crops –wheat, barley and rapeseed - is posted based on actual average harvesting results, available at the report signing date.

1. Sales

Despite the fact, that sales for 6 months 2011 remains at comparatively low level due to unharvested biological assets at the period end, sales increased by 57% for the six-month period ended 30.06.2011 in comparison with the six-month period ended 30.06.2010 mainly due to continues land expansion, which lead to bigger stock of unsold products at the year end and:

- Goods for sale as of 31.12.2009 were mainly represented by crude sunflower-seed oil which was sold for export in first quarter 2010;
- Goods for sale as of 31.12.2010 were mainly represented by wheat. The Group management's decision was not to sell it, but hold as raw product for processing into groceries. The Group started to develop wheat processing business segment in 2011 which is in line with the Group's strategy towards vertical integration of the business.

2. Financial results

The change in Group's financial result for the six-month period ended 30.06.2011 in comparison with the six-month period ended 30.06.2010 is mainly explained by following:

- Increase in sales revenue by USD 942 thousand;
- Decrease in cost of goods sold by USD 75 thousand. The main drivers of the non - proportional change to revenue increase is the fact that the groceries (major part of sales during first half of the year 2011) are sold with higher margin than crude sunflower-seed oil (major part of sales during first half of the year 2010);
- Increase in income from changes in fair value of biological assets by USD 14,986 thousand, from USD 2,651 thousand for the six-month period ended 30.06.2010 to USD 17,637 thousand for the six-month period ended 30.06.2011. The increase in income from changes in fair value of biological assets is due to combined effect of increase in market prices of sunflower and crop rotation, where main crop is sunflower in 2011- 52% of sowed area and income on changes in fair value of biological assets of companies acquired in 2011.

Indebtedness of the Group as at 30.06.2011

As at 30.06.2011 Company's loans and borrowings increased for 18, 4% comparatively to 30.06.2010 despite the fact that company extended its activities significantly (for more than two times).

Earnings per share

	6 months ended 30.06.2011 (not audited)	6 months ended 30.06.2010* (not audited)
Total comprehensive income for the period, USD thousand	18,750	1,352
Number of shares, million pieces	15	15
Earnings per share, USD	1,25	0,09

*As at 30.06.2010 the holding company KSG Agro S.A. was not incorporated. Therefore, Proforma financial information was used as comparable and the number of shares actual as at 31.06.2011 was used for calculation of earnings per share for the 6 months ended 30.06. 2010.

Independent Auditors

The Independent Auditors, BDO LLC, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Head of the board
Mr. Sergiy Kasianov
Luxembourg, 26 August 2011