



KSG Agro S.A.

**Management report on
2017 achievements and
developments**

Dear Investors and Partners,

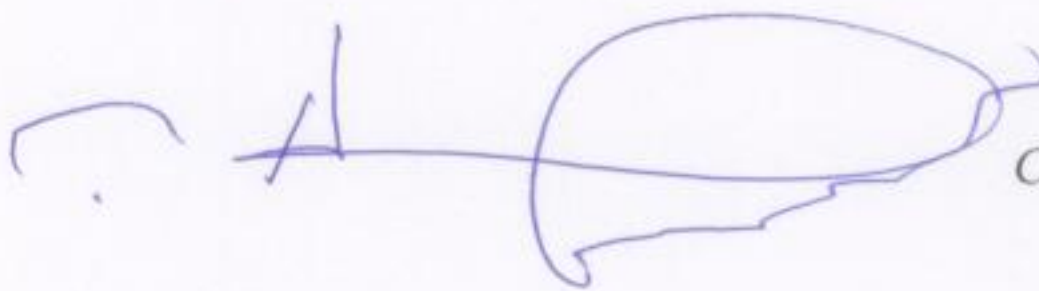
We are hereby pleased to inform you about KSG Agro's achievements and developments in the 2017 financial year.

I am proud to report that our Group has been able to stand the test of the hard times in the country. We have significantly improved our results and have every reason to believe they will keep streamlining further.

The Company is very grateful to all our partners, who have gave us a helping hand in such a turbulent time. The European and American banks and creditors have given us a possibility to restructure our debts. The Ukrainian banks and private companies have also supported us alike.

Despite the continuing political instability in Ukraine and the ongoing devaluation of hryvna, the national currency, we have found ways to bring down our operational costs and improve our result. The Group stays loyal to its strategy of focusing on plant production and pig breeding, and we continue developing these areas of business.

We are prepared to work hard further and truly believe in achieving positive results in the nearest future. We know our effort will pay off to bring to our Group's investors and us prosperity and profitability. We are on the right track and are sure that the positive trend of the previous year will continue in 2018 to support our continued development.



*Chairman of the Board,
Sergiy Kasianov*

Management report

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1. Strategy implementation in 2017

KSG Agro is one of the largest vertically integrated agricultural groups in the Dnipropetrovsk region, which works almost in all segments of the agricultural market, including production, storage, processing, and sale of the agricultural products.

As of 31 December 2017, KSG Agro is an agricultural holding with total controlled land bank of approximately 58 thousand hectares (including 28 thousand hectares in Crimea that are not controlled because of the annexation of Crimea).

The Company and its subsidiaries (hereinafter «the Group» or «KSG Agro» or «the Company») implement their development strategy:

Strategy	Implementation in 2017
Focus on farming & pigs breeding and increase its efficiency; Searching new contractors and signing agreements for sale of crops using USD prices	<ul style="list-style-type: none">• The Group continues 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 (during 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 respective 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.
Reduction of current debt and the extension period of credit	<ul style="list-style-type: none">• 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 –

	<p>repayable within 10 years, starting at the 2017.</p> <ul style="list-style-type: none"> • The loans to Group's parent principal USD 10,363 thousand, interest USD 3,244 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 3,418 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 of production thermal energy	<ul style="list-style-type: none"> • In October 2017, KSG Agro Holding continued its program of introducing biomass heat generation in Dnepropetrovsk region, increasing the amount of heat production by 95% from 3.45 to 6.75 MW by installing a boilers in 4 schools.



The consolidated financial statements include the statements of subsidiaries, please see the following link:

<http://www.ksgagro.com/investment/financial-reports/reports-for-2017/>

2. Corporate governance

The Board of Directors (the "Board") observes the majority of Warsaw Stock Exchange corporate governance rules included in the "Code of Best Practice for WSE Listed Companies" in the form and to the extent determined by the Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated 21 November 2012. Code of Best Practice for WSE Listed Companies is available at the official website of the Warsaw Stock Exchange: http://www.corp-gov.gpw.pl/lad_corp.asp

The Board of Directors consists of five members, three of each hold an executive role (Directors A), and two directors are non executive ones (Directors B)

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

There are no restrictions on voting rights.

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

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

Powers of Directors

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

Rights of the shareholders

Articles of Association and national laws and regulation govern the operation of the shareholders meetings and their key powers, description of their rights.

Transfer of shares

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

3. Internal controls system

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

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

To assure the effective administration of internal controls, KSG Agro S.A. carefully selects employees, develops and disseminates oral and written policies and procedures, provides appropriate communication channels and fosters an environment conducive to the effective functioning of controls.

The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Ukrainian generally adopted accounting principles and transformation to International Financial Reporting Standards as adopted by European Union;
- that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company;
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

We believe that it is essential for the Company to conduct its business affairs in accordance with the highest ethical standards, as set forth in KSG Agro S.A.

4. Financial and operational results

The following table sets forth the Company's results of operations for the years ended 31 December 2017 and 2016 derived from the Consolidated Financial Statements:

(US\$ in thousands)	31 December 2017	31 December 2016	Changes in %
Revenue	23,187	20,924	10.8%
Gain on initial recognition at fair value and net change in fair value of biological assets less estimated	9,666	10,595	(8.8)%
Cost of sales	(21,212)	(18,504)	14.6%
Gross profit	11 641	13 015	(10.6)%
Government grant received	350	178	96.6%
Selling, general and administrative	(1,487)	(1,630)	(8.8)%
Other operating income	735	4,395	(83.3)%
Operating profit	11,239	15,958	(29.6)%
Finance income	671	1,492	(55.0)%
Finance expenses	(2,141)	(3,934)	(45.6)%
Foreign currency exchange loss, net	(4,399)	(3,370)	30.5%
Loss on impairment of goodwill	-	(315)	(100.0)%
Other expenses	(4,477)	(5,985)	(25.2)%
Gain/(Loss) on acquisition/(disposal) of subsidiaries and associates	(56)	-	100.00%
Profit/ (loss) before tax	837	3,846	(78.2)%
Income tax expenses	58	67	(13.4)%
Profit/ (loss) for the year	895	3,913	(77.1)%
Operating profit	11,239	15,958	(29.6)%
Depreciation	1,462	1,331	9.8%
Amortization	32	15	113.3%
EBITDA	12,733	17,304	(26.4)%
Other expenses	(4,477)	(5,985)	(25.2)%
EBITDA adjusted for other expenses	8,256	11,319	(27.0)%

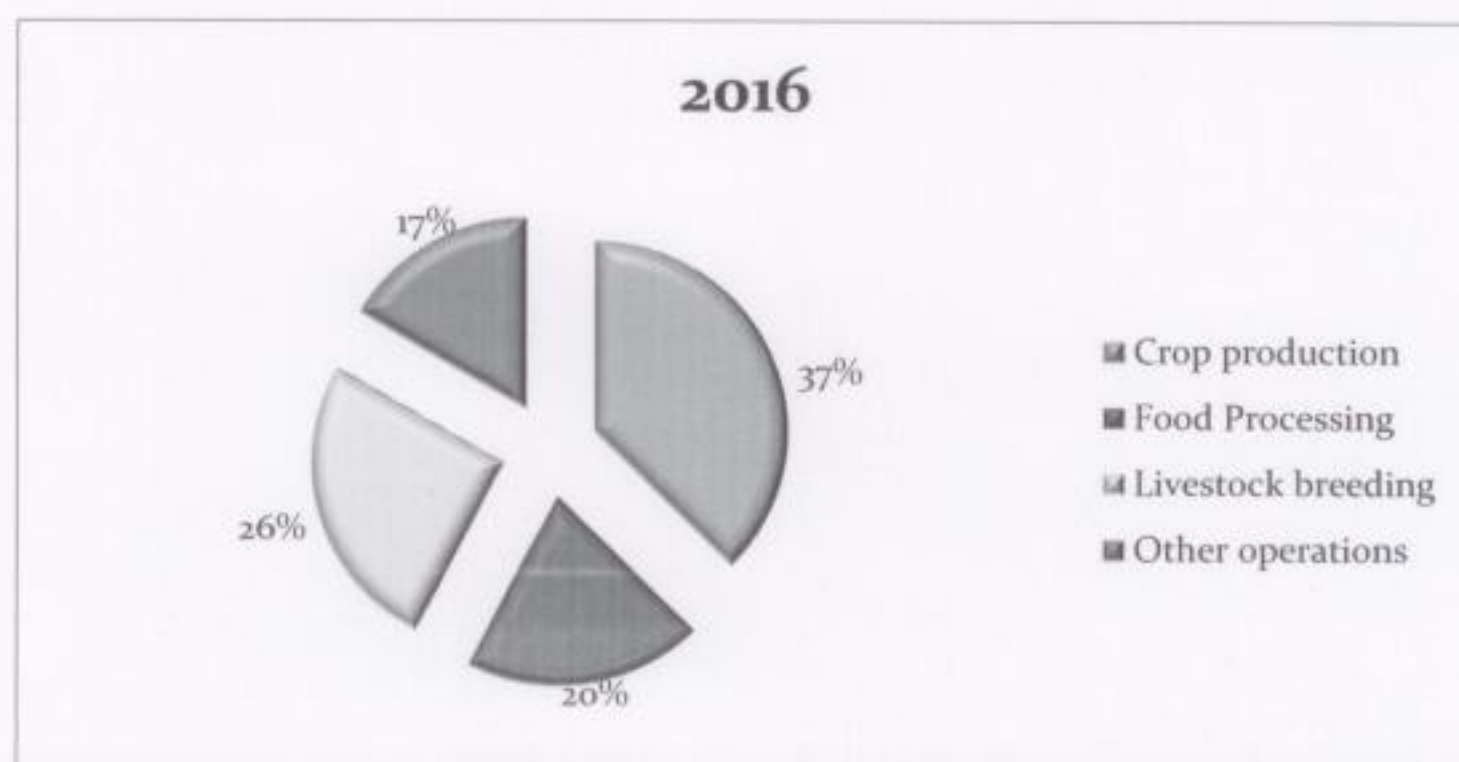
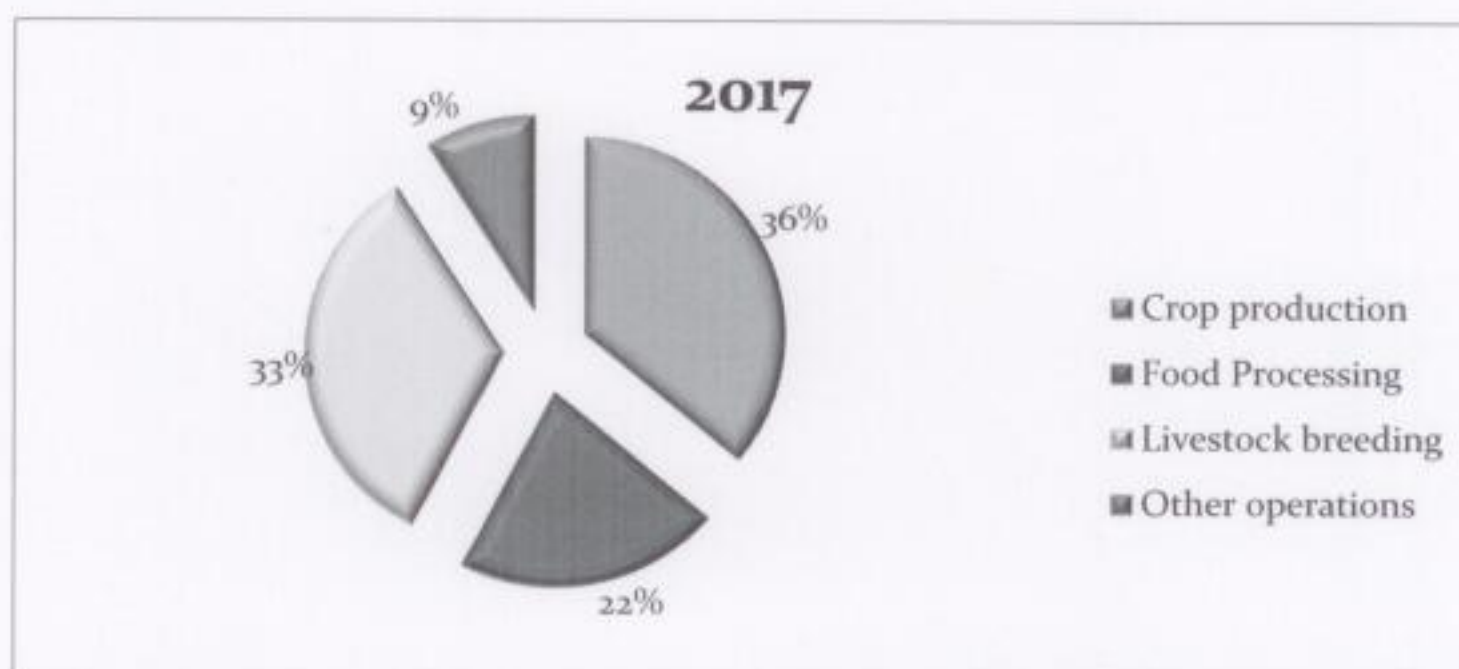
Revenue

The Company's revenue from sales of finished products increased year-on-year by 7.0% (while cost of sales increased by 11.8%) primarily due to the effect of exchange rate differences.

The main segment – crop production – comprises production and sales of wheat, barley, rapeseeds, sunflower, corn and other minor crops. Information about main crops harvested in the year 2017 and comparative information for 2016 is as follows:

Crop harvested in thousands tons	2017	2016
Sunflower	18.4	20.2
Wheat	19.7	17.5
Barley	5.2	6.2
Corn	1.7	0.5
Rapeseeds	0.8	0.2
Other (rye, triticale, lucerne, silage)	4.8	6.8
Total	50.6	51.4

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



The most significant portion of the Company's revenue comes from selling sunflower, wheat, rapeseeds and corn. The following table sets forth the volume of the Company's main crops and revenues generated from the sales of such crops:

	2017	2016	Change, %
Sunflower			
Sales, USD mln	4.8	5.6	(14.3)%
Sales, thousands tons	16	18.4	(13.0)%
Average price, USD/ton	301	304.3	(1.1)%
Wheat			
Sales, USD mln	2.4	1.7	41.2%
Sales, thousands tons	17	13.6	25.0%
Average price, USD/ton	139	125	11.2%

The pig breeding segment mainly represents sales of pigs and piglets. The following table describes revenues of this segment in more detail:

	2017	2016	Change, %
Pigs and piglets			
Total Sales, USD mln	11.8	8.5	38.8%
Total Sales, thousand heads	98	88	11.4%
Total Sales, tons	9,810	9,286	5.6%
Total Average price, USD/kg	1.20	0.92	30.4%
External Sales, USD mln	10.6	5.3	100.0%
External Sales, thousand heads	90	56	60.7%
External Sales, tons	9,001	5,862	53.5%
External Average price, USD/kg	1.18	0.90	31.1%
Intersegment Sales, USD mln	1.2	3.2	(62.5)%
Intersegment Sales, thousand heads	8	32	(75.0)%
Intersegment Sales, tons	809	3,424	(76.4)%
Intersegment Average price, USD/kg	1.48	0.93	59.1%

Gain on initial recognition at fair value and net change in fair value of biological assets less estimated

Gain on initial recognition at fair value and net change in fair value of biological assets less estimated, decreased by 9.6% from USD 10.6 million for the year ended 31 December 2016 to 9.7 million for the year ended 31 December 2017.

	31.12.2017			31.12.2016		
Current biological assets (crops)	Area, ha	Amount, USD thsd	USD/ha	Area, ha	Amount, USD thsd	USD/ha
Wheat	6,351	1,899		7,866	1,427	181
Barley	951	92		2,082	193	93
Rapeseed	4,055	2,384		628	249	396
Sunflower	101	41		241	11	46
Total current biological assets	11,458	4,416		10,817	1,880	

Cost of sales

The Company's cost of sales increased by 14.6% to USD 21.2 million for the year ended 31 December 2017 from USD 18.5 million for the year ended 31 December 2016 in line with revenue which increased by 10.8%.

Gross profit

The Company's gross profit decreased by 10.6% from USD 13.0 million for the year ended 31 December 2016 to USD 11.6 million for the year ended 31 December 2017.

Cash flows

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

(in USD thousands)	2017	2016
Net cash flow from operating activities	1,053	2,000
Net cash flow from investing activities	(1,176)	(1,900)
Net cash flow from financing activities	(196)	(113)
Net cash flow for the year	(319)	(13)

5. Information with respect to Article 11 of the Law of 19 May 2006 on takeover bids

Article 11 a) the structure of their capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents.

According to article 5.1 of the articles of association of the Company (the Articles), the Company's subscribed share capital amounts to one hundred fifty thousand two hundred United States Dollars (USD 150,200.00) represented by fifteen million twenty thousand (15,020,000) shares having a nominal value of one Cent (USD 0.01) each.

All the issued share capital of the Company is admitted to listing and trading on the main market of the Warsaw Stock Exchange.

The Company bought back thirty-two thousand one hundred and seventy-two (32,172) own shares, representing 0.21% of share capital, that are accounted for as treasury shares.

Article 11 b) any restrictions on the transfer of securities, such as limitations on the holding of securities or the need to obtain the approval of the company or other holders of securities, without prejudice to article 46 of Directive 2001/34/EC.

The shares of the Company are transferred in accordance with customary procedures for the transfer of securities in Book-entry form.

Furthermore, there is no restriction in relation with the transfer of securities pursuant to article 7.5 of the Articles. The sole requirement is that any transfer shall be recorded in the register of shares of the Company.

In accordance with article 7.10 of the Articles, any shareholder, company or individual, who acquires or sells shares, including certificates representing shares of the Company, shall notify to the Company the percentage of the voting rights he/she/it will own pursuant to such acquisition or sale, in case such percentage reaches the thresholds of 5%, 10%, 15%, 20%, 33 1/3%, 50% and 66 2/3% or supersedes or falls under such thresholds. The shareholders shall also notify the Company should the percentage of their respective voting rights reach the above mentioned thresholds or supersede them or fall under such thresholds pursuant to certain events amending the voting rights repartition of the Company.

Those notification requirements apply also to certain situations as listed by article 9 of the law of 11 January 2008 on transparency obligations with respect to the information of companies which securities are listed on a regulated market.

Article 11 c) significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Directive 2004/109/EC.

The main shareholder of the Company as at 31 December 2017 is:

- OLBIS Investments LTD S.A. holds nine million seven hundred and five thousand five hundred (9,705,500) shares, representing 64.62% of the issued share capital of the Company.
- KSG Agro S.A holds thirty-two thousand one hundred seventy-two (32,172) shares, representing 0.21% of the issued share capital of the Company.
- In free float there are five million two hundred and eighty-two thousand three hundred twenty-eight (5,282,328) shares, representing 35.17% of the issued share capital of the Company.

Article 11 d) the holders of any securities with special control rights and a description of those rights.

There are no special control rights.

Article 11 e) the system of control of any employee share scheme where the control rights are not exercised directly by the employees.

There is no employee share scheme.

Article 11 f) any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

Pursuant to article 7.10 of the Articles, if a shareholder breaches the thresholds mentioned in point b) and fails to notify the Company within the period of four (4) listing days, as stated therein, the exercise of voting rights attached to the new participation exceeding the relevant threshold will be suspended.

Article 11 g) any agreements between shareholders which are known to the company and may result in restrictions on the transfer of securities or voting rights within the meaning of Directive 2004/109/EC.

To the best of our knowledge there are no such agreements.

Article 11 h) the rules governing the appointment and replacement of board members and the amendment of the articles of association.

Pursuant to article 8 of the Articles, the directors of the Company (the Directors or the Board, as applicable) are to be appointed by the general meeting of the shareholders of the Company (the General Meeting) for a period not exceeding six (6) years and until their successors are elected. Moreover, the decision to suspend or dismiss a Director must be adopted by the General Meeting with a majority of more than one-half (1/2) of all voting rights present or represented. When a legal person is appointed as Director, the legal entity must designate a permanent representative (représentant permanent) in accordance with article 51bis of the law of 10 August 1915 on commercial companies, as amended (the Company Law).

In accordance with article 20 of the Articles, the Articles may be amended from time to time by a General Meeting under the quorum and majority requirements provided for by the Company Law.

Article 11 i) the powers of board members, and in particular the power to issue or buy back shares.

Under the provisions laid down in article 5.4 of the Articles, the Board is authorized during a period expiring 5 (five) years after the publication of the present authorization in the Mémorial C, Recueil des Sociétés et Associations (i.e. 08 July 2011), to increase in one or several times the share capital of the Company within the limits of the authorized capital. The authorized capital of the Company is set at one hundred fifty thousand seven hundred forty-five United States Dollars (USD 150,745.00) represented by fifteen million seventy-four thousand five hundred (15,074,500) shares with a nominal value of one Cent (USD 0.01).

With respect to the acquisition of own shares, article 6 of the Articles establishes that the Company may acquire its own Shares to the extent permitted by law. To the extent permitted by Luxembourg law, the Board is irrevocably authorized and empowered to take any and all steps to execute any and all documents to do and perform any and all acts for and in the name and on behalf of the Company which may be necessary or advisable in order to effectuate the acquisition of the shares and the accomplishment and completion of all related actions.

According to article 11.2 of the Articles, the Board is vested with the broadest powers to perform all acts of administration and disposition in the company's interests and within the objectives and purposes of the Company. All powers not expressly reserved by law or by the Articles to the General Meeting fall within the competence of the Board.

Article 11 j) any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements.

To the extent of our knowledge there are no such agreements.

Article 11 k) any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

To the extent of our knowledge there are no such agreements.

6. Subsequent events

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; Dzherelo LLC; Kolosyste LLC.

7. Business and financial risks

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.

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 (2016: 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%).

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.

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.

Capital Risk Management

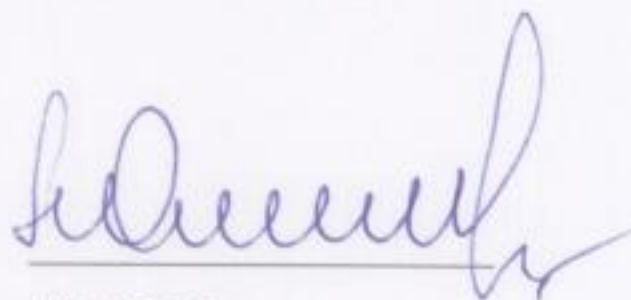
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and Group's development 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.

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.

Management believes it is responding appropriately to all the risks identified in order to support the sustainability of the Company's business in the current circumstances.



30.04.2018
A.V. Skorokhod
(Chief Executive Officer)



30.04.2018
L.L. Omelchenko
(Chief Financial Officer)