

KERNEL

H1 FY2016



Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015

Management Discussion and Analysis

for the 3 and 6 months ended 31 December 2015

Key highlights

- Revenues decreased 5% y-o-y to USD 621.0 million in Q2 FY2016, reflecting y-o-y lower grain prices and mixed dynamics in sales volumes across segments.
- EBITDA increased 2% y-o-y to USD 145.1 million in Q2 FY2016, fueled by a strong contribution from the farming segment, consistent profitability in grain and infrastructure, and pressured earnings in the sunflower oil business.
- The sunflower oil sold in bulk segment's profitability was under pressure from increased competition due to slow farmer selling and margin dilution from tolling agreements. At the same time, production volumes reached historic highs. As a result, the sunflower oil business contributed USD 42.4 million in Q2 FY2016, 35% lower than the abnormally high profits observed a year ago.
- The grain and infrastructure business performance was consistent with the previous year's results, with EBITDA down 3% y-o-y to USD 38.2 million. Our grain sales were down 6% y-o-y due to changes in seasonality, while export terminal throughput increased 18% y-o-y following our investments in debottlenecking our Ukrainian facility.
- The farming segment's EBITDA increased 70% y-o-y to USD 74.3 million in Q2 FY2016, as cheaper energy, labor, and land lease drove production costs down while crop yields and prices were comparable to a year ago. The negative effect of the summer drought was compensated by operational improvements.
- Net profit attributable to the equity holders of Kernel Holding S.A. increased 2.1x y-o-y to a record USD 116.5 million in Q2 FY2016 as a result of lower finance costs, depreciation, and foreign exchange losses.

Corporate and regulatory

- On 25 February 2016, Kernel entered into binding documentation to acquire the assets, through an assignment agreement with a Ukrainian bank, of an oilseed crushing plant for USD 95.8 million, payable in arrears over five years. Commissioned in 2012, the world-class multi-seed facility has an installed crushing capacity of 560,000 tons of sunflower seed per year. The production plant, where Kernel currently operates through a tolling agreement, is located in Kirovohrad region of Ukraine and fits well into Kernel's existing origination and marketing platform.
- In December 2015, the Ukrainian parliament approved a change to the tax code, which reinstated VAT refunds on grain exports starting 1 January 2016 and reduced VAT benefits previously available to the farming segment. The change is beneficial for our farming segment because its net effect is a reduction of the cost base as VAT paid on inputs was previously expensed as part of production costs. The change is also expected to expand the grain segment's profitability going forward.
- The annual general meeting of shareholders on 10 December 2015 approved a dividend payout of USD 0.25 per share. The board is due to set ex and payout dates for the dividend.

USD million except ratios and EPS

	Q2 FY2016	Q2 FY2015	y-o-y	H1 FY2016	H1 FY2015	y-o-y
P&L highlights						
Revenue	621.0	652.5	(5%)	998.7	1,231.7	(19%)
EBITDA ⁽¹⁾	145.1	142.4	2%	200.2	222.8	(10%)
Net profit attributable to equity holders of Kernel Holding S.A.	116.5	54.8	2.1x	140.4	78.3	79%
EBITDA margin	23.4%	21.8%	1.6pp	20.1%	18.1%	2.0pp
Net margin	18.8%	8.4%	10.3pp	14.1%	6.4%	7.7pp
EPS ⁽²⁾ , USD	1.46	0.69	2.1x	1.76	0.98	79%
Cash flow highlights						
Operating profit before working capital changes	163.1	130.8	25%	221.0	205.2	8%
Change in working capital	(205.9)	(193.7)	6%	(291.1)	(192.7)	51%
Cash (used in)/generated from operations	(42.8)	(62.9)	(32%)	(70.1)	12.4	n/m
Net cash used in operating activities	(60.2)	(80.8)	(26%)	(100.7)	(34.8)	189%
Net cash used in investing activities	(16.4)	(1.2)	13.8x	(23.8)	(12.8)	85%
Credit metrics						
Net interest-bearing debt				465.8	735.2	(37%)
Readily marketable inventories				392.2	456.9	(14%)
Adjusted net debt ⁽³⁾				73.6	278.3	(74%)
Shareholders' equity				921.0	981.9	(6%)
Net debt/EBITDA ⁽⁴⁾				1.2x	1.9x	(0.7x)
Adjusted net debt/EBITDA ⁽³⁾				0.2x	0.7x	(0.5x)
EBITDA/Interest ⁽⁵⁾				6.2x	5.0x	1.2x

1 Hereinafter, EBITDA is calculated as the sum of profit from operating activities plus amortization and depreciation.

2 EPS is measured in US Dollars per share based on 79.7 million shares during the periods under review.

3 Adjusted net financial debt is net debt minus readily marketable inventories. Adjusted net debt/EBITDA is calculated based on 12-month trailing EBITDA.

4 Net debt/EBITDA is calculated based on 12-month trailing EBITDA.

5 EBITDA/Interest is calculated based on 12-month trailing EBITDA and net finance costs.

Note: Our financial year ends 30 June. Differences are possible due to rounding.

Segment Results and Discussion

for the 3 and 6 months ended 31 December 2015

Segment results summary

USD million except ratios and EPS	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	Q2 FY2016	Q2 FY2015	y-o-y	Q2 FY2016	Q2 FY2015	y-o-y	Q2 FY2016	Q2 FY2015	Q2 FY2016	Q2 FY2015	y-o-y
Sunflower oil											
Sunflower oil sold in bulk	316.9	284.8	11%	35.4	56.7	(38%)	11%	20%	297.0	278.1	7%
Bottled sunflower oil	34.0	38.7	(12%)	7.0	8.9	(22%)	21%	23%	31.0 ⁽¹⁾	34.2 ⁽¹⁾	(9%)
Grain and infrastructure											
Grain	258.5	312.6	(17%)	11.2	15.2	(27%)	4%	5%	1,322.9	1,403.0	(6%)
Export terminals	17.4	15.6	12%	11.6	10.6	9%	66%	68%	1,695.7 ⁽²⁾	1,437.5 ⁽²⁾	18%
Silo services	22.7	24.9	(9%)	15.5	13.4	16%	68%	54%			
Farming											
Farming ⁽³⁾	285.3	144.7	97%	74.3	43.6	70%	26%	30%			
Sugar and discontinued operations	–	3.5	n/m	–	0.1	n/m	–	4%			
Unallocated corporate expenses				(9.8)	(6.2)	58%					
Revenue reconciliation	(313.9)	(172.4)	82%								
Total	621.0	652.5	(5%)	145.1	142.4	2%	23%	22%			

USD million except ratios and EPS	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	H1 FY2016	H1 FY2015	y-o-y	H1 FY2016	H1 FY2015	y-o-y	H1 FY2016	H1 FY2015	H1 FY2016	H1 FY2015	y-o-y
Sunflower oil											
Sunflower oil sold in bulk	486.8	517.3	(6%)	57.9	97.6	(41%)	12%	19%	455.2	480.7	(5%)
Bottled sunflower oil	54.5	64.9	(16%)	10.4	12.7	(18%)	19%	20%	48.7 ⁽¹⁾	57.0 ⁽¹⁾	(15%)
Grain and infrastructure											
Grain	434.8	599.6	(27%)	21.6	32.9	(34%)	5%	5%	2,250.3	2,623.8	(14%)
Export terminals	26.6	26.3	1%	17.0	17.5	(3%)	64%	66%	2,863.4 ⁽³⁾	2,650.1 ⁽³⁾	8%
Silo services	31.2	34.1	(9%)	20.6	17.9	16%	66%	52%	2,691.9	2,478.0	9%
Farming											
Farming ⁽³⁾	341.5	200.0	71%	90.2	54.3	66%	26%	27%			
Sugar and discontinued operations	–	23.7	n/m	–	3.1	n/m	–	13%			
Unallocated corporate expenses				(17.6)	(13.0)	35%					
Revenue reconciliation	(376.6)	(234.3)	61%								
Total	998.7	1,231.7	(19%)	200.2	222.8	(10%)	20%	18%			

Note: Differences are possible due to rounding. Segment revenue includes intersegment sales reflected in the item 'Reconciliation'.

1 Million liters.

2 Including 558,268 tons transshipped through the Taman port in Q2 FY2016 and 403,603 tons in Q2 FY2015 (Kernel's share in the joint venture).

3 Including 1,131,143 tons transshipped through the Taman port in H1 FY2016 and 946,653 tons in H1 FY2015 (Kernel's share in the joint venture).

Sunflower oil sold in bulk

- Oilseed crush increased 31% y-o-y to a record 915,377 tons in Q2 FY2016 as we utilized our own facilities at close-to-full utilization levels and additionally contracted a third-party facility through a tolling agreement. The tolling agreement to crush sunflower seed at a third-party plant was signed in September 2015 for 200,000 tons and extended for another 250,000 tons in December. As a result of increased crush, sunflower oil sales in bulk reached 297,048 tons, up 7% y-o-y.
- Revenues were up 11% y-o-y to USD 316.9 million in Q2 FY2016, while EBITDA decreased 38% y-o-y to USD 35.4 million in Q2 FY2016 as margins were lower y-o-y amid higher volumes. The EBITDA margin amounted to USD 119 per ton of oil sold in Q2 FY2016, lower than USD 204 per ton a year ago for two reasons. First, competition increased in Ukraine due to farmers' slow pace of selling the new harvest crop and the absence of the distressed competition environment from a year ago. Second, profitability was diluted by the addition of a tolling agreement which, by its nature, has a lower margin.
- On 25 February 2016, Kernel entered into binding documentation to acquire the assets, through an assignment agreement with a Ukrainian bank,

of an oilseed crushing plant for USD 95.8 million, payable in arrears over five years. Commissioned in 2012, the world-class multi-seed facility has an installed crushing capacity of 560,000 tons of sunflower seed per year. The production plant, where Kernel currently operates through a tolling agreement, is located in Kirovohrad region of Ukraine and fits well into Kernel's existing origination and marketing platform.

Bottled sunflower oil

- Bottled oil sales amounted to 31.0 million liters in Q2 FY2016, down 9% y-o-y, as domestic sales declined amid falling household purchasing power. The segment's revenue declined 12% y-o-y to USD 34.0 million in Q2 FY2016, in line with sales volume dynamics and virtually unchanged prices (in US dollar terms).
- The bottled oil segment's EBITDA margin was at solid 21% in Q2 FY2016, though lower than last year's high base of 23% (Q2 FY2015 reflected a decrease in international sunflower oil prices that typically leads to a profitability boost in the bottled oil segment).
- The segment's total EBITDA amounted to USD 7.0 million in Q2 FY2016, compared to USD 8.9 million in Q2 FY2015.

Segment Results and Discussion

for the 3 and 6 months ended 31 December 2015

Grain

- Grain sales were at strong 1.3 million in Q2 FY2016, though 6% lower y-o-y because of a change in the seasonality of grain exports from Ukraine.
- As international grain prices decreased y-o-y, the grain segment's revenues were down 17% y-o-y to USD 258.5 million in Q2 FY2016. The segment's EBITDA decreased 27% y-o-y to USD 11.2 million in Q2 FY2016, reflecting EBITDA of USD 8 per ton in Q2 FY2016 compared to USD 11 per ton a year ago.
- In December 2015, the Ukrainian parliament approved a change to the tax code, which reinstated VAT refunds on grain exports starting from 1 January 2016. The change is expected to expand the grain segment's profitability going forward.

Export terminals and silo services

- The export terminals segment's throughput increased 18% y-o-y to 1.7 million tons in Q2 FY2016, including 10% y-o-y growth in Ukraine, driven by bottlenecking at the Illichevsk facility, and 38% y-o-y growth in Russia, where the Taman facility operated at expanded capacity.
- The export terminal segment's revenue was up 12% y-o-y to USD 17.4 million in Q2 FY2016, and EBITDA increased 9% y-o-y to USD 11.6 million, in line with the growth in Ukraine's volumes as the contribution from the Taman joint venture was accounted for according to the equity method below operating profit. The net contribution from the Taman joint venture was USD 0.9 million in Q2 FY2016 vs. USD 2.0 million a year ago, because of Russian ruble depreciation.
- The silo services segment's revenue declined 9% y-o-y to USD 22.7 million in Q2 FY2016, as drier autumn weather resulted in a 10% y-o-y decline in the volume of drying services provided. At the same time, the cumulative grain and oilseed intake at inland silos increased 9% y-o-y and reached 2.7 million tons in H1 FY2016 as we improved the turnover of our storage facilities and attracted more third-party farmers. The silo services' EBITDA increased 16% y-o-y to USD 15.5 million in Q2 FY2016, as costs deflated, driven by lower prices of natural gas and the depreciated Ukrainian hryvnia.

FY2016 harvest results

	Acreage, thousand hectares			Net crop yield, tons/hectare			Net tonnage, thousand tons	
	FY2016	FY2015	y-o-y	FY2016	FY2015	y-o-y	FY2016	FY2015
Corn	159.8	183.8	(13%)	7.3	7.2	2%	1,165	1,315
Wheat	72.5	30.7	2.4x	5.1	5.4	(5%)	369	165
Sunflower	61.9	69.5	(11%)	2.8	2.5	12%	171	172
Soybean	67.2	66.5	1%	1.8	1.8	(1%)	121	121
Rapeseed	9.6	–	n/m	4.4	n/a	n/a	41	–
Other ⁽¹⁾	15.3	32.1	(52%)					
Total	386.2	382.6	1%					

Note: 1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean.

1 Other acreage includes barley, rye, oats, forage crops, and land left fallow for crop rotation purposes.

Farming

- The segment's revenue reached USD 285.3 million, 2x higher y-o-y, as we sold a significant part of our grain and oilseed crops intragroup to our trading company during the period under review, while a year ago we were selling evenly through our farming companies during the whole season.
- The segment's EBITDA increased 70% y-o-y USD 74.3 million in Q2 FY2016, because of cost-driven growth in the segment's profitability. Production costs per hectare declined y-o-y, driven by lower land lease, labor, and energy costs.
- FY2016 crop yields were slightly better y-o-y for corn and sunflower seed (58% of acreage planted), but had a single-digit decrease for winter wheat and soybean (36% of acreage). At the same time, the weather was considerably worse y-o-y in the western regions of Ukraine. As a result of the drought, our across-the-board improvements were off-set by burnt out corn and soybean crops in half of our operations. Overall, FY2016 crop yields show a 22% acreage-weighted premium to Ukraine's average crop yields.
- FY2017 winter crops plantings (23% of total acreage) are in good condition as of this report's publication.
- In December 2015, the Ukrainian parliament approved a change to the tax code, which reinstated VAT refunds on grain exports starting 1 January 2016, and reduced VAT benefits previously available to the farming segment. The change is beneficial for our farming segment because its net effect is a reduction of the cost base, as VAT paid on inputs was previously expensed as part of production costs.

Financial Highlights

for the 3 and 6 months ended 31 December 2015

Income statement highlights

- Revenues decreased 5% y-o-y to USD 621.0 million in Q2 FY2016 as a result of a y-o-y decline in international grain prices and mixed dynamics in sales volumes across segments.
- The net change in the fair value of biological assets and agricultural produce (IAS 41 effect) amounted to USD 3.1 million, in line with USD 3.2 million a year ago. The amount reflected the positive revaluation of winter wheat in fields, revaluation of agricultural produce at the moment of harvesting, and the expensing of a portion of the fair value component booked in previous periods.
- Other operating income of USD 34.1 million in Q2 FY2015 was up 22% y-o-y. VAT benefits of USD 22.5 million related to the farming segment were a major contributor to the other operating income line.
- Distribution costs were USD 54.7 million in Q2 FY2015, down 8% y-o-y because of lower total tonnage shipped. Distribution costs stood at 8.8% of revenue in Q2 FY2016 compared to 9.1% a year ago.
- General and administrative expenses totaled USD 15.8 million in Q2 FY2016, slightly below the USD 16.2 million of a year ago.
- Profit from operating activities increased 5% y-o-y to a historic quarterly record of USD 129.9 million in Q2 FY2016, as the strong contribution of the farming segment outweighed lower profits earned in the sunflower oil business in the reporting period.
- Net finance costs decreased 5% y-o-y to USD 18.2 million in Q2 FY2016, reflecting an increase in the cost of financing and lower indebtedness levels compared to a year ago.
- The foreign exchange gain of USD 16.9 million in Q2 FY2016 mostly reflected in a non-cash gain recognized after revaluing intragroup balances in Ukrainian hryvnya. The Company's subsidiaries operate with different functional currencies (namely, the US dollar, Ukrainian hryvnya, and Russian ruble) and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's enterprises if they had different functional currencies.
- The share of profit from the Taman joint venture was USD 0.9 million in Q2 FY2016 compared to USD 2.1 million in Q2 FY2015, as the impact from Russian ruble devaluation offset an increase in volumes.
- As a result of the aforementioned factors, net profit attributable to the shareholders of Kernel Holding S.A. reached a record USD 116.5 million in Q2 FY2016, up 2.1x y-o-y.

Cash flow highlights

- Operating profit before working capital changes was above EBITDA and stood at USD 163.1 million in Q2 FY2016 versus USD 130.8 million in Q2 FY2015, with the change mostly explained by the same factors as movements in EBITDA.
- Working capital seasonally increased by USD 205.9 million in Q2 FY2016, in line with last year's increase of USD 193.7 million as the Company accelerated purchases of sunflower seed and corn after the harvest in autumn.
- Net cash used in investing activities was USD 16.4 million in Q2 FY2016 versus USD 1.2 million in Q2 FY2015, and consisted of maintenance CapEx and prepayment for the acquisition of a subsidiary.
- All of the above factors translated into a seasonal drawing from outstanding credit facilities, increasing net borrowings by USD 118.0 million in Q2 FY2016 (vs. USD 105.7 million in Q2 FY2015).

Credit metrics highlights

- Net debt decreased to USD 465.8 million as of 31 December 2015 versus USD 735.2 million as of 31 December 2014, as the Company utilized its strong operating cash flow to improve its balance sheet. Readily marketable inventories (USD 392.2 million) covered 84% of net debt as of 31 December 2015 compared to 62% a year ago.
- Net debt to 12-month trailing EBITDA decreased to 1.2x as of 31 December 2015 versus 1.9x a year ago as a result of strong operating cash flow during the last twelve months. Net debt adjusted for readily marketable inventories to 12-month trailing EBITDA decreased to 0.2x as of 31 December 2015, reaching the lowest leverage level in the Company's history.

Credit metrics

USD million except ratios	31 December 2015	31 December 2014
Gross interest-bearing debt	581.9	812.8
Cash	116.1	77.7
Net interest-bearing debt	465.8	735.2
Readily marketable inventories	392.2	456.9
Adjusted net financial debt ⁽¹⁾	73.6	278.3
Shareholders' equity ⁽²⁾	921.0	981.9
Net debt/EBITDA ⁽³⁾	1.2x	1.9x
Adjusted net debt/EBITDA ⁽³⁾	0.2x	0.7x
EBITDA/Interest ⁽⁴⁾	6.2x	5.0x

1 Adjusted net financial debt is net debt less readily marketable inventories.

2 Total equity attributable to Kernel Holding S.A. shareholders.

3 Net debt/EBITDA and Adjusted net debt/EBITDA are calculated based on 12-month trailing EBITDA.

4 EBITDA/Interest is calculated based on 12-month trailing EBITDA and net finance costs.

Note: Differences are possible due to rounding.

Principal Risks and Uncertainties

for the 6 months ended 31 December 2015

Kernel's management identifies eleven principal risks that could materially influence the Company's operations and financial results:

Industry-related risks

- Harvest size (sunflower seed harvest in Ukraine, grain harvest in Ukraine and southern Russia)
- Agricultural product price volatility (sunflower oil price volatility, corn price volatility, prolonged period of low global soft commodity prices)

Ukraine-related risks

- Access to financing and sufficient liquidity maintenance
- Trade restrictions and adverse changes in taxation (export duties, refunds of VAT, export restrictions and barriers)
- Safety of production assets

Operational risks

- Fraud and counterparty risk
- Inventory safety
- Key personnel resignation
- Information technology adequacy
- Land lease prolongation and relations with local communities
- Ineffective purchases

For a detailed disclosure of the possible impact of each of the key risks and our management approach, please refer to pages 33-37 of the annual report for the year ended 30 June 2015, available at kernel.ua.

Other risks identified by the Company's management include:

- Increase in competition;
- A prolonged period of weak economic growth, either globally or in the Company's key markets;
- Economic policy, political, social, and legal risks and uncertainties in certain countries in which Kernel Holding S.A. operates;
- Any loss or diminution in the services of Mr. Andriy Verevskyy, Kernel Holding S.A.'s chairman of the board of directors;
- The risk that changes in the assumptions underlying the carrying value of certain assets, including those occurring as a result of adverse market conditions, could result in the impairment of tangible and intangible assets, including goodwill;
- The risk of fluctuations in the exchange rate of the Ukrainian hryvnia or Russian ruble to the US dollar;
- The risk of disruption or limitation of natural gas or electricity supply;
- The risk of disruptions in Kernel Holding S.A.'s manufacturing operations;
- The risk of product liability claims;
- The risk of potential liabilities from investigations, litigation, and fines regarding antitrust matters;
- The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and in joint ventures; and
- The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage.

Significant Events

for the 6 months ended 31 December 2015

On 19 August 2015, Kernel reported it renewed its grain pre-export credit facility with a syndicate of European banks. The one-year secured revolving facility with a limit of USD 230 million is used by the company to fund the working capital needs of its grain export business in Ukraine.

On 25 August 2015, Kernel renewed its sunflower oil pre-export credit facility with a syndicate of European banks. The one-year secured revolving facility with a limit of USD 350 million is used by the company to fund the working capital needs of its sunflower oil production business in Ukraine.

On 7 September 2015, Kernel, through a subsidiary, signed a tolling agreement to crush 200,000 tons of sunflower seed at a third-party plant located in Ukraine. On 28 December 2015, Kernel reported it extended this tolling agreement for another 250,000 tons of sunflower seed.

On 10 December 2015, Kernel Holding S.A. convened its annual general meeting of shareholders, which adopted the following resolutions with immediate effect:

- To approve the management report of the board of directors of the Company and the report of the independent auditor of the Company for the financial year ended 30 June 2015.
- To approve in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2015, with a resulting consolidated net profit attributable to the equity holders of the Company of one hundred six million nine hundred thirty thousand US dollars (USD 106,930,000).
- To approve in their entirety the Parent Company's annual accounts (non-consolidated) for the financial year ended on 30 June 2015, with a resulting net loss for Kernel Holding S.A. as the parent company of Kernel Holding S.A. group of twelve million seven hundred nineteen thousand one hundred forty seven US dollars and forty-eight cents (USD 12,719,147.48).
- To approve the proposal of the board of directors to (i) to carry forward the net loss from the Parent Company's annual accounts (non-consolidated) of twelve million seven hundred nineteen thousand one hundred forty seven US dollars and forty-eight cents (USD 12,719,147.48) and (ii) after allocation to the legal reserve of the Company, to declare a dividend of twenty five cents per ordinary share (USD 0.25) for the financial year ended on 30 June 2015. The general meeting delegated the task to the board of directors to set record and payment dates for the dividend distribution.
- To grant discharge to the directors of the Company for their management duties and the exercise of their mandates in the course of the financial year ended on 30 June 2015.
- To renew the mandates of directors Mr. Andrzej Danilczuk, Mr. Ton Schurink, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mrs. Viktoriia Lukianenko, Mr. Yuriy Kovalchuk, and Mr. Kostiantyn Lytvynskiy for a one-year term ending on the date of the general meeting of shareholders to be held in 2016.
- To renew the mandate of director Mr. Andriy Verevskyy for a five-year term ending on the date of the general meeting of shareholders to be held in 2020.
- To approve the independent directors' fees for a new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2016, for a total gross annual amount of two hundred seventy seven thousand five hundred US dollars (USD 277,500).
- To approve the executive directors' fees for a new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2016, for a total gross annual amount of two hundred forty thousand US dollars (USD 240,000) including two hundred thousand US dollars (USD 200,000.-) to be paid to the chairman of the board of directors.
- To grant discharge to the independent auditor of the Company, Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 for the financial year ended on 30 June 2015.
- To reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as the independent auditor of the Company for a one-year term mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2016.

Also on 10 December 2015, Kernel Holding S.A. convened an extraordinary general meeting of shareholders, which adopted the following resolutions with immediate effect:

- To authorize the board of directors of the Company to issue, from time to time, as specified below, up to seven million four hundred seven thousand eight hundred twenty (7,407,820) new shares without indication of a nominal value, hence creating of authorized share capital, excluded the current issued share capital, of one hundred ninety five thousand six hundred ten US Dollars and eighty nine cents (USD 195,610.89) in accordance with the provisions of article 32 of a law from 10 August 1915 on commercial companies, as amended. This authorization shall be limited to a period to expire right after the closing of any public offering of the shares of the Company, and in any case no later than a term of five (5) years from the date of the publication of the present authorization in the Luxembourg official gazette (Mémorial C, Recueil des Sociétés et Associations). Upon presentation of the justifying report of the Board of Directors, pursuant to article 32-3 (5) of the law of August 10, 1915 on commercial companies, as amended, the general meeting further resolved that the board of directors is authorized to issue such new shares without reserving to existing shareholders any preferential subscription rights.
- To amend Article 5 of the Articles of Association of the Company, which shall henceforth read as follows:
 - "ARTICLE 5.- The share capital of the Company is set at two million one hundred four thousand one hundred twenty US Dollars and eleven cents (USD 2,104,120.11) divided into seventy nine million six hundred eighty three thousand four hundred and ten (79,683,410) shares without indication of a nominal value. The shares of the company may be created at the owner's option in certificates representing single shares or in certificates representing two or more shares. The shares shall be in a bearer or in a registered form. The corporation may, to the extent and under the terms permitted by law, purchase its own shares. The corporate capital may be increased or reduced in compliance with the legal requirements. The authorised share capital, the current issued share capital excluded, is fixed at one hundred ninety five thousand six hundred ten US Dollars and eighty nine cents (USD 195,610.89) represented by seven million four hundred seven thousand eight hundred twenty (7,407,820) shares without nominal value. During a period to expire right after the closing of any public offering of the shares of the Company, and in any case no later than a term of five (5) years from the date of publication of the present deed in the Memorial C, Recueil des Sociétés et Associations, the board of directors will be and is hereby authorised to issue shares with or without share premium and to grant options to subscribe for shares within the limit of the authorised share capital, to such persons and on such terms as it shall see fit, and specifically to proceed to such issue by suppressing or limiting the existing shareholder's/shareholders' preferential right to subscribe for the new Shares to be issued."

The abovementioned authorization to issue additional share capital is related to unexercised issued options granted to the management team of the company in accordance with management incentive plans approved in 2008, 2011, and 2014.

Details of the performance of the Company's business segments during the period are described in the Management Discussion and Analysis section.

Management Statement

for the 3 and 6 months ended 31 December 2015

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') and its subsidiaries (hereinafter together - the 'Group') for the six months ended 31 December 2015, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial statements' (hereinafter, 'IAS 34') and give a true and fair view of the financial position, cash flows, changes in equity and profit or loss and other comprehensive income, and that the directors' report on the operations of the Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Deloitte Audit S.a.r.l. has been appointed in accordance with applicable laws and performed the review as an independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the six months ended 31 December 2015, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

25 February 2016

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Statement of Management Responsibilities

for the 3 and 6 months ended 31 December 2015

We confirm that to the best of our knowledge and belief:

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') presented in this Interim Report and established in conformity with IAS 34 give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2015;
- the interim accounts of the Company presented in this Interim Report and established in conformity with Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2015;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

25 February 2016

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

To the Shareholders of
Kernel Holding S.A.
19, rue de Bitbourg
L-1331 Luxembourg

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Kernel Holding S.A. as of 31 December 2015, and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows for the six-month period then ended, and the notes to the condensed consolidated interim financial statements as at 31 December 2015 (“the condensed consolidated interim financial information”). The Board of Directors is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.


Emphasis of Matter

We draw your attention to Note 23 to the condensed consolidated interim financial information. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

Other matter

The accompanying condensed consolidated interim financial information for the three-month ended 31 December 2015 and 2014, were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

For Deloitte Audit, *Cabinet de révision agréé*



Sophie Mitchell, *Réviseur d'entreprises agréé*
Partner

25 February 2016

Condensed Consolidated Interim Financial Statements

Table of Contents

- 13 Selected Financial Data
- 14 Condensed Consolidated Interim Statement of Financial Position
- 15 Condensed Consolidated Interim Statement of Profit or Loss
- 16 Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
- 17 Condensed Consolidated Interim Statement of Changes in Equity
- 18 Condensed Consolidated Interim Statement of Cash Flows
- 19 Notes to the Condensed Consolidated Interim Financial Statements

Selected Financial Data

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	USD thousand		PLN thousand		EUR thousand	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
I. Revenue	998,693	1,231,694	3,823,496	4,018,155	904,916	957,888
II. Profit from operating activities	169,454	184,162	648,755	600,792	153,542	143,223
III. Profit before income tax	144,874	73,493	554,650	239,756	131,270	57,156
IV. Profit for the period from continuing operations	141,817	71,303	542,946	232,612	128,500	55,452
V. Net cash used in operating activities	(100,730)	(34,802)	(385,645)	(113,535)	(91,271)	(27,066)
VI. Net cash used in investing activities	(23,761)	(12,824)	(90,969)	(41,836)	(21,530)	(9,973)
VII. Net cash generated by financing activities	111,468	59,919	426,755	195,474	101,001	46,599
VIII. Total net cash flow	(13,023)	12,293	(49,859)	40,103	(11,800)	9,560
IX. Total assets	1,647,976	1,934,026	6,428,919	6,783,016	1,508,557	1,591,317
X. Current liabilities	634,752	754,864	2,476,231	2,647,459	581,052	621,102
XI. Non-current liabilities	90,605	198,832	353,459	697,344	82,940	163,599
XII. Issued capital	2,104	2,104	8,208	7,379	1,926	1,731
XIII. Total equity	922,619	980,330	3,599,229	3,438,213	844,565	806,616
XIV. Number of shares	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410
XV. Profit per ordinary share (in USD/PLN/EUR)	1.76	0.98	6.74	3.20	1.60	0.76
XVI. Diluted number of shares	81,243,196	79,683,410	81,243,196	79,683,410	81,243,196	79,683,410
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	1.73	0.98	6.61	3.20	1.57	0.76
XVIII. Book value per share (in USD/PLN/EUR)	11.56	12.32	45.09	43.22	10.58	10.14
XIX. Diluted book value per share (in USD/PLN/EUR)	11.34	12.32	44.22	43.22	10.38	10.14

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Assets				
Current assets				
Cash and cash equivalents	6	116,098	129,121	77,694
Trade accounts receivable, net	7	88,732	56,135	64,186
Prepayments to suppliers and other current assets, net	22	57,899	60,647	88,221
Corporate income tax prepaid	21	9,316	16,600	14,488
Taxes recoverable and prepaid, net	8	150,040	88,246	156,475
Inventory	9	443,100	158,756	556,967
Biological assets	10	20,031	146,571	21,299
Assets classified as held for sale	11	2,150	2,482	4,057
Total current assets		887,366	658,558	983,387
Non-current assets				
Property, plant and equipment, net	12	507,492	535,177	587,495
Intangible assets, net		44,136	52,572	72,841
Goodwill	13	111,194	119,442	127,631
Investments in joint ventures	14	44,044	57,037	100,526
Deferred tax assets		13,333	15,524	9,522
Corporate income tax prepaid	21	13,647	13,940	24,731
Available-for-sale financial assets		—	—	8,059
Other non-current assets	22	26,764	13,368	19,834
Total non-current assets		760,610	807,060	950,639
Total assets		1,647,976	1,465,618	1,934,026
Liabilities and equity				
Current liabilities				
Trade accounts payable	22	34,196	27,384	37,438
Advances from customers and other current liabilities	22	96,419	63,380	74,552
Short-term borrowings	15	467,719	298,005	537,755
Current portion of long-term borrowings	16	36,418	69,335	103,771
Liabilities directly associated with assets classified as held for sale	11	—	—	1,348
Total current liabilities		634,752	458,104	754,864
Non-current liabilities				
Long-term borrowings	16	69,129	88,901	156,532
Obligations under finance leases		3,575	6,277	8,726
Deferred tax liabilities		16,606	19,613	17,293
Other non-current liabilities		1,295	1,879	16,281
Total non-current liabilities		90,605	116,670	198,832
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital	2	2,104	2,104	2,104
Share premium reserve		463,879	463,879	463,879
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve		5,749	4,793	3,325
Revaluation reserve		39,456	39,456	39,456
Translation reserve		(676,229)	(586,283)	(465,032)
Retained earnings		1,046,101	925,661	898,222
Total equity attributable to Kernel Holding S.A. equity holders		921,004	889,554	981,898
Non-controlling interest		1,615	1,290	(1,568)
Total equity		922,619	890,844	980,330
Total liabilities and equity		1,647,976	1,465,618	1,934,026
Book value		921,004	889,554	981,898
Number of shares	2	79,683,410	79,683,410	79,683,410
Book value per share (in USD)		11.56	11.16	12.32
Diluted number of shares		81,243,196	79,779,975	79,683,410
Diluted book value per share (in USD)		11.34	11.15	12.32

On behalf of the Board
Andriy Verevsky
 Chairman of the Board

Anastasiia Usachova
 Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2015	3 months ended 31 December 2015	6 months ended 31 December 2014	3 months ended 31 December 2014
Revenue	17	998,693	620,971	1,231,694	652,532
Net change in fair value of biological assets and agricultural produce		5,176	3,057	1,533	3,180
Cost of sales	18, 22	(764,073)	(457,776)	(950,015)	(484,033)
Gross profit		239,796	166,252	283,212	171,679
Other operating income, net	19	37,298	34,135	36,566	27,870
Operating expenses					
Distribution costs	22	(78,808)	(54,723)	(104,403)	(59,541)
General and administrative expenses	22	(28,832)	(15,778)	(31,213)	(16,215)
Profit from operating activities		169,454	129,886	184,162	123,793
Finance costs, net	22	(29,469)	(18,232)	(37,661)	(19,170)
Foreign exchange gain/(loss), net	20	12,286	16,947	(73,375)	(56,173)
Other expenses, net	22	(9,556)	(12,339)	(5,917)	(4,659)
Share of gain of joint ventures	14	2,159	858	6,284	2,059
Profit before income tax		144,874	117,120	73,493	45,850
Income tax (expenses)/benefits	21	(3,057)	626	(2,190)	(1,134)
Profit for the period from continuing operations		141,817	117,746	71,303	44,716
Discontinued operations					
Loss for the period from discontinued operations	11	—	—	(4,862)	(581)
Profit for the period		141,817	117,746	66,441	44,135
Profit for the period attributable to:					
Equity holders of Kernel Holding S.A.		140,361	116,459	78,271	54,849
Non-controlling interest		1,456	1,287	(11,830)	(10,714)
Earnings per share					
From continuing and discontinued operations					
Weighted average number of shares		79,683,410	79,683,410	79,683,410	79,683,410
Profit per ordinary share (in USD)		1.76	1.46	0.98	0.69
Diluted number of shares		81,243,196	81,447,615	79,683,410	79,683,410
Diluted profit per ordinary share (in USD)		1.73	1.43	0.98	0.69
From continuing operations					
Weighted average number of shares		79,683,410	79,683,410	79,683,410	79,683,410
Profit per ordinary share (in USD)		1.76	1.46	1.04	0.70
Diluted number of shares		81,243,196	81,447,615	79,683,410	79,683,410
Diluted profit per ordinary share (in USD)		1.73	1.43	1.04	0.70

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	6 months ended 31 December 2015	3 months ended 31 December 2015	6 months ended 31 December 2014	3 months ended 31 December 2014
Profit for the period	141,817	117,746	66,441	44,135
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(91,077)	(70,798)	(96,361)	(62,456)
Other comprehensive loss, net	(91,077)	(70,798)	(96,361)	(62,456)
Total comprehensive income/(loss) for the period	50,740	46,948	(29,920)	(18,321)
Total comprehensive income/(loss) attributable to:				
Equity holders of Kernel Holding S.A.	50,415	45,976	(19,070)	(9,817)
Non-controlling interest	325	972	(10,850)	(8,504)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders									
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 30 June 2014	2,104	463,879	39,944	3,176	39,456	(367,691)	848,793	1,029,661	1,025	1,030,686
Profit/(Loss) for the period	—	—	—	—	—	—	78,271	78,271	(11,830)	66,441
Other comprehensive (loss)/income	—	—	—	—	—	(97,341)	—	(97,341)	980	(96,361)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(97,341)	78,271	(19,070)	(10,850)	(29,920)
Distribution of dividends	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Effect of changes of non-controlling interest	—	—	—	—	—	—	(8,921)	(8,921)	8,257	(664)
Recognition of share-based payments	—	—	—	149	—	—	—	149	—	149
Balance as of 31 December 2014	2,104	463,879	39,944	3,325	39,456	(465,032)	898,222	981,898	(1,568)	980,330
Profit for the period	—	—	—	—	—	—	28,659	28,659	433	29,092
Other comprehensive (loss)/income	—	—	—	—	—	(121,251)	—	(121,251)	1,205	(120,046)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(121,251)	28,659	(92,592)	1,638	(90,954)
Effect of changes of non-controlling interest	—	—	—	—	—	—	(1,220)	(1,220)	1,220	—
Recognition of share-based payments	—	—	—	1,468	—	—	—	1,468	—	1,468
Balance as of 30 June 2015	2,104	463,879	39,944	4,793	39,456	(586,283)	925,661	889,554	1,290	890,844
Profit for the period	—	—	—	—	—	—	140,361	140,361	1,456	141,817
Other comprehensive loss	—	—	—	—	—	(89,946)	—	(89,946)	(1,131)	(91,077)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(89,946)	140,361	50,415	325	50,740
Distribution of dividends	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Recognition of share-based payments	—	—	—	956	—	—	—	956	—	956
Balance as of 31 December 2015	2,104	463,879	39,944	5,749	39,456	(676,229)	1,046,101	921,004	1,615	922,619

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2015	6 months ended 31 December 2014
Operating activities:			
Profit before income tax		144,874	69,744
Adjustments for:			
Amortization and depreciation		30,786	38,682
Finance costs, net		29,469	37,661
Movement in allowance for doubtful receivables		1,302	725
Other accruals		6,440	479
Loss on disposal of property, plant and equipment		212	430
Net foreign exchange loss		9,842	62,010
Write-offs and impairment loss		6,198	3,282
Net change in fair value of biological assets and agricultural produce		(5,176)	(1,533)
Share of gain of joint ventures	14	(2,159)	(6,284)
Gain on sales of subsidiaries	5, 11	(827)	(29)
Operating profit before working capital changes		220,961	205,167
Changes in working capital:			
Change in trade accounts receivable		(29,721)	34,545
Change in prepayments and other current assets		(614)	(46,045)
Change in taxes recoverable and prepaid		(77,854)	(65,116)
Change in biological assets		116,503	132,536
Change in inventories		(324,708)	(244,479)
Change in trade accounts payable		11,305	5,627
Change in advances from customers and other current liabilities		13,987	(9,815)
Cash (used in)/generated from operations		(70,141)	12,420
Finance costs paid		(28,320)	(36,690)
Income tax paid		(2,269)	(10,532)
Net cash used in operating activities		(100,730)	(34,802)
Investing activities:			
Purchase of property, plant and equipment		(17,595)	(14,421)
Proceeds from disposal of property, plant and equipment		1,185	612
Purchase of intangible and other non-current assets		(511)	(257)
Disposal of subsidiaries		993	1,242
Acquisition of subsidiaries		(11,000)	—
Amount advanced for subsidiaries		3,167	—
Net cash used in investing activities		(23,761)	(12,824)
Financing activities:			
Proceeds from borrowings		281,102	244,831
Repayment of borrowings		(167,845)	(183,653)
Acquisition of non-controlling interest		—	(664)
Net cash generated by financing activities		113,257	60,514
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,789)	(595)
Net (decrease)/increase in cash and cash equivalents		(13,023)	12,293
Cash and cash equivalents, at the beginning of the period		124,121	65,401
Cash and cash equivalents, at the end of the period		111,098	77,694

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

Kernel Holding S.A. (hereinafter referred to as the 'Holding') incorporated under the legislation of Luxembourg on 15 June 2005 (number B 109,173 in the Luxembourg Register of Companies) is the holding company for a group of entities (hereinafter referred to as the 'Subsidiaries'), which together form Kernel Group (hereinafter referred to as the 'Group').

The Group's principal business activity is the production and subsequent export of sunflower oil and meal in bulk, the production and sale of bottled sunflower oil, the wholesale trade of grain (mainly wheat, corn, soybean and barley), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine and the Russian Federation.

The Group's financial year runs from 1 July to 30 June.

The principal operating office of the Group is located at 3 Tarasa Shevchenka Lane, Kyiv, 01001, Ukraine.

As of 31 December 2015, 30 June 2015 and 31 December 2014, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of			
			31 December 2015	30 June 2015	31 December 2014	
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%	
Tweelingen Ukraine LLC		Ukraine	100.0%	100.0%	100.0%	
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%	
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%	
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%	
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%	
Bandurka OEP LLC	Production plants. Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%	
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%	
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%	
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%	99.2%	
Ekotrans LLC		Ukraine	100.0%	100.0%	100.0%	
BSI LLC		Ukraine	100.0%	100.0%	100.0%	
Stavropol oil CJSC		Russian Federation	100.0%	100.0%	100.0%	
Ust-Labinsk Florentina OEP LLC		Russian Federation	100.0%	100.0%	100.0%	
Estron Corporation Ltd		Provision of grain, oil and meal, handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Zernovy Terminal LLC			Ukraine	100.0%	—	—
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%	
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%	
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%	100.0%	
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%	100.0%	
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%	
Agrofirma Kuybyshevo LLC		Ukraine	100.0%	100.0%	100.0%	
Palmira LLC		Ukraine	100.0%	100.0%	100.0%	
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%	
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%	100.0%	

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 25 February 2016.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group has been Kernel Holding S.A. (Luxembourg) (the 'Holding' or the 'Company'). The issued capital of the Company as of 31 December 2015 and 2014 consisted of 79,683,410 ordinary electronic shares without indication of a nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

	As of 31 December 2015		As of 31 December 2014	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	31,347,152	39.34%	31,247,152	39.21%
Free float	48,336,258	60.66%	48,436,258	60.79%
Total	79,683,410	100.00%	79,683,410	100.00%

As of 31 December 2015 and 2014, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

On 9 June 2014, the Company received a notification from ING Otworthy Fundusz Emerytalny that it had crossed the 5% threshold for ownership and owned 6.01% of Kernel Holding S.A.'s share capital at that moment.

On 13 October 2015, the Company received a notification from Cascade Investment Fund that the fund had acquired shares in the Company and reached the 5% threshold. As of 13 October 2015, Cascade Investment Fund owned 3,984,345 shares of Kernel Holding S.A., which represented 5.00% of the share capital.

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 31 December 2015, may not be distributed as dividends.

On 23 November 2007, Kernel Holding S.A. was listed on the Warsaw Stock Exchange (WSE). The total size of the initial public offering was PLN 546,402 thousand, comprising 22,766,750 shares, of which 16,671,000 were newly issued shares. Prior to the IPO, the capital of Kernel Holding S.A. consisted of 46,670,000 shares without indication of the nominal value. On 27 June 2008, an additional 5,400,000 ordinary shares of the Holding were admitted to trading on the main market of the WSE. On 3 June 2010, Kernel issued 4,450,000 new shares. In 2011, Kernel issued 6,492,410 new shares, 1,092,410 of which were subscribed by stock option beneficiaries under the Management Incentive Plan at an issue price of PLN 24.

As part of the management incentive scheme, the Company's executives and senior employees are granted options to acquire shares of the Company. During the year ended 30 June 2015, the board of directors approved a new management incentive plan and amendment to the previous management incentive plan, issuing a total of 4,350,000 new options (600,000 options with a strike price of PLN 75.00 and 3,750,000 options with a strike price of PLN 29.61), with the authorized capital due to be approved by the general meeting of shareholders. As of 31 December 2015, a total of 7,407,820 options were issued, of which 3,857,820 were vested. 657,820 options (all vested) have a strike price of PLN 24.00, 3,000,000 options (of which 2,800,000 are vested) have a strike price of PLN 75.00 per share, and 3,750,000 options (of which 400,000 vested) have a strike price of PLN 29.61. The weighted average remaining contractual life was 12 years. These options granted under the Company's management incentive scheme carry no rights to dividends and no voting rights.

The fair value of the share-based options was USD 5,749 thousand as of 31 December 2015 and USD 956 thousand was recognized as an expense (part of payroll and payroll related expenses) during the six months ended 31 December 2015, with a corresponding increase in equity over the vesting period (31 December 2014: USD 3,325 thousand and USD 149 thousand, respectively).

On 10 December 2015, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share. The board of directors is due to set ex and payout dividend dates.

3. Basis of Presentation of Financial Statements

These Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2015 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and do not include all of the information and disclosures required in the annual consolidated financial statements. The accounting policies and methods of computation adopted during the preparation of the Condensed Consolidated Interim Financial Statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2015.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2015. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Functional and presentation currency

The Group's presentation currency is the United States dollar (USD). The functional currency of the majority of the Group's foreign Subsidiaries is their local currency, except for businesses engaged in the production and sale of sunflower oil, for which USD was selected as the functional currency.

Transactions in currencies other than the functional currencies of the Group's companies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Subsequently, monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

On consolidation, the assets and liabilities of the Subsidiaries are translated at the exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless the exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in 'Other comprehensive income' and accumulated in the 'Translation reserve'.

The exchange rates during the period of the financial statements were as follows:

Currency	Closing rate as of 31 December 2015	Average rate for the 6 months ended 31 December 2015	Closing rate as of 30 June 2015	Average rate for the year ended 30 June 2015	Closing rate as of 31 December 2014	Average rate for the 6 months ended 31 December 2014
USD/UAH	24.0007	22.2855	21.0154	17.4029	15.7686	13.5054
USD/EUR	0.9154	0.9061	0.8975	0.8359	0.8228	0.7777
USD/RUB	72.8827	64.4609	55.5240	49.5381	56.2584	41.8076
USD/PLN	3.9011	3.8285	3.7645	3.4846	3.5072	3.2623

The average exchange rates for each period are calculated as the arithmetic mean of the exchange rates for all trading days during this period. The sources of exchange rates are the official rates set by the National Bank of Poland for USD/PLN and USD/EUR, by the National Bank of Ukraine for USD/UAH and by the Central Bank of the Russian Federation for USD/RUB.

All foreign exchange gains or losses that occur on the revaluation of monetary balances, presented in foreign currencies, are allocated as a separate line in the Condensed Consolidated Interim Statement of Profit or Loss.

Operating segments

Operating segments are reported in a manner consistent with internal reporting as provided to the chief operating decision makers in order to allocate resources to segments and to assess their performance. Management and members of the Board of Directors of the Group are identified as the chief operating decision makers.

Segments in the Condensed Consolidated Interim Financial Statements are defined in accordance with the type of activity, products sold or services provided.

The operating segments' activities are as follows:

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
Export terminals	Grain handling and transshipment services in the ports of Ilyichevsk and Mykolaiv.
Farming	Agricultural farming. Production of corn, wheat, soybean, sunflower seed and rapeseed.
Grain	Sourcing and merchandising of wholesale grain.
Silo services	Provision of grain cleaning, drying and storage services.
Sugar	Marketing and distribution of sugar.
Other	Income and expenses unallocated to other segments, which are related to the administration of the Holding.

The measure of profit and loss, and assets and liabilities is based on the Group's accounting policies, which are in compliance with IFRS, as adopted by the European Union.

Reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments. The segment data is calculated as follows:

- Intersegment sales reflect intergroup transactions effected on an arm's length basis.
- Capital expenditures, amortization and depreciation related to property, plant and equipment and intangible assets are allocated to segments when possible.

Since financial management of the Group's companies is carried out centrally, borrowings, obligations under financial lease and some other assets and liabilities are not allocated directly to the respective operating segments and are presented in the 'Other' segment. Consequently, the assets and liabilities shown for individual segments do not include borrowings, obligations under financial lease and some other assets and liabilities.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Seasonality of operations

The bottled sunflower oil segment is not significantly exposed to seasonality factors. The sunflower oil sold in bulk segment normally has seasonally lower sales in the first quarter of the financial year, which corresponds to the end of the crushing season and lower production levels. The operations of the farming segment reflect seasonality in the context of seeding and harvesting campaigns, which are conducted mainly in November-May and June-October, respectively. The grain, export terminals and silo services segments usually experience higher volumes in the several months after the commencement of the harvesting campaign (July for early grains and September for crops harvested in autumn), though the grain and export terminal segments' seasonality could also be affected by government regulations, among other things.

In addition, the farming segment usually reflects a higher effect from the IAS 41 valuation of biological assets in the second half of the financial year when crops in fields are revalued to their fair value less costs to sell; and a higher effect from the IAS 41 valuation of agricultural produce in the first half of the financial year due to the completion of the harvesting campaign.

4. Key Data by Operating Segment

Key data by operating segment for the six months ended 31 December 2015:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re-conciliation	Discontinued operations	Continuing operations
Revenue (external)	54,485	486,787	96	16,650	434,848	5,827	—	—	—	—	998,693
Intersegment sales	—	—	26,484	324,821	—	25,341	—	—	(376,646)	—	—
Total revenue	54,485	486,787	26,580	341,471	434,848	31,168	—	—	(376,646)	—	998,693
Net change in fair value of biological assets and agricultural produce	—	—	—	5,176	—	—	—	—	—	—	5,176
Other operating income, net	91	3,096	9	32,503	1,383	216	—	—	—	—	37,298
Profit/(Loss) from operating activities	8,963	49,599	15,518	73,090	21,587	18,756	—	(18,059)	—	—	169,454
Finance costs, net											(29,469)
Foreign exchange gain, net											12,286
Other expenses, net											(9,556)
Share of gain of joint ventures											2,159
Income tax expense											(3,057)
Profit for the period from continuing operations											141,817
Total assets	62,348	919,838	107,738	230,965	243,856	59,985	—	21,096	—	—	1,645,826
Capital expenditures	37	3,352	565	6,990	—	1,105	—	128	—	—	12,177
Amortization and depreciation	1,417	8,342	1,521	17,146	—	1,868	—	492	—	—	30,786
Liabilities	622	38,516	1,520	37,872	13,433	1,022	921	631,451	—	—	725,357

During the six months ended 31 December 2015, one of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 94% of total external sales.

For the purpose of segment reporting, revenue from the sale of sunflower meal and cake is allocated to the bottled sunflower oil segment in proportion to the share of total sunflower oil production used for bottled sunflower oil sales, while remaining amounts are allocated to the sunflower oil sold in bulk segment.

The Group operates in two principal geographical areas – Ukraine and the Russian Federation. Information about its non-current assets by location and about revenue from continuing operations generated by the assets located in these areas is detailed below:

	Revenue from external customers	Non-current assets
	6 months ended 31 December 2015	As of 31 December 2015
Ukraine	820,563	687,192
Russian Federation	178,130	73,418
Total	998,693	760,610

Non-current assets that relate to the Russian Federation by location include investments in a joint venture (grain export terminal in Taman port).

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment (continued)

Key data by operating segment for the six months ended 31 December 2014:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	64,935	517,254	58	19,683	599,598	6,422	25,436	—	—	(1,692)	1,231,694
Intersegment sales	—	—	26,279	180,331	—	27,722	—	—	(234,332)	—	—
Total revenue	64,935	517,254	26,337	200,014	599,598	34,144	25,436	—	(234,332)	(1,692)	1,231,694
Net change in fair value of biological assets and agricultural produce	—	—	—	1,533	—	—	—	—	—	—	1,533
Other operating income, net	525	14,725	469	11,981	8,703	163	52	—	—	(52)	36,566
Profit/(Loss) from operating activities	11,182	89,073	15,914	31,015	32,876	14,862	3,382	(13,816)	—	(326)	184,162
Finance costs, net											(37,661)
Foreign exchange loss, net											(73,375)
Other expenses, net											(5,917)
Share of gain of joint ventures											6,284
Income tax expense											(2,190)
Profit for the period from continuing operations											71,303
Total assets	78,438	896,840	173,611	405,831	270,888	100,426	2,494	1,441	—	—	1,929,969
Capital expenditures	354	3,195	—	6,921	—	6,013	—	1,067	—	—	17,550
Amortization and depreciation	1,509	8,487	1,565	23,324	—	2,990	—	807	—	—	38,682
Liabilities	1,381	41,053	1,345	22,452	15,530	8,143	568	861,876	—	—	952,348

During the six months ended 31 December 2014, none of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 92% of total external sales.

For the purpose of segment reporting, revenue from the sale of sunflower meal and cake is allocated to the bottled sunflower oil segment in proportion to the share of total sunflower oil production used for bottled sunflower oil sales, while remaining amounts are allocated to the sunflower oil sold in bulk segment.

The Group operates in two principal geographical areas – Ukraine and the Russian Federation. Information about its non-current assets by location and about revenue from continuing operations generated by the assets located in these areas is detailed below:

	Revenue from external customers		Non-current assets
	6 months ended 31 December 2014		As of 31 December 2014
Ukraine	986,030		821,384
Russian Federation	245,664		129,255
Total	1,231,694		950,639

Non-current assets that relate to the Russian Federation by location include investments in a joint venture (grain export terminal in Taman port).

5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the six month periods ended 31 December 2015 and 31 December 2014.

In December 2015, the Company disposed one of its grain elevators located in Mykolaiv region. The net assets of the disposed entity as of the date of disposal were equal to USD 166 thousand and the cash consideration received was USD 993 thousand.

During the six months ended 31 December 2014, the Group acquired part of the effective ownership interest of Druzhba-Nova Group in the amount of USD 664 thousand.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

6. Cash and Cash Equivalents

	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Cash with banks in USD	105,714	110,537	74,031
Cash with banks in UAH	9,171	18,077	3,056
Cash with banks in other currencies	1,205	500	602
Cash on hand	8	7	5
Total	116,098	129,121	77,694
Less restricted and blocked cash on security bank accounts	(5,000)	(5,000)	—
Cash for the purposes of cash flow statement	111,098	124,121	77,694

7. Trade Accounts Receivable, net

The increase in trade accounts receivable to USD 88,732 thousand as of 31 December 2015 from USD 56,135 thousand as of 30 June 2015 was caused by an increase in export sales of grain at the end of the reporting period.

8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid increased to USD 150,040 thousand as of 31 December 2015 from USD 88,246 thousand as of 30 June 2015 mostly due to an increase in VAT recoverable and prepaid as a result of ordinary operating activity.

9. Inventory

	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Finished products	125,055	61,201	65,401
Raw materials	113,366	59,249	181,806
Agricultural products	102,785	8,578	121,359
Goods for resale	70,518	19,640	151,192
Work in progress	24,486	—	26,202
Fuel	1,519	2,624	2,998
Packaging materials	899	805	1,265
Other inventories	4,472	6,659	6,744
Total	443,100	158,756	556,967

As of 31 December 2015, 30 June 2015 and 31 December 2014, raw materials were represented mainly by sunflower seed stock in the amount of USD 101,380 thousand, USD 50,166 thousand and USD 161,454 thousand, respectively.

As of 31 December 2015, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 106,720 thousand (as of 30 June 2015: USD 50,846 thousand; as of 31 December 2014: USD 55,528 thousand). The volume of sunflower oil produced increased due to the prolongation of a tolling contract on the conversion of sunflower seeds with an external factory.

As of 31 December 2015, 30 June 2015 and 31 December 2014, inventories with carrying amount of USD 315,183 thousand, USD 110,857 thousand and USD 455,204 thousand, respectively, were pledged as security for short-term borrowings (Note 15).

10. Biological Assets

Current biological assets as of 31 December 2015 consisted of 89,867 hectares of winter crops sowed in the amount of USD 17,883 thousand (30 June 2015: 386,240 hectares of crops in the amount of USD 144,088 thousand; 31 December 2014: 82,166 hectares of winter crops in the amount of USD 17,711 thousand) and 8,889 heads of current livestock in the amount of USD 2,148 thousand (30 June 2015: 10,139 heads in the amount of USD 2,483 thousand; 31 December 2014: 11,083 heads of current livestock in the amount of USD 3,588 thousand).

The following table represents the changes in the carrying amounts of biological assets (crops in fields) during the six months ended 31 December 2015 and 30 June 2015:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 31 December 2014	12,445	5,266	17,711
Increase due to purchases and subsequent expenditures capitalized in biological assets (2015 harvest)	116,019	—	116,019
Gain arising from changes in fair value attributable to physical changes and to changes in the market price	—	7,858	7,858
Exchange difference	—	2,500	2,500
As of 30 June 2015	128,464	15,624	144,088
Decrease due to harvest (2015 harvest)	(128,464)	(15,624)	(144,088)
Increase due to purchases and subsequent expenditures capitalized in biological assets (2016 harvest)	11,459	—	11,459
Gain arising from changes in fair value attributable to physical changes and to changes in the market price	—	7,882	7,882
Exchange difference	—	(1,458)	(1,458)
As of 31 December 2015	11,459	6,424	17,883

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

11. Assets Classified as Held for Sale

As of 31 December 2015, according to management's plan to dispose all sugar plants and exit the sugar business, the assets of the remaining sugar plant were still classified as assets held for sale.

As of 31 December 2015, the net value of assets classified as held for sale equaled USD 2,150 thousand (30 June 2015: USD 2,482 thousand).

During the six months period ended 31 December 2014, the Group disposed of Tsukrove LLC. The net assets of the disposed entity as of the date of disposal were equal to USD 1,215 thousand and the cash consideration was USD 1,244 thousand.

There were no discontinued operations during the six months period ended 31 December 2015 (six months ended 31 December 2014: loss USD 4,862 thousand).

12. Property, Plant and Equipment, net

During the six months ended 31 December 2015, the Group acquired property, plant and equipment in the amount of USD 12,177 thousand (31 December 2014: USD 17,550 thousand). These additions were related mainly to the purchases of agricultural vehicles and equipment for the farming segment and reconstruction of an oil plant.

The decrease in property, plant and equipment in the amount of USD 12,849 thousand resulted from the depreciation of Ukrainian hryvnia during the six months ended 31 December 2015 (31 December 2014: USD 42,713 thousand). Additionally, the net book value of property, plant and equipment decreased as a result of the regular depreciation charge.

As of 31 December 2015, property, plant and equipment with a carrying amount of USD 115,279 thousand (as of 30 June 2015 and 31 December 2014: USD 130,652 thousand and USD 172,286 thousand respectively) were pledged by the Group as collateral against short-term and long-term bank borrowings (Notes 15 and 16).

13. Goodwill

Major changes in goodwill were related to an impairment of goodwill on Russian oilseed processing plants amounted to USD 5,182 thousand and the remaining was related to exchange differences on translating foreign operations. Impairment was caused mainly by the current economic situation in the Russian Federation.

14. Investments in Joint Ventures

For the six months ended 31 December 2015, the share of gain of joint venture (Taman) equaled USD 2,159 thousand (for the six months ended 31 December 2014: USD 6,284 thousand). The Group's aggregate share of the total comprehensive loss comprised USD 12,993 thousand (for the six months ended 31 December 2014: total comprehensive income USD 2,451 thousand). The difference between the share of gain of joint venture and share of total comprehensive loss/income was represented mainly by a change in translation reserve.

The aforementioned result included depreciation and amortization expenses in the amount of USD 997 thousand (for the six months ended 31 December 2014: USD 1,201 thousand) and interest expenses in the amount of USD 1,167 thousand (for the six months ended 31 December 2014: USD 1,426 thousand).

As of 31 December 2015, 30 June 2015 and 31 December 2014, a 50% stake in a joint venture was pledged to secure its long-term borrowings.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

15. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Bank credit lines	465,051	295,313	533,712
Interest accrued on short-term borrowings	1,710	874	1,954
Interest accrued on long-term borrowings	958	1,818	2,089
Total	467,719	298,005	537,755

The balances of short-term borrowings as of 31 December 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.25%	USD	August 2016	197,000
European bank	Libor + 6.0%	USD	June 2016	97,500
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2016	47,500
European bank	Libor + 5.5%	USD	February 2016	41,400
Ukrainian subsidiary of European bank	10.0%	USD	March 2016	31,500
European bank	Libor + 6.25%	USD	April 2016	25,000
Ukrainian subsidiary of European bank	20.0%	UAH	February 2016	12,916
Russian bank	Libor + 9.35%	USD	February 2016	4,897
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	4,688
Ukrainian subsidiary of European bank	6.8%	USD	February 2016	2,650
Total bank credit lines				465,051
Interest accrued on short-term borrowings				1,710
Interest accrued on long-term borrowings				958
Total				467,719

The balances of short-term borrowings as of 30 June 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.0%	USD	August 2015	57,000
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2015	54,000
European bank	Libor + 5.5%	USD	February 2016	48,600
Russian bank	Libor + 9.35%	USD	February 2016	38,000
Russian bank	Libor + 7.5%	USD	December 2015	37,713
European bank	Libor + 6.25%	USD	April 2016	35,000
Ukrainian subsidiary of European bank	10.0%	USD	March 2016	25,000
Total bank credit lines				295,313
Interest accrued on short-term borrowings				874
Interest accrued on long-term borrowings				1,818
Total				298,005

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

15. Short-term Borrowings (continued)

The balances of short-term borrowings as of 31 December 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.0%	USD	August 2015	158,000
European bank	Libor + 5.75%	USD	June 2015	155,400
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2015	65,000
European bank	Libor + 6.25%	USD	April 2015	50,000
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	December 2015	37,689
Ukrainian subsidiary of European bank	10.0%	USD	March 2015	35,600
European bank	Libor + 4.0%	USD	June 2015	24,400
European bank	Libor + 5.5%	USD	April 2015	7,623
Total bank credit lines				533,712
Interest accrued on short-term borrowings				1,954
Interest accrued on long-term borrowings				2,089
Total				537,755

As of 31 December 2015, the overall maximum credit limit for short-term bank credit lines amounted to USD 751,734 thousand (as of 30 June 2015: USD 392,689 thousand and as of 31 December 2014: USD 777,231 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Cash and cash equivalents	5,000	5,000	—
Inventory	315,183	110,857	455,204
Property, plant and equipment	113,369	114,037	69,379
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	Not quantifiable
Total	433,552	229,894	524,583

As of 31 December 2015, the following controlling stakes of subsidiaries were pledged to secure short-term borrowings: three sunflower oil plants, one export terminal and one holding company (as of 30 June 2015: nine agricultural companies, three sunflower oil plants, two export terminals and two holding companies; as of 31 December 2014: twenty one agricultural companies and one sunflower oil plant).

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

16. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Long-term bank borrowings	105,547	158,236	260,303
Current portion of long-term borrowings	(36,418)	(69,335)	(103,771)
Total	69,129	88,901	156,532

The balances of long-term borrowings as of 31 December 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	91,667
European bank	Libor + 1.65%	USD	March 2020	13,880
Total				105,547

The balances of long-term borrowings as of 30 June 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	135,000
European bank	Libor + 1.65%	USD	March 2020	15,423
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	7,813
Total				158,236

The balances of long-term borrowings as of 31 December 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	135,000
European bank	Libor + 5.5%	USD	February 2016	59,400
Russian bank	Libor + 8.35%	USD	February 2016	38,000
European bank	Libor + 1.65%	USD	March 2020	16,965
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	10,938
Total				260,303

Long-term borrowings as of 31 December 2015 included credit lines from banks with an overall maximum credit limit of USD 105,547 thousand (as of 30 June 2015: USD 158,236 thousand; and as of 31 December 2014: USD 262,991 thousand).

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2015	As of 30 June 2015	As of 31 December 2014
Property, plant and equipment	1,910	16,615	102,907
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	Not quantifiable
Total	1,910	16,615	102,907

As of 31 December 2015, stakes in subsidiaries were pledged including controlling stakes in one agricultural company (as of 30 June 2015: controlling stakes in one agricultural company; as of 31 December 2014: controlling stakes in two export terminals, three sunflower oil plants and one agricultural company).

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

17. Revenue

Revenue was as follows:

	6 months ended 31 December 2015	6 months ended 31 December 2014
Revenue from sunflower oil sold in bulk, sunflower meal and cake	497,092	530,122
Revenue from grain sales	434,848	599,598
Revenue from bottled sunflower oil	44,180	52,067
Revenue from farming	16,650	19,683
Revenue from grain silo services	5,827	6,422
Revenue from transshipment services	96	58
Revenue from sugar	—	23,744
Total	998,693	1,231,694

18. Cost of Sales

Cost of sales was as follows:

	6 months ended 31 December 2015	6 months ended 31 December 2014
Cost of goods for resale and raw materials used	667,112	866,695
Rental payments	35,956	16,489
Amortization and depreciation	29,689	36,887
Payroll and payroll related costs	23,703	22,837
Other operating costs	7,613	7,107
Total	764,073	950,015

19. Other operating income, net

Other operating income, net was as follows:

	6 months ended 31 December 2015	6 months ended 31 December 2014
VAT benefits	23,376	6,863
Gain on sale of hard currency	4,318	21,753
Other operating income	9,604	7,950
Total	37,298	36,566

20. Foreign Exchange Gain/(Loss), net

Foreign exchange gain/(loss), net was related to the following balances:

	6 months ended 31 December 2015	6 months ended 31 December 2014
Borrowings nominated in foreign currencies	17,419	(1,694)
VAT recoverable and prepaid	(15,747)	(38,010)
Revaluation of balances nominated in foreign currencies	7,510	(24,272)
Corporate income tax prepaid	(3,227)	(12,308)
Obligations under financial leases	875	(833)
Cash and cash equivalents nominated in foreign currencies	(620)	(1,221)
Other	6,076	4,963
Total	12,286	(73,375)

During the period under review, the Ukrainian hryvnia devalued by 12% against the US dollar (25% during the six months ended 31 December 2014) and the Russian ruble devalued by 24% against the US dollar (40% during the six months ended 31 December 2014). The Company's subsidiaries operate with different functional currencies (namely, the US dollar, Ukrainian hryvnia, and Russian ruble) and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's enterprises if they had different functional currencies.

21. Income Tax

The difference between the income tax charge reported in the accompanying Condensed Consolidated Interim Financial Statement of Profit or Loss and income before tax, multiplied by the respective statutory tax rates, is mainly due to the non-deductibility of certain expenses for income tax purposes and the effect of the farming companies of the Group, which are subject to a fixed agricultural tax regime and are not subject to corporate income tax.

As of 31 December 2015, the Group prepaid USD 22,963 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (as of 30 June 2015: USD 30,540 thousand). The decrease was mostly connected to the devaluation of the Ukrainian hryvnia, related foreign exchange losses recognized (see Note 20) and ordinary operating activities.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

22. Transactions with Related Parties

Related parties are the Beneficial Owner, companies under common control of the Beneficial Owner, joint ventures and the Group's key management personnel.

The Group had the following balances outstanding with related parties:

	Related party balances	Total category as per consolidated statement of financial position	Related party balances	Total category as per consolidated statement of financial position
	As of 31 December 2015		As of 30 June 2015	
Prepayments to suppliers and other current assets, net	8,925	57,899	14,581	60,647
Other non-current assets	13,637	26,764	4,909	13,368
Trade accounts payable	665	34,196	722	27,384
Advances from customers and other current liabilities	19,225	96,419	15,898	63,380

As of 31 December 2015 and 30 June 2015, the Group did not create an allowance for prepayments to suppliers and other current assets from related parties.

As of 31 December 2015, other non-current assets included USD 11,000 thousand in prepayments for an acquisition made to Namsen Limited.

As of 31 December 2015, advances from customers and other current liabilities included USD 2,754 thousand in bonuses payable to management (30 June 2015: USD 6,000 thousand).

As of 31 December 2015, USD 7,811 thousand in dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (30 June 2015: 0 - declared dividends to Namsen Limited in the amount of USD 7,795 thousand for FY 2014 were paid in April 2015).

Advances from customers and other current liabilities as of 31 December 2015 and 30 June 2015 included an interest-free financial liability in the amount of USD 7,043 thousand due to Namsen Limited.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

All remaining outstanding balances with related parties, which are presented in the table above, were represented by amounts due to companies under common control.

Transactions with related parties were as follows:

	Amount of operations with related parties	Total category per consolidated income statement	Amount of operations with related parties	Total category per consolidated income statement
	6 months ended 31 December 2015		6 months ended 31 December 2014	
Cost of sales	(33)	(764,073)	(233)	(950,015)
General, administrative and distribution expenses	(15,577)	(107,640)	(16,260)	(135,616)
Finance costs, net	48	(29,469)	52	(37,661)
Other expenses, net	6	(9,556)	114	(5,917)

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

For the six months ended 31 December 2015, distribution expenses included USD 8,842 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the six months ended 31 December 2014: USD 13,324 thousand). All other transactions occurred with related parties under common control.

As of 31 December 2015, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors, and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the six months ended 31 December 2015 amounted to USD 233 thousand (31 December 2014: 8 directors, USD 149 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 10 people, amounted to USD 1,344 thousand for the six months ended 31 December 2015 (31 December 2014: 14 people, USD 1,364 thousand).

Members of the Board of Directors and management team are not granted any pensions, retirement or similar benefits by the Group. The management of the Group has been provided with options to purchase shares of the Holding (Note 2).

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

23. Commitments and Contingencies

The Group was involved in litigation in connection with a case of contaminated Ukrainian oil that occurred in April 2008. In January 2016, a court decision was issued in favor of the counterparty. A respective provision in the amount of USD 2,400 thousand was recognized as of 31 December 2015 in Other current liabilities. As of 31 December 2014, no provision was recognized.

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 December 2015, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after the fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the seller's obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitration tribunal was formed, the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

Taxation and legal issues

As of 31 December 2015, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for a total amount of USD 82,577 thousand (31 December 2014: USD 94,273 thousand), from which USD 42,504 thousand was related to VAT recoverability (31 December 2014: USD 58,816 thousand) and USD 40,074 thousand was related to corporate income tax (31 December 2014: USD 35,457 thousand).

As of 31 December 2015, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 24,781 thousand (31 December 2014: USD 57,703 thousand) included in the aforementioned amount. Of this amount, USD 17,016 thousand relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favor of the Group (31 December 2014: USD 27,121 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Ukraine's tax environment is characterized by complexity in tax administration, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine', which is effective from 1 January 2015, except for certain provisions that will take effect at a later date. Management believes that the Company has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

Starting from 1 September 2013, the Tax Code of Ukraine introduced new rules, based on OECD transfer pricing guidelines, for determining and applying fair market prices, which significantly changed transfer pricing (TP) regulations in Ukraine.

The Company imports goods and services, which may potentially fall under the scope of the new Ukrainian TP regulations. The Company submitted a controlled transaction report within the required deadline. Management believes that the Company is in compliance with TP regulation requirements.

Operating environment

In 2015, the armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions, and a peaceful resolution of the conflict did not occur as it foreseen by the Minsk agreements.

In 2015, the Ukrainian economy went through a recession, gross domestic product is estimated to contract by 11% (2014: 7%), and the annual inflation rate reached 43% (2014: 25%). Unfavorable conditions on markets where Ukraine's primary commodities were traded influenced further devaluation of the Ukrainian hryvnia against major foreign currencies. Ukrainian companies and banks continued to suffer from the lack of funding from domestic and international financial markets.

The National Bank of Ukraine (the 'NBU') extended its range of measures that were introduced in 2014 and aimed at limiting the outflow of foreign currency from the country, inter alia, a mandatory sale of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, and limitations on remittances abroad.

In early 2015, the Government of Ukraine agreed with the IMF on a four-year program for a USD 17.5 billion loan aimed at supporting the economic stabilization of Ukraine. The program defines economic reforms that must be undertaken by the Government of Ukraine to reinstate sustainable economic growth in the mid-term.

In 2015, political and economic relationships between Ukraine and the Russian Federation remained strained, leading to a significant reduction in trade and economic cooperation. On 1 January 2016, the free-trade section of Ukraine's Association Agreement with the European Union came into force. In late 2015, the Russian Federation denounced its free trade agreement with Ukraine and further trade restrictions were announced by both countries.

Stabilization of the economic and political situation depends, to a large extent, upon the ability of the Ukrainian Government to continue reforms and the efforts of the NBU to further stabilize the banking sector, as well as upon the ability of the Ukrainian economy in general to respond adequately to changing markets. Nevertheless, further economic and political developments, as well as the impact of the above factors on the Group, its customers, and contractors are currently difficult to predict.

Notes to the Condensed Consolidated Interim Financial Statements

for the 6 months ended 31 December 2015 (in thousands of US dollars, unless otherwise stated)

23. Commitments and Contingencies (continued)

Capital commitments

As of 31 December 2015, the Group had commitments under contracts with a group of suppliers for a total amount of USD 8,472 thousand, mostly for the purchase of agricultural equipment (31 December 2014: no material capital commitments).

Contractual commitments on sales

As of 31 December 2015, the Group had entered into commercial contracts for the export of 1,103,114 tons of grain and 503,644 tons of sunflower oil and meal, corresponding to amounts of USD 199,486 thousand and USD 240,411 thousand, respectively, in contract prices as of the reporting date.

As of 31 December 2014, the Group had entered into commercial contracts for the export of 1,632,000 tons of grain and 370,412 tons of sunflower oil and meal, corresponding to amounts of USD 360,105 thousand and USD 171,499 thousand, respectively, in contract prices as of the reporting date.

As of 31 December 2015, the Group had entered into a preliminary agreement with Namsen Limited for the purchase of shares of an entity, owned by Namsen Limited, that owns the office premises where the Group's head-quarters is located. The preliminary amount of the deal is USD 18,000 thousand, subject to finalization of the valuation of the assets by an independent appraiser. The final agreement is expected to be signed by 31 December 2016.

24. Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for the year ended 30 June 2015.

Management considers that the carrying amounts of financial assets and financial liabilities recognized in the condensed consolidated interim financial statements approximate their fair values as of 31 December 2015 and 2014. The estimation of the fair value of borrowings was made using level 2 inputs according to IFRS 13, in accordance with valuation pricing models based on discounted cash flow analysis and observable interest rates available on the market within the six months ended 31 December 2015 and 2014.

25. Subsequent Events

On 25 February 2016, Kernel entered into binding documentation to acquire the assets, through an assignment agreement with a Ukrainian bank, of an oilseed crushing plant for USD 95.8 million, payable in arrears over five years. Commissioned in 2012, the world-class multi-seed facility has an installed crushing capacity of 560,000 tons of sunflower seed per year. The production plant, where Kernel currently operates through a tolling agreement, is located in Kirovohrad region of Ukraine and fits well into Kernel's existing origination and marketing platform.