

H1

FY2014

KERNEL



Kernel Holding S.A. and Subsidiaries Condensed Consolidated Interim Financial Statements

for 6 months ended 31 December 2013

Management Discussion & Analysis

for 3 and 6 months ended 31 December 2013

Key highlights

- Revenues decreased 23.8% y-o-y to USD 725.5 million in Q2 FY2014, driven by lower soft commodity prices and a mix of lower sunflower oil sales volumes and higher grain exports. Compared to Q1 FY2014, revenues increased 75.7% in Q2 FY2014, owing to larger volumes of sunflower oil and grain sales.
- Q2 FY2014 EBITDA is USD 58.1 million, down 28.2% y-o-y, due to lower sunflower volumes delivered during the quarter and the farming segment's negative contribution. At the same time, the crushing margin recovery and strong profits from the infrastructure resulted in material growth in Q2 FY2014 EBITDA versus Q1 FY2014.
- The sunflower oil in bulk segment's EBITDA decreased 23.6% y-o-y to USD 48.7 million in Q2 FY2014 due to lower sales volumes which were down 31.6% y-o-y from unusually high levels in Q2 FY2013. EBITDA margin recovered to 16.2% in Q2 FY2014 versus 12.1% in Q2 FY2013 and 0.7% in Q1 FY2014. The segment's profitability returned to normal levels following the start of crushing new sunflower seed harvested in September–October.
- The bottled oil segment's EBITDA contribution was USD 12.9 million in Q2 FY2014, up 61.3% y-o-y. The EBITDA margin improved substantially to 28.9% in Q2 FY2014 from 14.8% in Q2 FY2013 due to the time lag of the branded bottled oil price adjustment to the declining international sunflower oil price.
- Grain exports increased to 1.3 million tons in Q2 FY2014 from 1.1 million tons in Q2 FY2013, with growth coming from a two-fold increase in exports from the Russian Federation, while Ukrainian volumes grew only slightly in comparison to the previous year, as the most grain exports from Ukraine is expected in the second half of the financial year. The EBITDA margin was 1.2% in Q2 FY2014 vs. 2.2% in Q2 FY2013, with profits carried over to the next quarters due to the mismatch between the trading book margin and the physical delivery margin posted in the quarter under review, as is common in commodity trading.

- Export terminals' throughput increased 3.7% y-o-y to 1.3 million tons in Q2 FY2014, with Russian operations growing almost two-fold while Ukrainian ports' throughput declining y-o-y as grain exports from Ukraine is skewed to the second half of the marketing year. The segments' EBITDA decreased 8.5% y-o-y to USD 9.4 million in H1 FY2014, reflecting Ukrainian volumes, and its share of profit from the joint venture in Russia amounted to USD 3.0 million in Q2 FY2014 versus a USD 1.7 million loss in Q2 FY2013.
- Strong 50.7% y-o-y growth in volumes at the silo services segment in H1 FY2014 reflects the larger harvest of our crop operations and strong harvest volumes in Ukraine overall. The segments' EBITDA increased 3.1x y-o-y to USD 29.7 million in Q2 FY2014, reflecting a higher intake and wet weather during the autumn harvesting period which increased demand for grain drying services.
- The farming segment generated USD 41.7 million of negative EBITDA in Q2 FY2014 versus negative EBITDA of USD 12.5 million in Q2 FY2013, reflecting 20-45% y-o-y lower commodity prices as well as crop yields that fell short of projections.

Major corporate and legislative events

- In October 2013, the company divested the Orzhytskiy sugar plant property for a total gross consideration of USD 5.1 million.
- In October 2013, the company completed the sale of remotely located farming operations in southern Ukraine for a total consideration of USD 7.0 million. Following the deal, the company's farming operations amount to 400,000 hectares of leasehold land.
- In late December 2013, the Ukrainian Parliament approved a bill to reinstate VAT refunds on grain exports, effective 1 January 2014.

Financial highlights:

Amounts in USD million, except for EPS and ratios

	Q2 FY2014	Q2 FY2013	y-o-y	H1 FY2014	H1 FY2013	y-o-y
Revenue	725.5	952.6	(23.8%)	1,138.4	1,468.5	(22.5%)
EBITDA ⁽¹⁾	58.1	80.9	(28.2%)	61.1	155.8	(60.8%)
Net (loss)/profit attributable to equity holders of Kernel Holding S.A.	(9.1)	32.9	n/m	(42.9)	69.7	n/m
EBITDA margin	8.0%	8.5%	(0.5pp)	5.4%	10.6%	(5.2pp)
Net margin	(1.3%)	3.5%	(4.7pp)	(3.8%)	4.7%	(8.5pp)
EPS, USD ⁽²⁾	(0.11)	0.41	n/m	(0.54)	0.88	n/m
Net debt/EBITDA ⁽³⁾				5.3x	3.6x	(1.7x)
Adjusted net debt/EBITDA ⁽⁴⁾				2.1x	1.2x	(0.9x)
EBITDA/Interest ⁽⁵⁾				2.9x	4.2x	(1.3x)

Sales and throughput:

	Q2 FY2014	Q2 FY2013	y-o-y	H1 FY2014	H1 FY2013	y-o-y
Grain sales, tons	1,335,265	1,089,598	22.5%	2,219,966	1,599,107	38.8%
Bulk oil sales, tons	261,747	382,680	(31.6%)	357,457	581,674	(38.5%)
Bottled oil sales, '000 liters	30,376	33,770	(10.1%)	52,776	60,104	(12.2%)
Sunflower seed crush, tons	726,087	760,218	(4.5%)	958,336	1,218,313	(21.3%)
Export terminals throughput, tons ⁽⁶⁾	1,268,517	1,223,610	3.7%	2,046,681	1,963,736	4.2%
Grains received in inland silos, tons				2,447,085	1,623,760	50.7%

(1). Hereinafter, EBITDA is a non IFRS measure which is calculated as a sum of the profit from operating activities plus amortization and depreciation.

(2). EPS is measured in US Dollars per share, based on 79.7 million shares for the periods under review.

(3). Net debt / EBITDA is calculated based on 12-months trailing EBITDA.

(4). Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories. Adjusted net debt / EBITDA is calculated based on 12-months trailing EBITDA.

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

(6). Including Kernel's share of volumes transshipped through Taman port, which is owned through a 50%-50% joint venture.

Segment Results and Discussion

for 3 and 6 months ended 31 December 2013

	Revenue, USD million			EBITDA, USD million			EBITDA margin, %	
	Q2 FY2014	Q2 FY2013	y-o-y	Q2 FY2014	Q2 FY2013	y-o-y	Q2 FY2014	Q2 FY2013
Bottled oil	44.6	53.8	(17.2%)	12.9	8.0	61.3%	28.9%	14.8%
Bulk oil	300.7	526.5	(42.9%)	48.7	63.8	(23.6%)	16.2%	12.1%
Export terminal	14.6	15.9	(8.7%)	9.4	10.3	(8.5%)	64.8%	64.6%
Farming	165.0	64.0	2.6x	(41.7)	(12.5)	3.3x	(25.3%)	(19.5%)
Grain	328.6	340.0	(3.4%)	3.8	7.5	(49.7%)	1.2%	2.2%
Silo services	50.7	22.4	2.3x	29.7	9.5	3.1x	58.6%	42.4%
Sugar & Discontinued	10.1	4.3	2.4x	0.1	0.2	(30.9%)	1.1%	3.8%
Other				(4.9)	(5.9)	(17.4%)		
Reconciliation	(188.8)	(74.3)	2.5x					
Total	725.5	952.6	(23.8%)	58.1	80.9	(28.2%)	8.0%	8.5%

	Revenue, USD million			EBITDA, USD million			EBITDA margin, %	
	H1 FY2014	H1 FY2013	y-o-y	H1 FY2014	H1 FY2013	y-o-y	H1 FY2014	H1 FY2013
Bottled oil	77.9	97.4	(20.0%)	16.6	15.5	7.5%	21.3%	15.9%
Bulk oil	417.2	818.2	(49.0%)	49.5	101.9	(51.4%)	11.9%	12.5%
Export terminal	21.8	29.9	(27.1%)	13.1	18.3	(28.1%)	60.3%	61.2%
Farming	234.9	150.8	55.7%	(48.1)	13.4	n/m	(20.5%)	8.9%
Grain	557.6	494.4	12.8%	13.2	13.3	(0.6%)	2.4%	2.7%
Silo services	60.5	31.7	90.7%	34.3	12.4	2.8x	56.8%	39.1%
Sugar & Discontinued	14.8	8.7	69.8%	(0.1)	(1.0)	(86.9%)	(0.9%)	(11.9%)
Other				(17.5)	(17.9)	(2.2%)		
Reconciliation	(246.3)	(162.6)	51.5%					
Total	1,138.4	1,468.5	(22.5%)	61.1	155.8	(60.8%)	5.4%	10.6%

Note: Segment revenue includes intersegment sales reflected in item "Other & reconciliation". Differences are possible due to rounding.

Sunflower oil in bulk

- Sunflower oil sales in bulk were in line with production levels: 262 thousand tons in Q2 FY2014, down 31.6% y-o-y from unusually high levels in Q2 FY2013. Compared to Q1 FY2014, sales increased by 2.7x q-o-q, as production in Q1 FY2014 was low due to delayed sunflower seed harvesting campaign across the country and low carry-over stock of oil and sunflower seed.
- The segment's EBITDA decreased 23.6% y-o-y to USD 48.7 million in Q2 FY2014 due to lower sales while the EBITDA margin recovered to 16.2% in Q2 FY2014 versus 12.1% in Q2 FY2013 and 0.7% in Q1 FY2014. The segment's profitability returned to normal levels following the start of crushing new sunflower seed harvested in September-October.
- H1 FY2014 revenues down 49.0% y-o-y to USD 417.2 million, EBITDA down 51.4% y-o-y to USD 49.5 million.

Bottled oil segment

- Bottled oil sales amounted to 30.4 million liters in Q2 FY2014, down 10.1% y-o-y but up 35.6% q-o-q.
- The bottled oil segment's EBITDA contribution at USD 12.9 million in Q2 FY2014, up 61.3% y-o-y, with the EBITDA margin improving to a strong 28.9% in Q2 FY2014 versus 14.8% in Q2 FY2013, reflecting the relative stickiness of branded bottled oil prices following the decline of the global sunflower oil price.
- H1 FY2014 revenues fell 20.0% y-o-y to USD 77.9 million, EBITDA up 7.5% y-o-y to USD 16.6 million.

Grain segment

- Sales volumes increased to a record 1.3 million tons in Q2 FY2014 versus 1.1 million tons in Q2 FY2013. Exports from the Russian Federation

increased two-fold, reflecting our first full season of operations at the Taman grain terminal owned via joint venture since FY2013. Exports from Ukraine grew only slightly from previous year volumes as a major increase in volumes is expected in the second half of the financial year. Revenues decreased 3.4% y-o-y due to a significant y-o-y grain price decline.

- The EBITDA margin was 1.2% in Q2 FY2014 versus 2.2% in Q2 FY2013, with profits carried over to the next quarters due to the mismatch between the trading book margin and the physical delivery margin posted in the quarter under review, which is common for commodity trading. As a result, the segment's EBITDA decreased 49.7% y-o-y to USD 3.8 million in Q2 FY2014.
- H1 FY2014 revenues are up 12.8% y-o-y to USD 557.6 million, EBITDA down 0.6% y-o-y to USD 13.2 million.

Export terminals

- The export terminals' throughput increased 3.7% y-o-y to 1.3 million tons in Q2 FY2014, with Russian operations growing almost two-fold to reflect our premier year of operations, while Ukrainian ports' throughput is declining y-o-y as major increase in the company's grain exports is contracted for the second half of the financial year.
- The segments' EBITDA decreased 8.5% y-o-y to USD 9.4 million in Q2 FY2014, reflecting Ukrainian volumes. The EBITDA per ton amounted to USD 10.7 in Q2 FY2014 versus USD 10.1 in Q2 FY2013.
- The share of the profit from joint venture in Russia amounted to USD 3.0 million in Q2 FY2014 versus USD 1.7 million loss in Q2 FY2013, due to 2x y-o-y growth in throughput.
- H1 FY2014 revenues down 27.1% y-o-y to USD 21.8 million, EBITDA down 28.1% y-o-y to USD 13.1 million.

Segment Results and Discussion (continued)

for 3 and 6 months ended 31 December 2013

Silo services segment

- Intake at our silo storage facilities increased 50.7% y-o-y to 2.5 million tons during the six months ended 31 December 2013, benefitting from the larger harvest at our farming division and our continuous investments in greenfield silo storage capacity.
- The segments' EBITDA increased 3.1x y-o-y to USD 29.7 million in Q2 FY2014, reflecting higher intake and wet weather during the autumn harvesting period which increased demand for grain drying services.
- H1 FY2014 revenues up 90.7% y-o-y to USD 60.5 million, EBITDA up 2.8x y-o-y to USD 34.3 million.

Farming segment

- A total of 1.1 million tons of grains and 0.3 million tons of oilseeds harvested in FY2014 from 387 thousand hectares (up 56.8% y-o-y). Autumn crop yields (83.8% of acreage) are significantly below management's expectations due to a mix of weather-related and operational factors.
- Crop prices declined by 20-45% at farm-level, following the move of global prices.

- The farming segment's EBITDA loss of USD 41.7 million in Q2 FY2014 versus a loss of USD 12.5 million in Q2 FY2013, reflecting lower prices and low crop yields.
- Farmland was prepared in autumn for the spring sowing campaign, with fertilizer application for 80% of landbank shifted from spring to autumn and fertilizer intensity increased by 15-25%.
- H1 FY2014 revenues up 55.7% y-o-y to USD 234.9 million, EBITDA loss at USD 48.1 million in H1 FY2014 compared to a profit of USD 13.4 million in H1 FY2013.

Sugar segment

- The company is on track in exiting sugar business: Orzhytskiy sugar plant property divestment completed in October 2013.
- Revenues of USD 10.1 million and EBITDA of USD 0.1 million in Q2 FY2014 represent sales of carry-over sugar stock.
- H1 FY2014 revenues up 69.8% y-o-y to USD 14.8 million, EBITDA loss at USD 0.1 million in H1 FY2014 compared to a loss of USD 1.0 million in H1 FY2013.

Financial Highlights and Analysis

for 3 and 6 months ended 31 December 2013

Income statement highlights

- Revenues decreased 23.8% y-o-y to USD 725.5 million in Q2 FY2014 versus USD 952.6 million in Q2 FY2013, with lower sunflower oil sales in bulk (which normalized to production levels) and lower soft commodity prices behind decrease.
- Net change in fair value of biological assets and agricultural produce amounted to a negative USD 11.7 million in Q2 FY2014, compared to a negative USD 15.0 million in Q2 FY2013. Both amounts reflect the company selling its harvest during period and respectively expensing the IAS 41 fair value component booked in the previous year. The company focuses most of its crop production on spring crops thus most of the positive gain from the change in fair value is usually booked in the fourth quarter of the financial year and is thereafter expensed when crops are harvested and sold.
- Gross profit amounted to USD 98.9 million in Q2 FY2014, down 6.0% y-o-y. The gross margin stood at 13.6% in Q2 FY2014 versus 11.0% in Q2 FY2013; with a deviation explained by higher share of grain sales in Q2 FY2014 compared to Q2 FY2013, as well as farming segment losses due to depressed crop prices.
- Other operating income stood at USD 25.9 million in Q2 FY2014 versus USD 36.3 million in Q2 FY2013. As last year, two primary components are the operating foreign exchange gain caused by discrepancy between the market and official US Dollar to Ukrainian hryvnia exchange rate (the discrepancy results in an inflated COGS line and respective operating monetary foreign exchange gain) and the difference between output and input VAT which is retained by the farming segment according to Ukrainian legislation.
- Distribution costs stood at USD 76.4 million in Q2 FY2014 versus USD 60.9 million in Q2 FY2013, a 25.3% y-o-y increase driven by higher grain exports volumes. Relative to revenue, distribution costs increased to 10.5% in Q2 FY2014 from 6.4% in Q2 FY2013, reflecting the higher share of lower-priced grains in the company's sales mix and lower commodity prices in Q2 FY2014 compared to Q2 FY2013.
- General and administrative expenses remained flat y-o-y and totaled USD 17.3 million in Q2 FY2014 versus USD 17.1 million in Q2 FY2013.
- Profit from operating activities decreased 50.8% y-o-y to USD 31.2 million in Q2 FY2014 versus USD 63.4 million in Q2 FY2013. The operating profit margin stood at 4.3% versus 6.7% a year ago, reflecting losses and higher depreciation charge in the farming segment.
- Finance costs decreased to USD 20.1 million in Q2 FY2014 versus USD 21.7 million in Q2 FY2013, down 7.6% y-o-y due to lower level of soft commodity prices and working capital required.
- Other expenses amounted to USD 22.6 million in Q2 FY2014 compared to USD 0.1 million in Q2 FY2013, and reflect primarily non-cash one-off losses from disposal of non-core farmland in October 2013 and Nevinomyssk oilseed crushing plant in the Russian Federation in February 2014.
- Share of profit of joint venture amounted to USD 3.0 million in Q2 FY2014 compared to a loss of USD 1.7 million in Q2 FY2013 and reflects the company's share in net profit of Taman grain transshipment facility.
- Net losses attributable to the shareholders of Kernel Holding S.A. amounted to USD 9.1 million in Q2 FY2014 versus a profit of USD 32.9 million in Q2 FY2013.

Cash flow highlights

- Operating profit before working capital changes stood at USD 74.7 million in H1 FY2014 versus USD 178.8 million in H1 FY2013, with dynamics largely following EBITDA movement.
- Net cash used in operations was seasonally negative at USD 326.8 million in H1 FY2014 versus negative USD 427.6 million a year ago, as the company's working capital traditionally peaks after the harvest period. Lower soft commodity prices were the major reason for lower working capital increase in H1 FY2014 compared to H1 FY2013.
- Net cash used in investing activities was USD 46.7 million in H1 FY2014 with USD 26.3 million attributed to payment for the farming entities acquired in previous years and USD 15.6 million capital expenditures for greenfield silo construction.
- All of the above translated into USD 341.3 million provided by financing activities in H1 FY2014 versus USD 533.0 million in H1 FY2013.

Credit metrics highlights

- Net debt decreased by 14.2% y-o-y to USD 1,017.7 million as of 31 December 2013 versus USD 1,186.6 million as of 31 December 2012, primarily reflecting the USD 173.3 million y-o-y decrease in readily marketable inventories due to lower soft commodity prices. Readily marketable inventories totaled USD 615.0 million covering 60.4% of the net debt as of 31 December 2013 versus 66.4% coverage as of 31 December 2012.
- Net debt to 12-month trailing EBITDA increased to 5.3x as of 31 December 2013 versus 3.6x as of 31 December 2012, reflecting tight sunflower seed crushing margins from the low 2012 harvest which affected earnings in Q4 FY2013 and Q1 FY2014. Adjusted for readily marketable inventories, net debt to EBITDA increased to 2.1x as of 31 December 2013 versus 1.2x as of 31 December 2012, reflecting Druzhba Nova acquisition during the period and lower earnings base.

Credit metrics:

Amounts in USD millions, except for ratios	31 December 2013	31 December 2012
Gross interest-bearing debt	1,057.9	1,232.5
Cash	40.1	45.9
Net interest-bearing debt	1,017.7	1,186.6
Readily marketable inventories	615.0	788.3
Adjusted net financial debt ⁽¹⁾	402.7	398.3
Shareholders' equity ⁽²⁾	1,291.9	1,263.9
Net debt / EBITDA ⁽³⁾	5.3x	3.6x
Adjusted net debt / EBITDA ⁽⁴⁾	2.1x	1.2x
EBITDA / Interest ⁽⁵⁾	2.9x	4.2x

- Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories.
- Total equity attributable to Kernel Holding S.A. shareholders.
- Net debt / EBITDA is calculated based on 12-months trailing EBITDA.
- Adjusted net debt / EBITDA is calculated based on 12-months trailing EBITDA.
- EBITDA / Interest is calculated based on 12-months trailing EBITDA and net finance costs.

Principal Risks and Uncertainties

Kernel management considers the following factors, among others, that could materially influence the Company's operations and financial results:

Low harvest of grain or sunflower seed in Ukraine

Low harvest of sunflower seed in Ukraine, due to unfavorable weather and growing conditions or other factors, could result in lower supply of sunflower seed for crushing industry in Ukraine, where most of the Company's sunflower oil production assets are located, and respectively decrease utilization of the Company's oilseed crushing plants as well as have a detrimental impact on the crushing margin.

Low harvest of grain in Ukraine and the Russian Federation, could similarly affect the volumes of grain supply available for exports, which might decrease the Company's grain export volumes and utilization of grain silos and port infrastructure.

Counterparty risk

A failure by a counterparty to deliver contracted grain or oilseed volumes or execute payments could adversely impact the Company's business and financial conditions.

Commodity price volatility

Most of the products procured, produced, processed, and sold by the Company are agricultural commodities, for which the prices could significantly fluctuate in a short-term time span. The Company's earnings to an extent are dependent on the prices of agricultural commodities and their fluctuations, thus such fluctuations could negatively affect the Company's business and financial results.

Export restrictions, barriers and taxation

Regulatory initiatives introduced or expected to be introduced by the Ukrainian Government in regard to agricultural commodities, including but not limited to export barriers or quotas, changes in export duties or VAT regime, could have a material adverse impact on the Company's business and its financial standing.

Increased competition

The Company could face increased competition from current or new operators in its business segments.

Country risk

A downgrade of Ukraine's sovereign rating might lead to an increase in the Company's cost of financing.

Other risks identified by the management of the Company include:

- 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. and its subsidiaries operate;
- The risk of legal actions and tax authorities' orders related to VAT refunds and corporate income tax payments; introduction of VAT promissory notes; the risk of detrimental impacts or treatment by tax authorities of the law on transfer pricing;
- The risk of key personnel resigning;
- Failure to manage integration of newly acquired farming operations;
- Any loss or diminution in the services of Mr. Andrey Verevskiy, Kernel Holding S.A.'s Chairman of the Board;
- The risk that changes in assumptions underlying the carrying value of certain assets, including those occurring as a result of adverse market conditions, could result in an impairment of tangible and intangible assets, including goodwill;
- The risk that significant capital expenditure and other commitments Kernel Holding S.A. has made in connection with acquisitions may limit its operational flexibility and add to its financing requirements;
- The risk of disruptions to Kernel Holding S.A.'s manufacturing operations;
- The risk of product liability claims;
- The risk of potential liabilities from investigations, litigations, 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

Description of significant events for the 6-months period ended 31 December 2013

On 18 July 2013, the Board of Directors of Kernel Holding S.A. (the "Company") announced the approval of the dividend policy, adopting the dividend per share approach (DPS). Starting from the FY2014 results announcement, Kernel Holding S.A. intends to maintain a sustainable annual dividend of USD 0.25 per share. The proposed dividends will be declared and paid in US dollars and will be subject to shareholder approval at the general meeting of the shareholders.

On 12 August 2013, Kernel Holding S.A. reported that its subsidiary entered into a USD 140 million facility agreement with a Russian bank. The loan consists of two tranches – a USD 100 million 5-year tranche and a USD 40 million 12-month tranche. The loan is a USD facility that will be drawn to partially refinance the acquisition costs and corporate debt of Druzhba Nova farming business acquired in June 2013.

On 21 August 2013, Kernel Trade LLC, a subsidiary of Kernel Holding S.A., signed an addendum to a USD 500 million credit agreement with a syndicate of banks, with respect to the renewal of a USD 222 million short-term tranche. The USD 500 million facility, signed in August 2011, is structured as a dual tranche credit, including (1) a USD 278 million long-term tranche available to the Company until 31 July 2014 and (2) a USD 222 million one-year tranche which is renewable subject to the lending syndicate's approval. The facility is used to finance the Company's purchase, storage and processing of sunflower seed into sunflower oil and meal for domestic sale or export.

In October 2013, Kernel Holding S.A. has, via its subsidiaries, completed the sale of the Orzhytskiy sugar plant property.

On 4 October 2013, Kernel Holding S.A. informed that in accordance with the previously announced strategy to divest remotely located farmland, the Company has completed, via its subsidiary, the sale of the farming operations located in southern Ukraine for a total consideration of USD 7.0 million. Following the deal, the company's farming operations in Ukraine amount to 400,000 hectares of leasehold land.

On 10 December 2013, Kernel Holding S.A. convened the Annual General Meeting of Shareholders, which adopted the following resolutions with immediate effect:

- **RESOLUTION NO 1:** To approve the management report of the board of directors of the Company and the report of the independent auditor of the Company.
- **RESOLUTION NO 2:** To approve in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2013, with a resulting consolidated net profit attributable to equity holders of the Company of one hundred eleven million two hundred sixty-four thousand US dollars (USD 111,264,000.-).
- **RESOLUTION NO 3:** To approve in their entirety the Parent Company's annual accounts (unconsolidated) for the financial year ended on 30 June 2013, with a resulting net profit for Kernel Holding S.A. as parent company of the Kernel Holding S.A. group of eighty-five million six hundred seventy-two thousand five hundred ten US dollars and ninety-five cents (USD 85,672,510.95.-).
- **RESOLUTION NO 4:** To carry forward the net profit of the Parent Company annual accounts (non-consolidated) of eighty-five million six hundred seventy-two thousand five hundred ten US dollars and ninety-five cents (USD 85,672,510.95.-) and to declare a dividend at nil for the financial year ended on 30 June 2013.
- **RESOLUTION NO 5:** 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 2013.
- **RESOLUTION NO 6:** To re-elect Mr. Andrzej Danilczuk, Mr. Ton Schurink and Mr. Sergei Shibaev as independent directors of the board of directors for a one year term mandate, which shall terminate on the date of the general meeting of shareholders to be held in 2014.
- **RESOLUTION NO 7:** To re-elect Mrs. Anastasiia Usachova and Mrs. Viktoriia Lukianenko as directors of the board of directors for a one year term mandate, which shall terminate on the date of the general meeting of shareholders to be held in 2014.
- **RESOLUTION NO 8:** To approve the independent directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2014, for a total gross annual amount of two hundred fifteen thousand US dollars (USD 215,000.-).
- **RESOLUTION NO 9:** To approve the executive directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2014, for a total gross annual amount of fifty thousand US dollars (USD 50,000.-).
- **RESOLUTION NO 10:** 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 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 2014.

Management Statement

for 6 months ended 31 December 2013

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements for the 6 months ended 31 December 2013, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - Interim financial statements (hereinafter, "IAS 34") and give a true, fair and clear view of Kernel Holding S.A. assets, financial standing and net results, and that the directors' report on the operations of Kernel 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 the applicable laws and performed the review as independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the 6 month period ended 31 December 2013, and that the entities 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.

26 February 2014

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Statement of Management Responsibilities

for 6 months ended 31 December 2013

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

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. ("Company") presented in this Interim Report and established in conformity with International Financial Reporting Standards as adopted in the European Union give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Company and the undertakings included within the consolidation taken as a whole;
- the interim accounts of the Company presented in this Interim Report and established in conformity with the Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the assets, liabilities, financial position, profit and loss of the Company; and
- 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.

26 February 2014

On behalf of the Board

Andrey Verevskiy

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 2013, and the related condensed consolidated interim income statement, condensed consolidated interim statement of 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 2013 (“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.

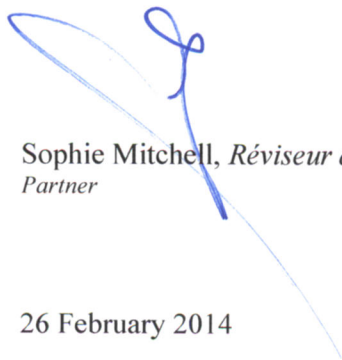
Conclusion

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*.

Other matter

The accompanying condensed consolidated interim financial information for the three-month ended 31 December 2013 and 2012, 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

26 February 2014

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Selected Financial Data

for 6 months ended 31 December

		USD Thousand		Zloty Thousand		EUR Thousand	
Selected financial data		2013	2012	2013	2012	2013	2012
I.	Revenue	1,138,393	1,468,453	3,574,326	4,757,494	847,761	1,153,323
II.	Profit from operating activities	8,416	119,035	26,425	385,650	6,267	93,490
III.	(Loss)/Profit before income tax	(42,300)	72,787	(132,814)	235,815	(31,501)	57,167
IV.	(Loss)/Profit for the period from continuing operations	(47,077)	68,328	(147,812)	221,369	(35,058)	53,665
V.	Net cash used in operating activities	(326,844)	(427,552)	(1,026,224)	(1,385,183)	(243,401)	(335,799)
VI.	Net cash used in investing activities	(46,714)	(141,845)	(146,673)	(459,549)	(34,788)	(111,405)
VII.	Net cash generated by financing activities	341,361	532,771	1,071,805	1,726,071	254,212	418,438
VIII.	Total net cash flow	(32,197)	(36,626)	(101,092)	(118,661)	(23,977)	(28,766)
IX.	Total assets	2,581,189	2,693,343	7,774,541	8,348,286	1,874,718	2,042,093
X.	Current liabilities	917,784	1,083,282	2,764,365	3,357,741	666,587	821,345
XI.	Non-current liabilities	359,227	329,086	1,081,992	1,020,035	260,907	249,513
XII.	Issued capital	2,104	2,104	6,337	6,522	1,528	1,595
XIII.	Total equity	1,304,178	1,280,975	3,928,184	3,970,510	947,224	971,235
XIV.	Number of shares	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410
XV.	(Loss)/Profit per ordinary share (in USD/Zloty/EUR)	(0.54)	0.88	(1.69)	2.84	(0.40)	0.69
XVI.	Diluted number of shares	79,932,998	80,051,981	79,932,998	80,051,981	79,932,998	80,051,981
XVII.	Diluted (loss)/profit per ordinary share (in USD/Zloty/EUR)	(0.54)	0.87	(1.69)	2.82	(0.40)	0.68
XVIII.	Book value per share (in USD/Zloty/EUR)	16.21	15.86	48.83	49.17	11.78	12.03
XIX.	Diluted book value per share (in USD/Zloty/EUR)	16.16	15.79	48.68	48.94	11.74	11.97

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2013

(in USD thousands unless otherwise stated)	Notes	As of 31 December 2013 (Unaudited)	As of 30 June 2013 (Audited)	As of 31 December 2012 (Unaudited)
Assets				
Current assets				
Cash	6	40,140	78,827	45,903
Trade accounts receivable, net		161,820	149,600	223,354
Prepayments to suppliers and other current assets, net	18	119,581	118,353	134,893
Corporate income tax prepaid		19,645	19,323	20,089
Taxes recoverable and prepaid, net	7	232,252	190,695	249,819
Inventory	8	742,457	270,248	907,713
Biological assets	9	21,206	247,268	17,286
Assets classified as held for sale	10	33,213	23,176	-
Total current assets		1,370,314	1,097,490	1,599,057
Non-current assets				
Property, plant and equipment, net	11	739,881	767,317	727,282
Intangible assets, net		147,405	162,287	83,756
Goodwill		157,431	157,431	137,227
Investments in joint ventures	12	98,432	94,026	93,188
Deferred tax assets		13,058	22,850	19,679
Other non-current assets	15, 18	54,668	65,541	33,154
Total non-current assets		1,210,875	1,269,452	1,094,286
Total assets		2,581,189	2,366,942	2,693,343
Liabilities and equity				
Current liabilities				
Trade accounts payable	18	59,920	51,751	33,752
Advances from customers and other current liabilities	18	123,190	202,051	122,622
Short-term borrowings	13	629,637	398,700	852,557
Current portion of long-term borrowings	14	89,583	50,893	74,351
Liabilities directly associated with assets classified as held for sale	10	15,454	1,909	-
Total current liabilities		917,784	705,304	1,083,282
Non-current liabilities				
Long-term borrowings	14	316,776	256,630	287,662
Obligations under finance lease		15,090	19,093	12,822
Deferred tax liabilities		23,215	27,721	24,388
Other non-current liabilities		4,146	5,839	4,214
Total non-current liabilities		359,227	309,283	329,086
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital		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		3,028	3,028	1,211
Revaluation reserve		40,053	40,053	15,049
Translation reserve		(161,000)	(160,941)	(163,507)
Retained earnings		903,853	946,772	905,245
Total equity attributable to Kernel Holding S.A. shareholders		1,291,861	1,334,839	1,263,925
Non-controlling interest		12,317	17,516	17,050
Total equity		1,304,178	1,352,355	1,280,975
Total liabilities and equity		2,581,189	2,366,942	2,693,343
Book value		1,291,861	1,334,839	1,263,925
Number of shares		79,683,410	79,683,410	79,683,410
Book value per one share (in USD)		16.21	16.75	15.86
Diluted number of shares		79,932,998	80,035,037	80,051,981
Diluted book value per share (in USD)		16.16	16.68	15.79

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for 6 months ended 31 December 2013

		6 months ended 31 December 2013 (Unaudited)	3 months ended 31 December 2013 (Unaudited)	6 months ended 31 December 2012 (Unaudited)	3 months ended 31 December 2012 (Unaudited)
(in USD thousands unless otherwise stated)					
	Notes				
Revenue	16	1,138,393	725,490	1,468,453	952,586
Net change in fair value of biological assets and agricultural produce	3	(21,106)	(11,721)	(27,290)	(14,993)
Cost of sales	17, 18	(992,638)	(614,894)	(1,220,093)	(832,456)
Gross profit		124,649	98,875	221,070	105,137
Other operating income		41,783	25,937	46,476	36,334
Operating expenses					
Distribution costs	18	(118,441)	(76,354)	(114,623)	(60,919)
General and administrative expenses		(39,575)	(17,268)	(33,888)	(17,108)
Profit from operating activities		8,416	31,190	119,035	63,444
Finance costs, net	18	(33,441)	(20,052)	(41,524)	(21,703)
Foreign exchange gain/(loss), net		1,774	576	1,216	(7,872)
Other expenses, net	10, 18	(23,979)	(22,575)	(4,221)	(137)
Share of profit/(loss) of joint venture		4,930	2,968	(1,719)	(1,719)
(Loss)/Profit before income tax		(42,300)	(7,893)	72,787	32,013
Income tax expense	15	(4,777)	(7,325)	(4,459)	(1,481)
(Loss)/Profit for the period from continuing operations		(47,077)	(15,218)	68,328	30,532
Discontinued operations:					
(Loss)/Profit for the period from discontinued operations	10	(1,025)	1,836	772	984
(Loss)/Profit for the period		(48,102)	(13,382)	69,100	31,516
(Loss)/Profit for the period attributable to:					
Equity holders of Kernel Holding S.A.		(42,919)	(9,097)	69,737	32,948
Non-controlling interest		(5,183)	(4,285)	(637)	(1,432)
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
(Loss)/Profit per ordinary share (in USD)		(0.54)	(0.11)	0.88	0.41
Diluted number of shares		79,932,998	79,904,662	80,051,981	80,048,427
Diluted (loss)/profit per ordinary share (in USD)		(0.54)	(0.11)	0.87	0.41
From continuing operations					
Weighted average number of shares		79,683,410	79,683,410	79,683,410	79,683,410
(Loss)/Profit per ordinary share (in USD)		(0.52)	(0.14)	0.86	0.40
Diluted number of shares		79,932,998	79,904,662	80,051,981	80,048,427
Diluted (loss)/profit per ordinary share (in USD)		(0.52)	(0.14)	0.86	0.40

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for 6 months ended 31 December 2013

(in USD thousands)	6 months ended 31 December 2013 (Unaudited)	3 months ended 31 December 2013 (Unaudited)	6 months ended 31 December 2012 (Unaudited)	3 months ended 31 December 2012 (Unaudited)
(Loss)/Profit for the period	(48,102)	(13,382)	69,100	31,516
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(75)	635	3,545	(1,437)
Other comprehensive (loss)/income	(75)	635	3,545	(1,437)
Total comprehensive (loss)/income for the period	(48,177)	(12,747)	72,645	30,079
Total comprehensive (loss)/income attributable to:				
Equity holders of Kernel Holding S.A.	(42,978)	(8,468)	73,312	31,515
Non-controlling interest	(5,199)	(4,279)	(667)	(1,436)

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for 6 months ended 31 December 2013

(in USD thousands)	Attributable to Kernel Holding S.A. shareholders							Total	Non-controlling interest	Total equity
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings			
Balance as of 30 June 2012 (audited)	2,104	463,879	39,944	1,211	15,049	(167,082)	824,578	1,179,683	31,018	1,210,701
Profit/(loss) for the period	-	-	-	-	-	-	69,737	69,737	(637)	69,100
Other comprehensive income/(loss)	-	-	-	-	-	3,575	-	3,575	(30)	3,545
Total comprehensive income/(loss) for the period	-	-	-	-	-	3,575	69,737	73,312	(667)	72,645
Effect of changes of non-controlling interest	-	-	-	-	-	-	10,930	10,930	(13,301)	(2,371)
Balance as of 31 December 2012 (unaudited)	2,104	463,879	39,944	1,211	15,049	(163,507)	905,245	1,263,925	17,050	1,280,975
Profit/(loss) for the period	-	-	-	-	-	-	41,527	41,527	(5,701)	35,826
Other comprehensive income	-	-	-	-	25,004	2,566	-	27,570	19	27,589
Total comprehensive income/(loss) for the period	-	-	-	-	25,004	2,566	41,527	69,097	(5,682)	63,415
Additional non-controlling interests arising on the acquisition of subsidiaries	-	-	-	-	-	-	-	-	11,115	11,115
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(4,967)	(4,967)
Recognition of share-based payments	-	-	-	1,817	-	-	-	1,817	-	1,817
Balance as of 30 June 2013 (audited)	2,104	463,879	39,944	3,028	40,053	(160,941)	946,772	1,334,839	17,516	1,352,355
Loss for the period	-	-	-	-	-	-	(42,919)	(42,919)	(5,183)	(48,102)
Other comprehensive loss	-	-	-	-	-	(59)	-	(59)	(16)	(75)
Total comprehensive loss for the period	-	-	-	-	-	(59)	(42,919)	(42,978)	(5,199)	(48,177)
Balance as of 31 December 2013 (unaudited)	2,104	463,879	39,944	3,028	40,053	(161,000)	903,853	1,291,861	12,317	1,304,178

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for 6 months ended 31 December 2013

(in USD thousands)			6 months ended 31 December 2013 (Unaudited)	6 months ended 31 December 2012 (Unaudited)
	Notes			
Operating activities:				
(Loss)/Profit before income tax			(45,156)	72,876
Adjustments for:				
Amortization and depreciation			52,644	38,750
Finance costs, net			33,504	41,316
Movement in allowance for doubtful receivables			2,108	(744)
Loss/(Gain) on disposal of property, plant and equipment			5,536	(190)
Non-operating foreign exchange gain			(115)	(80)
Write-offs and impairment loss			8,578	-
Loss from changes in fair value of biological assets and agricultural produce	3		21,106	27,290
Loss on sales of equity investments	5		1,432	103
Other gains			-	(2,196)
Share of (profit)/loss of joint venture	12		(4,930)	1,719
Operating profit before working capital changes			74,707	178,844
Changes in working capital:				
Increase in trade accounts receivable			(11,331)	(76,539)
Increase in prepayments and other current assets			(4,650)	(35,997)
Decrease in restricted cash balance			6,193	-
Increase in taxes recoverable and prepaid			(26,129)	(8,439)
Decrease in biological assets			205,988	111,652
Increase in inventories			(473,974)	(500,910)
Increase in trade accounts payable			11,156	7,306
Decrease in advances from customers and other current liabilities			(54,193)	(46,101)
Cash used in operating activities			(272,233)	(370,184)
Finance costs paid			(32,951)	(37,580)
Income tax paid			(21,660)	(19,788)
Net cash used in operating activities			(326,844)	(427,552)
Investing activities:				
Purchase of property, plant and equipment			(25,405)	(43,755)
Proceeds from disposal of property, plant and equipment			5,589	484
Purchase of intangible and other non-current assets			(1,208)	(4,070)
Acquisition of Subsidiaries			(26,281)	-
Disposal of Subsidiaries			591	403
Purchase of investment in joint venture			-	(94,907)
Net cash used in investing activities			(46,714)	(141,845)
Financing activities:				
Proceeds from short-term and long-term borrowings			577,105	860,126
Repayment of short-term and long-term borrowings			(235,819)	(324,735)
Acquisition of non-controlling interest			-	(2,371)
Net cash generated by financing activities			341,286	533,020
Effects of exchange rate changes on the balance of cash held in foreign currencies			75	(249)
Net decrease in cash and cash equivalents			(32,197)	(36,626)
Cash and cash equivalents, at the beginning of the period	6		72,705	82,529
Cash and cash equivalents, at the end of the period	6		40,508	45,903

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

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 at the Luxembourg Register of Companies) is the holding company for a group of entities (hereinafter referred to as the 'Subsidiaries'), which together form the Kernel Group (hereinafter referred to as the 'Group').

The Group's principal business activity is related to the production and sale of bottled sunflower oil, the production and subsequent export of bulk sunflower oil and meal, the wholesale trade of grain (mainly wheat, barley and corn), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities are 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 92-94 Dmitrievskaya str., 01135 Kyiv, Ukraine.

As of 31 December 2013, 30 June 2013 and 31 December 2012, 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 2013	30 June 2013	31 December 2012
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%
Tweelingen Ukraine LLC		Ukraine	100.0%	100.0%	N/A
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%
Restomon S.A.		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%
Poltava oil-crushing plant Kernel Group PJSC	Production plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%	99.7%
Bandurskiy oil-crushing plant LLC		Ukraine	100.0%	100.0%	100.0%
Vovchansky OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnjansky OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kirovogradoliya JSC		Ukraine	99.2%	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%	100.0%
Ukrainian Black Sea Industry LLC		Ukraine	100.0%	100.0%	100.0%
Stavropol oil OJSC		Russian Federation	100.0%	100.0%	100.0%
Ust-Labinsky EMEK Florentina CJSC		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%
Poltavske Khlіbopriemalne Pidpriemstvo 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 (Globyno) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seeds, barley, soya beans and sugar beet.	Ukraine	100.0%	100.0%	100.0%
Unigrain-Agro (Semenivka) LLC		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	65.6%	65.6%	65.7%
Palmira LLC		Ukraine	93.0%	93.0%	93.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	83.3%	83.3%	N/A

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 26 February 2014.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding' or the 'Company'). The issued capital of the Company as of 31 December 2013 and 2012 consisted of 79,683,410 ordinary bearer shares without indication of a nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

	As of 31 December 2013		As of 31 December 2012	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the 'Major Equity holder')	30,906,059	38.79%	30,460,657	38.23%
Free floating shares	48,777,351	61.21%	49,222,753	61.77%
Total	79,683,410	100.00%	79,683,410	100.00%

As of 31 December 2013 and 2012, 100% of the beneficial interest in the 'Major Equity holder' was held by Verevskiy Andrey Mikhaylovich (hereinafter the 'Beneficial Owner').

On 23 November 2007, Kernel Holding was listed on the Warsaw Stock Exchange. The total size of the 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 (forty six million six hundred and seventy thousand) shares without indication of a nominal value. On 27 June 2008, an additional 5,400,000 ordinary bearer shares of the Group 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 the stock option beneficiaries under the Management Incentive Plan at an issue price of PLN 24.

Luxembourg companies are required to allocate to the legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve in the amount of USD 125 thousand as of 31 December 2013, unchanged from 31 December 2012, may not be distributed as dividends.

3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies

These condensed consolidated interim financial statements for the 6 months ended 31 December 2013 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 financial statements. The accounting policies and methods of computation adopted in 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 2013, except as required by new and amended standards and adopted changes in accounting policies, as described below.

New and amended standards

The Group has adopted the following new and amended standards:

The Group has adopted IFRS 13 Fair Value Measurement in the current reporting period. IFRS 13 requires prospective application from 1 January 2013. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. Other than the additional disclosures, the application of IFRS 13 had no material impact on the amounts recognized in the consolidated financial statements.

The Group has also applied IAS 19 Employee Benefits (as revised in 2011), IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine and Amendments to IFRS 1 (Government Loans). The adoption of these standards and amendments did not have any material impact on the financial position or performance of the Group.

Change in accounting policy

The Group changed its accounting policy regarding presentation of changes in the fair value of biological assets and agricultural produce in the Condensed Consolidated Interim Statement of Profit or Loss. This effect was previously presented in two parts as:

- "other operating income" (effect of revaluation of biological assets as of reporting date and agricultural produce as of the date of harvest to fair value); and
- "cost of sales" (reversal of the fair value effect related to agricultural produce sold in the reporting period).

In the current reporting period, these effects were presented as a single line item in the Condensed Consolidated Interim Statement of Profit or Loss - "Net change in fair value of biological assets and agricultural produce". Following this change, the Group also changed the presentation of the Condensed Consolidated Interim Statement of Cash Flows in order to reflect the full effect of the net change in the fair value of biological assets and agricultural produce as an adjustment to the "(Loss)/Profit before income tax" in the cash flows from operating activities.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

Change in accounting policy (continued)

This approach is most commonly used in the industry and the Group's management believes that this change in the accounting policy will result in the financial statements providing more relevant and reliable information about the effect of transactions on the Group's financial performance.

The effect of the retrospective application of this policy on the Condensed Consolidated Interim Statement of Profit or Loss was as follows:

	6 months ended 31 December 2013 (Unaudited) New Policy	6 months ended 31 December 2013 (Unaudited) Old Policy	6 months ended 31 December 2013 (Unaudited) Effect	6 months ended 31 December 2012 (Unaudited) New Policy	6 months ended 31 December 2012 (Unaudited) Old Policy	6 months ended 31 December 2012 (Unaudited) Effect
(in USD thousands)						
Revenue	1,138,393	1,138,393	-	1,468,453	1,468,453	-
Net change in fair value of biological assets and agricultural produce	(21,106)	-	(21,106)	(27,290)	-	(27,290)
Cost of sales	(992,638)	(1,017,418)	24,780	(1,220,093)	(1,237,452)	17,359
Gross profit	124,649	120,975	3,674	221,070	231,001	(9,931)
Other operating income	41,783	45,457	(3,674)	46,476	36,545	9,931
Profit from operating activities	8,416	8,416	-	119,035	119,035	-

The effect of the retrospective application of this policy on the Condensed Consolidated Interim Statement of Cash Flows was as follows:

	6 months ended 31 December 2013 (Unaudited) New Policy	6 months ended 31 December 2013 (Unaudited) Old Policy	6 months ended 31 December 2013 (Unaudited) Effect	6 months ended 31 December 2012 (Unaudited) New Policy	6 months ended 31 December 2012 (Unaudited) Old Policy	6 months ended 31 December 2012 (Unaudited) Effect
(in USD thousands)						
Operating activities:						
(Loss)/Profit before income tax	(45,156)	(45,156)	-	72,876	72,876	-
Adjustment for:						
Loss from changes in fair value of biological assets	21,106	(3,674)	24,780	27,290	-	27,290
Operating profit before working capital changes	74,707	49,927	24,780	178,844	151,554	27,290
Changes in working capital:						
Decrease in biological assets	205,988	230,768	(24,780)	111,652	138,942	(27,290)
Net cash used in operating activities	(326,844)	(326,844)	-	(427,552)	(427,552)	-

The change in accounting policies had no effect on earnings per share either in the current or previous periods.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

Relevant exchange rates

The exchange rates used in preparation of these Condensed Consolidated Interim Financial Statements are as follows:

Currency	Closing rate as of 31 December 2013	Average rate for the 6 months ended 31 December 2013	Closing rate as of 31 December 2012	Average rate for the 6 months ended 31 December 2012
USD/UAH	7.9930	7.9930	7.9930	7.9930
USD/EUR	0.7263	0.7447	0.7582	0.7854
USD/RUB	32.7292	32.6655	30.3727	31.5419
USD/PLN	3.0120	3.1398	3.0996	3.2398

The average exchange rates for each period are calculated as the arithmetic mean of 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 rates.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The Management and the 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 in bulk	Production and sales of sunflower oil in bulk (crude and refined) and meal.
Grain	Sourcing and merchandising of wholesale grain.
Export terminals	Grain handling and transshipment services in the ports of Ilyichevsk and Nikolayev.
Silo services	Provision of grain cleaning, drying and storage services.
Sugar	Marketing and distribution of sugar.
Farming	Agricultural farming. Production of wheat, barley, corn, soya bean, sunflower seed and sugar beet.
Other	Unallocated to other segments income and expenses, related to holdings administration.

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

The reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments.

The segment data is calculated as follows:

- The 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 the segments when possible.

Since financial management of the Group companies is carried out centrally, financial liabilities are not allocated directly to the respective operating segments and are presented in the segment entitled "Other". Consequently, the liabilities shown for the individual segments do not include financial liabilities.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

4. Key Data by Operating Segment

Key data by operating segment for 6 months ended 31 December 2013:

(in USD thousands)	Bottled sunflower oil	Sunflower oil in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re-Discontinued conciliation operations	Continuing operations
Revenue (external)	77,925	417,173	2,129	45,080	557,620	23,633	15,403	-	-	(570) 1,138,393
Intersegment sales	-	-	19,652	189,823	-	36,840	-	-	(246,315)	-
Total revenue	77,925	417,173	21,781	234,903	557,620	60,473	15,403	-	(246,315)	(570) 1,138,393
Net change in fair value of biological assets and agricultural produce	-	-	-	(21,106)	-	-	-	-	-	(21,106)
Other operating income	1,501	11,254	575	17,949	10,431	73	1,762	-	(1,762)	41,783
Operating income/(loss)	15,114	38,605	11,433	(81,461)	13,211	29,588	926	(17,936)	-	(1,064) 8,416
Finance costs, net										(33,441)
Foreign exchange gain, net										1,774
Other expenses, net										(23,979)
Share of profit of joint ventures										4,930
Income tax expense										(4,777)
Loss for the period from continuing operations										(47,077)
Total assets	90,341	1,185,035	206,371	556,395	285,817	187,747	68,363	1,120	-	- 2,581,189
Capital expenditures	370	2,686	219	15,226	-	15,615	-	565	-	- 34,681
Amortization and depreciation	1,501	10,893	1,695	33,354	12	4,745	-	444	-	- 52,644
Liabilities	4,379	32,116	3,480	88,299	23,452	23,473	10,732	1,091,080	-	- 1,277,011

During 6 months ended 31 December 2013, one of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 89% of total external sales.

For the purpose of segment reporting, revenue from the sale of oil cake and meal is allocated to the bottled sunflower oil and sunflower oil in bulk segments in proportion to its production volumes for the reporting period.

The Group operates in two principal geographical areas – Ukraine and the Russian Federation. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of non-current assets are detailed below.

(in USD thousands)	Revenue from external customers	Non-current assets
	6 months ended 31 December 2013	As of 31 December 2013
Ukraine	907,849	1,182,725
Russian Federation	230,544	28,150
Total	1,138,393	1,210,875

Notes to the Condensed Consolidated Interim Financial Statements (continued)

4. Key Data by Operating Segment (continued)

Key data by operating segment for 6 months ended 31 December 2012:

(in USD thousands)	Bottled sunflower oil	Sunflower oil in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	97,392	818,178	10,867	23,918	494,374	14,988	14,411	-	-	(5,675)	1,468,453
Intersegment sales	-	-	19,005	126,907	-	16,722	-	-	(162,634)	-	-
Total revenue	97,392	818,178	29,872	150,825	494,374	31,710	14,411	-	(162,634)	(5,675)	1,468,453
Net change in fair value of biological assets and agricultural produce	-	-	-	(27,290)	-	-	-	-	-	-	(27,290)
Other operating income	1,494	14,193	32	16,198	14,409	150	22	-	-	(22)	46,476
Operating income/(loss)	14,255	92,785	16,585	(6,901)	13,280	8,942	(1,086)	(18,867)	-	42	119,035
Finance costs, net											(41,524)
Foreign exchange gain, net											1,216
Other expenses, net											(4,221)
Share of loss of joint ventures											(1,719)
Income tax expense											(4,459)
Profit for the period from continuing operations											68,328
Total assets	96,694	1,264,398	234,479	311,125	491,598	170,326	117,750	6,973	-	-	2,693,343
Capital expenditures	361	3,533	1,626	11,180	-	16,216	193	1,349	-	-	34,458
Amortization and depreciation	1,198	9,101	1,682	20,290	25	3,460	2,004	990	-	(2,001)	36,749
Liabilities	2,060	32,450	4,218	50,615	16,512	25,430	9,058	1,272,025	-	-	1,412,368

During 6 months ended 31 December 2012, two of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 89% of total external sales.

As of 31 December 2012, the Group operated in two principal geographical areas – Ukraine and the Russian Federation. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of non-current assets are detailed below.

(in USD thousands)	Revenue from external customers	Non-current assets
	6 months ended 31 December 2012	As of 31 December 2012
Ukraine	1,389,288	1,039,804
Russian Federation	79,165	54,482
Total	1,468,453	1,094,286

5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the 6 months periods ended 31 December 2013 and 31 December 2012.

In November 2013, as a result of the optimization process of its legal structure, the Group sold a number of immaterial companies in the farming and silo services segment. All material assets were transferred to other companies of the Group prior to disposal. The net assets of disposed entities as of the date of disposal were equal to USD 2,074 thousand and the cash consideration is USD 642 thousand. Cash balances disposed comprised USD 51 thousand and were deducted from cash consideration received in the Condensed Consolidated Interim Statement of Cash Flows.

The following entities were disposed of during the 6 months period ended 31 December 2012:

- on 30 October 2012, the Group disposed of 100% of the share capital of Veselynivske ZPP LLC, the net assets of which as of the date of disposal were equal to USD 399 thousand, to a third party.
- on 30 October 2012, the Group disposed of 100% of the share capital of Gulyaypolsky Elevator LLC, the net assets of which as of the date of disposal were equal to USD 2,068 thousand, to a third party.
- on 28 December 2012, the Group disposed of 100% of the share capital of Grain Trading Company LLC, the net liabilities of which as of the date of disposal were equal to negative USD 1,874 thousand, to a third party.

For the 6 months ended 31 December 2012, total cash considerations received for disposed entities was USD 490 thousand. Cash balances disposed comprised USD 87 thousand and were deducted from cash consideration received in the Condensed Consolidated Interim Statement of Cash Flows. Loss on disposals, in the amount of USD 103 thousand, was included in the line item "Other expenses, net" in the Condensed Consolidated Interim Statement of Profit or Loss.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

6. Cash

The balances of cash were as follows:

(in USD thousands)	As of 31 December 2013	As of 30 June 2013	As of 31 December 2012
Cash in banks in USD	32,098	63,118	34,632
Cash in banks in UAH	5,380	8,748	8,786
Cash in banks in other currencies	2,541	6,917	2,460
Cash on transit bank account	100	44	-
Cash in hand	21	-	25
Total	40,140	78,827	45,903
Less restricted cash on Security bank account and blocked amount	-	(6,193)	-
Cash and bank balances included in a disposal group held for sale	368	71	-
Cash for the purposes of cash flow statement	40,508	72,705	45,903

7. Taxes recoverable and prepaid, net

Taxes recoverable and prepaid decreased mainly due to the decrease in VAT recoverable, from USD 238,985 thousand as of 31 December 2012 to USD 224,318 thousand as of 31 December 2013.

8. Inventory

As of 31 December 2013, 30 June 2013 and 31 December 2012, the inventory balances in amount of USD 485,730 thousand, USD 73,554 thousand and USD 507,279 thousand, respectively, were pledged as security for short-term borrowings.

The increase in the inventory balances was primarily caused by purchases of grain for trading and sunflower seeds for oil production after 30 June 2013, and corresponds to normal business seasonality in inventories.

9. Biological Assets

The balances of current biological assets as of 31 December 2013 consisted of 33,444 hectares of winter crops in the amount of USD 9,583 thousand (2012: 31,576 hectares of crops in the amount of USD 11,776 thousand) and 14,312 heads of current livestock in the amount of USD 11,623 thousand (2012: 10,058 heads in the amount of USD 5,510 thousand).

The following table represents the changes in the carrying amounts of biological assets (crops) during 6 months ended 31 December 2013 and 30 June 2013:

(in USD thousands unless otherwise stated)	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 31 December 2012	7,251	4,525	11,776
Increase due to purchases and subsequent expenditures capitalized in biological assets (2013 harvest)	177,753	-	177,753
Gain arising from changes in fair value attributable to physical changes and to changes of the market price	-	50,565	50,565
As of 30 June 2013	185,004	55,090	240,094
Decrease due to harvest (2013 harvest)	(185,004)	(55,090)	(240,094)
Increase due to purchases and subsequent expenditures capitalized in biological assets (2014 harvest)	5,909	-	5,909
Gain arising from changes in fair value attributable to physical changes and to changes of the market price	-	3,674	3,674
As of 31 December 2013	5,909	3,674	9,583

10. Assets Classified as Held for Sale

In October 2013, the Group disposed property, plant and equipment of Orzhytskiy Sugar Plant LLC for a total cash consideration including VAT in the amount of USD 5,100 thousand with a net loss on the disposal in the amount of USD 3,369 thousand, which was included into the result from discontinued operations. These assets were reclassified as assets held for sale following the approval of directors as of 27 June 2013.

In December 2013, the Group made a decision to sell Nevinnomissky oil-crushing plant CJSC. Net assets of Nevinnomissky oil-crushing plant CJSC were reclassified as assets held for sale in the amount of USD 4,291 thousand. An impairment loss in the amount of USD 8,879 thousand was recognized in other expenses on the reclassification of assets and liabilities as held for sale as of 31 December 2013. Activities of Nevinnomissky oil-crushing plant CJSC were not classified as discontinued operations for the 6 months ended 31 December 2013, since the plant does not represent a separate major line of business or geographical area of operations.

As of 31 December 2013, the assets of Nevinnomissky oil-crushing plant CJSC and two sugar plants (these two sugar plants were classified as assets held for sale as of 30 June 2013) were classified as assets held for sale.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

The balance of assets classified as held for sale was as follows:

	As of 31 December 2013
(in USD thousands)	
Cash	368
Trade accounts receivable, net	302
Taxes recoverable and prepaid, net	1,606
Inventory	985
Property, plant and equipment, net	22,715
Other non-current assets	154
Deferred tax assets	7,083
Assets classified as held for sale	33,213
Trade accounts payable	(62)
Advances from customers and other current liabilities	(2,839)
Long-term borrowings	(12,003)
Other non-current liabilities	(550)
Liabilities directly associated with assets classified as held for sale	(15,454)
Net assets of business classified as held for sale	17,759

Discontinued operations of the Group include activities of two abovementioned sugar plants for the 6 months ended 31 December 2013, which have generated a net loss in the amount of USD 1,025 thousand, including a loss on the disposal of property, plant and equipment of Orzhytskiy Sugar Plant LLC in the amount of USD 3,369 thousand.

11. Property, Plant and Equipment, net

During the 6 months ended 31 December 2013, the Group acquired property, plant and equipment in the amount of USD 34,681 thousand (31 December 2012: USD 34,458 thousand). These purchases were related mainly to the construction of two silos and purchases of agricultural vehicles and equipment for the farming segment. Additionally, the net book value decreased as the result of a standard depreciation charge.

In December 2013, the Group reclassified the property, plant and equipment of the Nevinnomissky oil-crushing plant CJSC as an asset held for sale in the amount of USD 21,257 thousand (Note 10).

Notes to the Condensed Consolidated Interim Financial Statements (continued)

12. Investments in joint ventures

The Group has the following significant interests in joint ventures:

On 27 September 2012, a 50-50 joint venture was formed with Renaisco BV, a subsidiary of Glencore International PLC. The joint venture acquired a 100% interest in a deep water grain export terminal in Taman port, Russian Federation for the enterprise value of USD 265,000 thousand, including transaction costs, financed with a combination of equity and debt.

An investment in a joint venture is accounted for using the equity method from the date of acquisition. The total consideration paid for the joint venture was USD 95,907 thousand. There was no payable amount reported for this acquisition as of 31 December 2013. Goodwill arising from the acquisition of joint venture was included in the carrying amount of the investment.

The Group has the following significant interests in joint ventures:

Name of joint venture	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group	
			As of 31 December 2013	As of 31 December 2012
Taman Grain Terminal Holdings Limited	Holding Company	Cyprus	50.0%	50.0%
Taman Invest Limited CJSC	Holding Company	Russian Federation	50.0%	50.0%
Zernovoy Terminalny Complex Taman LLC	Grain export terminal	Russian Federation	50.0%	50.0%

Share of ownership of joint ventures was as follows:

(in USD thousands)	As of 31 December 2013	As of 31 December 2012
Current assets	13,858	32,937
Non-current assets	64,698	69,033
Current liabilities	(15,025)	(12,499)
Non-current liabilities	(34,660)	(39,208)

The above amounts of non-current assets and non-current liabilities include:

Property, plant and equipment, net	63,801	68,363
Long-term borrowings	(32,601)	(38,168)

Share of profit/(loss) of joint ventures was as follows:

(in USD thousands)	6 months ended 31 December 2013	6 months ended 31 December 2012
Revenue	13,941	3,700
Cost of sales	(5,900)	(3,933)
General and administrative expenses	(1,294)	(1,021)
Profit/(Loss) from operating activities	6,747	(1,254)
Other expenses, net	(565)	(465)
Profit/(Loss) before income tax	6,182	(1,719)
Income tax expense	(1,252)	-
Profit/(Loss) for the period from continuing operations	4,930	(1,719)
Other comprehensive loss for the period	(524)	-
Total comprehensive income/(loss) for the period	4,406	(1,719)

The above information for the periods includes the following:

(in USD thousands)	6 months ended 31 December 2013	6 months ended 31 December 2012
Depreciation and amortization	(1,548)	(1,041)
Interest expenses	(2,464)	(911)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

13. Short-term Borrowings

The balances of short-term borrowings were as follows:

(in USD thousands)	As of 31 December 2013	As of 30 June 2013	As of 31 December 2012
Bank credit lines	626,007	395,560	849,238
Interest accrued on long-term loans	2,401	1,844	2,327
Interest accrued on short-term loans	1,229	1,296	992
Total	629,637	398,700	852,557

The balances of short-term borrowings as of 31 December 2013 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.75%	USD	August 2014	337,000
European bank	Libor + 3.75%	USD	June 2014	129,100
Ukrainian subsidiary of European bank	Libor + 4.8%	USD	September 2014	65,000
Ukrainian subsidiary of European bank	6%	USD	June 2014	35,065
European bank	Libor + 3%	USD	June 2014	30,000
Ukrainian subsidiary of European bank	Libor + 8%	USD	July 2014	29,600
European bank	3.75%	USD	October 2014	242
Total bank credit lines				626,007
Interest accrued on long-term loans				2,401
Interest accrued on short-term loans				1,229
Total				629,637

The balances of short-term borrowings as of 30 June 2013 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.75%	USD	August 2013	107,000
European bank	Libor + 8.95%	USD	September 2013	76,000
European bank	Libor + 7.5%	USD	November 2013	56,000
Ukrainian subsidiary of European bank	Libor + 4.8%	USD	September 2013	55,000
Ukrainian subsidiary of European bank	Libor + 7%	USD	September 2013	50,000
Ukrainian subsidiary of European bank	6%	USD	July 2013	20,746
Ukrainian subsidiary of American bank	Libor + 1%	USD	June 2014	13,275
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	5,120
Ukrainian subsidiary of European bank	10%	USD	April 2014	4,844
Ukrainian subsidiary of European bank	6%	USD	September 2013	3,723
Ukrainian subsidiary of European bank	Libor + 5.7%	USD	September 2013	2,281
Ukrainian subsidiary of European bank	10%	USD	September 2013	1,571
Total bank credit lines				395,560
Interest accrued on long-term loans				1,844
Interest accrued on short-term loans				1,296
Total				398,700

Notes to the Condensed Consolidated Interim Financial Statements (continued)

13. Short-term Borrowings (continued)

The balances of short-term borrowings as of 31 December 2012 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.75%	USD	August 2013	322,000
European bank	Libor + 3.75%	USD	June 2013	207,000
European bank	Libor + 8.95%	USD	September 2013	100,000
Russian Federation bank	12%	RUB	June 2013	55,972
Ukrainian subsidiary of European bank	Libor + 4.8%	USD	September 2013	55,000
Ukrainian subsidiary of European bank	Libor + 7%	USD	September 2013	50,000
Ukrainian subsidiary of European bank	Libor + 8%	USD	January 2013	30,000
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	12,897
Ukrainian subsidiary of European bank	7.5%	USD	June 2013	9,000
Ukrainian subsidiary of European bank	Libor + 5.7%	USD	September 2013	4,309
European bank	Libor + 2.13%	USD	July 2013	3,060
Total bank credit lines				849,238
Interest accrued on long-term loans				2,327
Interest accrued on short-term loans				992
Total				852,557

As of 31 December 2013, the overall maximum credit limit for short-term bank credit lines amounted to USD 945,063 thousand (as of 30 June 2013: USD 1,174,400 thousand and of 31 December 2012: USD 1,401,900 thousand).

Short-term loans from banks were secured as follows:

(Assets pledged in USD thousands unless otherwise stated)	As of 31 December 2013	As of 30 June 2013	As of 31 December 2012
Inventory	485,730	73,554	507,279
Property, plant and equipment	60,552	157,717	126,610
Intangible assets	-	5,929	5,929
Controlling stakes in Subsidiaries	not quantifiable	not quantifiable	not quantifiable
Total	546,282	237,200	639,818

As of 31 December 2013 in comparison to 30 June 2013, controlling stakes in three oil plants and two grain elevators were withdrawn from the pledge due to loan repayment.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

14. Long-term Borrowings

The balances of long-term borrowings were as follows:

(in USD thousands)	As of 31 December 2013	As of 30 June 2013	As of 31 December 2012
Long-term bank loans	406,359	307,523	362,013
Current portion of long-term borrowings	(89,583)	(50,893)	(74,351)
Total	316,776	256,630	287,662

The balances of long-term borrowings as of 31 December 2013 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8%	USD	August 2018	140,000
European bank	Libor + 5.5%	USD	February 2016	77,400
European bank	Libor + 6.25%	USD	January 2015	70,000
Russian Federation bank	Libor + 8.35%	USD	August 2016	48,000
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	November 2017	37,689
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	January 2017	20,312
European bank	Libor + 2.65%	USD	April 2015	12,958
Total				406,359

The balances of long-term borrowings as of 30 June 2013 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 5.5%	USD	February 2016	84,600
European bank	Libor + 6.25%	USD	January 2015	80,000
Russian Federation bank	Libor + 8.35%	USD	March 2019	52,860
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	November 2017	48,909
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	January 2017	23,440
European bank	Libor + 3.52%	USD	April 2015	17,714
Total				307,523

The balances of long-term borrowings as of 31 December 2012 were as follows:

(in USD thousands)	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 5.5%	USD	February 2016	95,400
European bank	Libor + 6.25%	USD	January 2015	90,000
Ukrainian bank	9%	USD	June 2016	82,447
Russian Federation bank	Libor + 8.35%	USD	March 2019	43,100
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	January 2017	25,000
European bank	Libor + 3.52%	USD	April 2015	20,390
Ukrainian subsidiary of European bank	Libor + 11.2%	USD	August 2015	5,676
Total				362,013

Notes to the Condensed Consolidated Interim Financial Statements (continued)

14. Long-term Borrowings (continued)

Long-term loans as of 31 December 2013 include credit lines from banks with the overall maximum credit limit of USD 418,360 thousand (as of 30 June 2013: USD 327,936 thousand; and as of 31 December 2012: USD 341,338 thousand).

Long-term loans from banks were secured as follows:

(Assets pledged in USD thousands unless otherwise stated)	As of 31 December 2013	As of 30 June 2013	As of 31 December 2012
Property, plant and equipment	177,277	206,876	280,103
Controlling stakes in Subsidiaries	not quantifiable	not quantifiable	not quantifiable
Total	177,277	206,876	280,103

As of 31 December 2013 in comparison to 30 June 2013, controlling stakes in Druzhba-Nova Group were pledged for new borrowing.

15. Income Tax

The difference between 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 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 2013, the Group prepaid USD 53,179 thousand of income tax which was included in the Condensed Consolidated Interim Statement of Financial Position into the lines 'Other non-current assets' and 'Corporate income tax prepaid' (as of 31 December 2012: USD 20,089 thousand, included into the line 'Corporate income tax prepaid').

16. Revenue

Revenue was as follows:

(in USD thousands)	6 months ended 31 December 2013	6 months ended 31 December 2012
Revenue from grain trade	557,620	494,374
Revenue from bulk sunflower oil, cake and meal	428,811	818,178
Revenue from bottled sunflower oil	66,287	97,392
Revenue from farming	45,080	23,918
Revenue from grain silo services	23,633	14,988
Revenue from sugar	14,833	8,736
Revenue from transshipment services	2,129	10,867
Total	1,138,393	1,468,453

17. Cost of Sales

Cost of sales was as follows:

(in USD thousands)	6 months ended 31 December 2013	6 months ended 31 December 2012
Cost of goods for resale and raw materials used	833,904	1,117,433
Amortization and depreciation	51,385	34,521
Payroll and payroll related costs	48,063	32,758
Rental payments	48,007	28,853
Other operating costs	11,279	6,528
Total	992,638	1,220,093

Notes to the Condensed Consolidated Interim Financial Statements (continued)

18. 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
(in USD thousands)	As of 31 December 2013		As of 31 December 2012	
Prepayments to suppliers and other current assets, net	12,620	119,581	15,054	134,893
Other non-current assets	1,690	54,668	12,249	33,154
Trade accounts payable	2,674	59,920	4,671	33,752
Advances from customers and other current liabilities	54,914	123,190	59,705	122,622

As of 31 December 2013 and 31 December 2012, the Group did not create allowances for prepayments made and other current assets from related parties.

Advances from customers and other current liabilities as of 31 December 2013 include amounts due to Namsen Limited. This amount includes:

- USD 18,025 thousand for the purchase of Stiom Holding;
- USD 13,019 thousand for the purchase of Inter-Agro which is interest bearing at 4% per annum;
- USD 20,043 thousand is a loan provided by Namsen to Inter-Agro Group.

Advances from customers and other current liabilities as of 31 December 2012 include amounts due to Namsen Limited. This amount includes:

- USD 39,300 thousand for the purchase of Inter-Agro which is interest bearing at 4% per annum;
- USD 20,043 thousand is a loan provided by Namsen to Inter-Agro Group.

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
(in USD thousands)	6 months ended 31 December 2013		6 months ended 31 December 2012	
Cost of sales	(106)	(992,638)	(997)	(1,220,093)
General, administrative and distribution expenses	(13,459)	(158,016)	(929)	(148,511)
Finance costs, net	222	(33,441)	144	(41,524)
Other expenses, net	32	(23,979)	9	(4,221)

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties. As for the 6 months ended 31 December 2013, distribution expenses included USD 13,274 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC. All other transactions occurred with related parties under common control.

As of 31 December 2013, the Board consists 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 (8 Directors) for 6 months ended 31 December 2013 amounted to USD 594 thousand (for 6 months ended 31 December 2012: 8 Directors, USD 447 thousand).

The non-executive directors also are refunded, to a reasonable extent, for any expenses incurred by them in performing their duties, including reasonable travelling expenses. Five 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 14 people, amounted to USD 1,167 thousand for 6 months ended 31 December 2013 (for 6 months ended 31 December 2012: 14 people, USD 899 thousand).

The Members of the Board of Directors and the Management Team members are not granted any pensions or retirement or similar benefits by the Group. The Management of the Group has been provided with options to purchase the shares of the Holding.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

19. Commitments and Contingencies

In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 December 2013, the Group companies had ongoing litigations with the tax authorities mainly related to the disallowance of certain amounts of VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues. According to the assessment performed by the management of the Group, the maximum exposure of the Group to such risks as of 31 December 2013 amounted to USD 137,210 thousand (as of 31 December 2012 amounted to USD 115,000 thousand). Out of this amount, USD 129,780 thousand relates to cases where court hearings took place and where the court in either the first or second instance already ruled in favor of the Group (as of 31 December 2012: USD 51,600 thousand). Management believes that based on 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.

Other tax risks as of 31 December 2013 were estimated by Management in the amount of USD 20,737 thousand.

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in the Khmelnytsk region of Ukraine with 79,200 hectares of land under management. 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 2013, the Group paid Stiomi Holding a consideration of USD 15,447 thousand. Final payment was due and payable only after the fulfillment of certain conditions to the satisfaction of the Group by 1 December 2013 and subject to the right to offset losses in respect to claims against the Sellers. Prior December 2012, the Group submitted several claims to the Sellers in respect to 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. The arbitral tribunal has been formed, the parties have exchanged written statements of the case and directions for the next steps are awaited from the tribunal. The management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

Starting from 1 September 2013, Ukrainian legislation implemented new transfer pricing rules. These rules introduce additional reporting and documentation requirements to transactions with related parties. In accordance with the new rules, the tax authorities obtain additional tools with the help of which they may claim that prices or profitability in transactions with related parties differ from arm's length transactions. As the practice of implementation of the new transfer pricing rules has not yet developed and the wording of some clauses of the rules is unclear, the probability that the Group's transfer pricing positions may be challenged by the tax authorities cannot be reliably estimated as of the date of authorization of these consolidated financial statements for issue.

Contractual Commitments on Sales

As of 31 December 2013, the Group had entered into commercial contracts for the export of 1,030,177 tons of grain and 474,283 tons of sunflower oil and meal, corresponding to an amount of USD 233,196 thousand and USD 251,034 thousand, respectively, in contract prices as of the reporting date.

As of 31 December 2012, the Group had entered into commercial contracts for the export of 1,116,262 tons of grain and 301,766 tons of sunflower oil and meal, corresponding to an amount of USD 369,747 thousand and USD 159,254 thousand, respectively, in contract prices as of the reporting date.

20. 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 2013.

The management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values as of 31 December 2013 and 2012. 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 6 months ended 31 December 2013 and 2012.

21. Subsequent events

In February 2014, Kernel Holding S.A. disposed its oilseed crushing plant - the Nevinnomyssky oil-crushing plant CJSC - with annual crushing capacity of 100,000 tons, located in Nevinnomyssk in the Stavropol region of the Russian Federation for USD 10,000 thousand on a cash-free, debt-free basis.

On 21 February 2014 the Group entered into USD 80,000 thousand credit line agreement with a syndicate of Ukrainian and European banks to finance working capital of the Group's crop production in 2014.

Since November 2013 Ukraine has been going through a political crisis.

On 22 February 2014, the Parliament of Ukraine voted for return to the 2004 Constitution and dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional Government formation has started.

In January-February 2014, the Ukrainian hryvnia devalued against the major world currencies and significant external financing was required to maintain its stability. The National Bank of Ukraine, among other measures, imposed certain temporary restrictions on processing client payments by banks and on purchase of foreign currency on inter-bank market. In February 2014, Ukraine's sovereign rating has been further downgraded to CCC with a negative outlook.

The final resolution and impact of the political crisis are difficult to predict and the ongoing crisis may further adversely affect the Ukrainian economy. Subsequent to 31 December 2013 the Group has been operating in the normal course of business and the management of the Group believes that it has undertaken all necessary measures to maintain the economic stability of the Group under these circumstances.