

KERNEL

# ANNUAL REPORT

**30 JUNE 2015**

Kernel Holding S.A.

# Contents

## 01-53

### Strategic Report

03	Key Highlights
04	Operating Highlights
06	Chairman's Statement
08	Kernel at a Glance
10	Our Business Model
11	Our Key Three Trends
12	Our Strategy
13	Financial Performance in FY2015
17	Sunflower Oil
23	Grain and Infrastructure
28	Farming
33	Risks and Uncertainties
38	Sustainability

## 54-59

### Corporate Governance

54	Corporate Governance
59	Board of Directors

## 60-114

### Financial Statements

60	Report of the Réviseur d'Enterprises Agréé
61	Statement of Management Responsibilities
62	Selected Financial Data
63	Consolidated Statement of Financial Position
64	Consolidated Statement of Profit or Loss
65	Consolidated Statement of Profit or Loss and Other Comprehensive Income
66	Consolidated Statement of Changes in Equity
67	Consolidated Statement of Cash Flows
68	Notes to the Consolidated Financial Statements
114	Corporate Information



Kernel is a diversified agricultural business in the Black Sea region, listed on the main market of the Warsaw Stock Exchange.

We are the largest sunflower oil producer in the region, a leading exporter of grains and oilseeds, operator of an extensive agriculture logistics asset base and one of the largest farmers. Each year we supply in excess of seven million tons of agricultural products across the world.

# Key Highlights

USD million except ratios and EPS

	FY2015	FY2014	y-o-y
<b>Income statement highlights</b>			
Revenue	2,329.5	2,393.3	(3%)
EBITDA <sup>1</sup>	396.6	223.0	78%
Net profit/(loss) attributable to equity holders of Kernel Holding S.A.	106.9	(98.3)	n/m
EBITDA margin	17.0%	9.3%	7.7pp
Net margin	4.6%	(4.1%)	8.7pp
EPS, USD	1.34	(1.23)	n/m
<b>Cash flow highlights</b>			
Operating profit before working capital changes	338.7	195.5	73%
Changes in working capital	147.4	(0.9)	n/m
Cash generated from operations	486.1	194.7	2.5x
Net cash generated by operating activities	404.7	82.5	4.9x
Net cash used in investing activities	(24.3)	(83.2)	(71%)
<b>Credit metrics</b>			
Net interest-bearing debt	339.4	684.0	(50%)
Readily marketable inventories	140.1	243.4	(42%)
Adjusted net debt <sup>2</sup>	199.3	440.6	(55%)
Shareholders' equity	889.6	1,029.7	(14%)
Net debt/EBITDA	0.9x	3.1x	(2.2x)
Adjusted net debt <sup>2</sup> /EBITDA	0.5x	2.0x	(1.5x)
EBITDA/Interest	5.8x	3.1x	2.7x
<b>Non-financial highlights</b>			
Full-time employees at 30 June	15,229	16,518	(8%)
Injury frequency rate, accidents per million worked hours	0.66	0.59	12%
Social spending, USD million	1.9	2.7	(29%)
Direct greenhouse gas emissions, thousand tons of CO <sub>2</sub> equivalent	248.0	284.0	(13%)
Total energy consumption, thousand gigajoules	6,026.0	6,321.0	(5%)

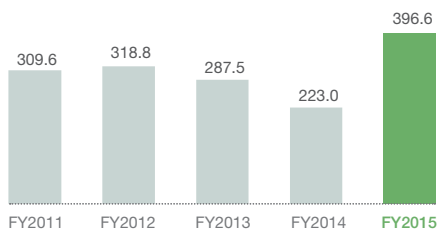
Note: Financial year ends 30 June.

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

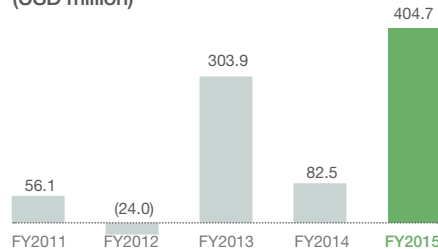
2 Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories at cost.

Source: Kernel.

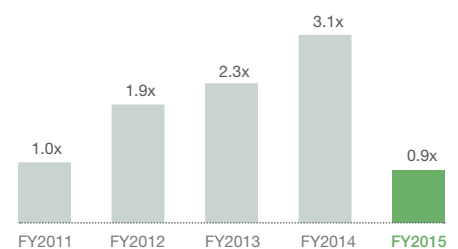
## EBITDA (USD million)



## Net cash from operations (USD million)



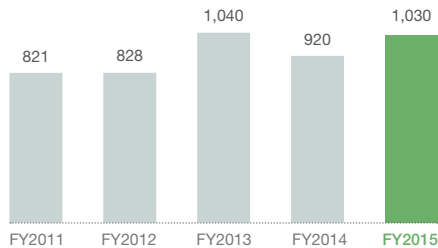
## Net debt/EBITDA



Source: Kernel.

# Operating Highlights

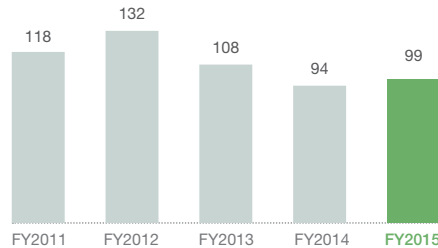
**Sunflower oil sold in bulk  
(thousand tons)**



## FY2015 performance

12% y-o-y growth in the volumes of sunflower oil sold in bulk reflected higher crush during the season. First quarter volumes were higher than the previous year because of solid carryover stocks of sunflower seed harvested in 2013/14, when Ukraine's harvest was a high 11.1 million tons. The second to fourth quarters' crush also was firm, despite a y-o-y lower harvest in the country, as we utilized our leadership position on the market in times when smaller competitors lacked full access to working capital.

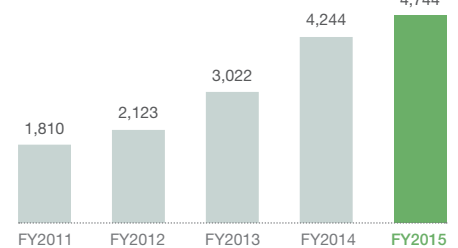
**Sunflower oil sold bottled  
(million liters)**



## FY2015 performance

Our domestic sales of sunflower oil faced a dramatic decrease in purchasing power in Ukraine: local currency devalued by 48% on average compared to the previous year. Nonetheless, we increased our bottled oil sales slightly as we opened new markets and saw our exports of bottled sunflower oil grow compared to the previous year.

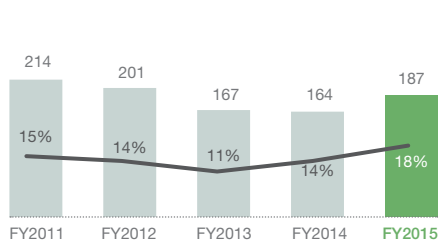
**Grain sales  
(thousand tons)**



## FY2015 performance

The combination of a 400,000-ton increase in our own grain and oilseed production, and a record total crop of 64 million tons in Ukraine (vs. 63 a year ago) allowed us to export 12% more grain than in the previous year. Exports from Russia were similar to last year's volumes, as Russian government restricted overall grain exports in the second half of the season.

**Sunflower oil sold in bulk EBITDA  
(USD/ton, %)**

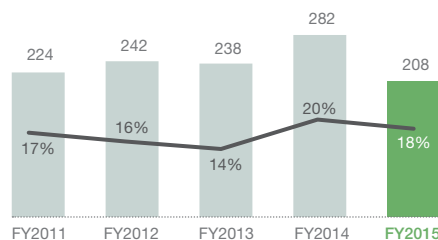


The sunflower oil sold in bulk segment's EBITDA divided by tonnage of sunflower oil sold in bulk or as a percentage of revenues.

## FY2015 performance

Even though Ukraine's sunflower seed harvest declined compared to the previous year (11.1 million tons vs. 10.1), overall competition between crushers decreased because smaller processors lacked full access to working capital. As a result, our crushing EBITDA margin improved to 18% vs. 14% a year ago.

**Bottled sunflower oil EBITDA  
(USD/thousand liters, %)**

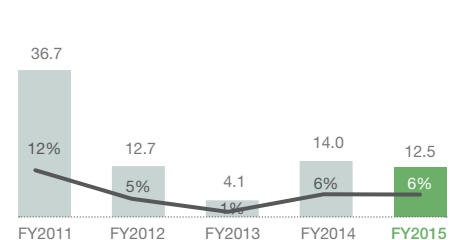


The bottled sunflower oil segment's EBITDA divided by volumes of bottled sunflower oil sold measured in thousand liters or as a percentage of revenues.

## FY2015 performance

68% of our bottled sunflower oil sales are domestic, thus Ukrainian hryvnia devaluation negatively affected our bottled oil sales' profitability as raw material prices are linked to US dollars. However, we managed to pass through the devaluation onto consumers and achieved an 18% EBITDA margin, comparable to our sales of sunflower oil for export.

**Grain segment EBITDA  
(USD/ton, %)**



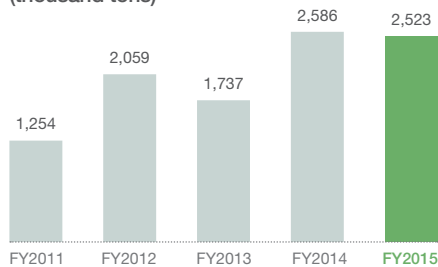
The grain segment's EBITDA divided by tonnage of corn, wheat, barley, soybean and rapeseed sold or as a percentage of revenues.

## FY2015 performance

An abundant supply of grain for export (both Ukraine's and Russia's export supplies were at historic highs) ensured the strong profitability of our merchandising activities, with our EBITDA margin at a firm 6% in FY2015.

# Operating Highlights *continued*

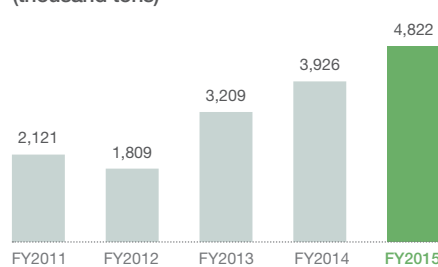
**Grain received in inland silos  
(thousand tons)**



## FY2015 performance

Volumes of grain and oilseed crop received for storage at our silo services division were almost the same as a year ago (down 2%). This was due to a mix of lower demand for off-farm storage because some grain was harvested dry enough to allow for on-farm storage and an increase in our storage capacity.

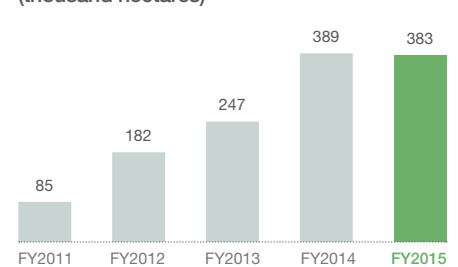
**Export terminal throughput  
(thousand tons)**



## FY2015 performance

Our strong growth in grain exports, increase in the share of exports going through our own port facilities, and growth in sunflower meal production resulted in strong 23% y-o-y growth in volumes transshipped by our three transshipment facilities.

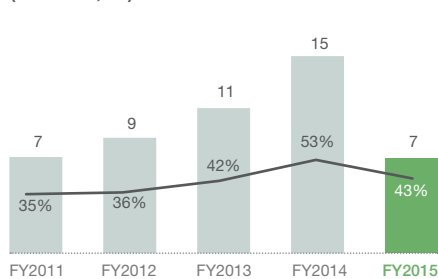
**Acreage harvested  
(thousand hectares)**



## FY2015 performance

We harvested 6 thousand hectares less in FY2015, as we left 10 thousand hectares fallow to prepare them for rapeseed production in FY2016. Nonetheless, our total grain and oilseed tonnage was up 31% y-o-y to 1.8 million in FY2015, as improvements in our technology resulted in better crop yields.

**Silo services EBITDA  
(USD/ton, %)**

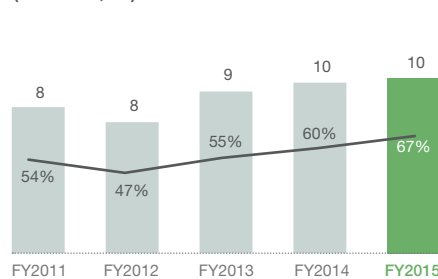


The silo services segment's EBITDA divided by throughput for the full financial year or as a percentage of revenues. Services provided intra-group were accounted for on an arm's-length basis.

## FY2015 performance

Unusually dry weather during autumn harvesting also reduced farmers' demand for grain drying, the most profitable of our services. Consequently, our EBITDA fell below our average levels and amounted to USD 7 per ton.

**Export terminals EBITDA  
(USD/ton, %)**

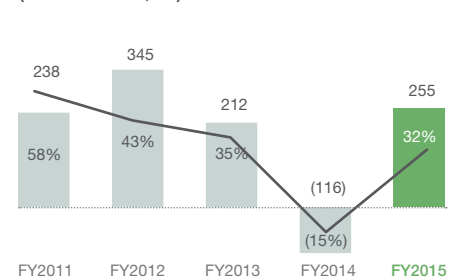


EBITDA derived from providing transshipment services by our two export terminals in Ukraine divided by their throughput volumes for the full financial year or as a percentage of revenues. Services provided intra-group were accounted for on an arm's-length basis. Excludes Taman volumes and earnings, which are reported under the equity method of accounting.

## FY2015 performance

Growth in volumes and Ukrainian hryvnia devaluation allowed us to retain our EBITDA of USD 10 per ton of grain transshipped, regardless of the decline in average fee earned per ton.

**Farming segment EBITDA  
(USD/hectare, %)**



The farming segment's EBITDA divided by average acreage during the period.

## FY2015 performance

Improvements in technology, which we have been implementing during the last two years, led to 16-28% increases in crop yields. Combined with a decline in production costs caused by Ukrainian hryvnia devaluation, this led to a boost in profitability: our EBITDA improved to USD 255 per hectare in FY2015, compared to negative USD 116 per hectare a year ago.



# Chairman's Statement



**Andriy Verevskyy**  
Chairman of the board of directors



## Dear Shareholders and Colleagues,

It is my pleasure to report our annual results for the year ended 30 June 2015, a year of multiple records for Kernel.

We grew our EBITDA 78% to a record USD 397 million; we crushed a record volume of sunflower seeds, and we exported a record volume of grains and oilseeds. We also achieved solid crop yields in our farming division and generated our highest ever free cash flows, strengthening our balance sheet in line with the priorities we set last year.

The performance reflected not just our achievement of last year's objectives, but the hard work and investments we made over many years. Within the last five years, we have invested USD 729 million in our oilseed crushing, port terminal, silo storage and farming operations.

Each of our business units helped underpin these headline accomplishments, delivering strong financial and operating results.

In sunflower oil, we crushed a historic high of 2.5 million tons of sunflower seeds in FY2015. The primary drivers of growth were a sufficient supply of sunflower seeds and weaker competition on the market. Several of our local competitors lacked full access to working capital, which allowed us to increase our market share and procure more sunflower seed. Moreover, amid local currency devaluation, our crushing margin expanded to USD 187 per ton of sunflower oil in FY2015, above the USD 160-165 we saw in the last two years. As a result, our sunflower oil business contributed a record high USD 213 million to our EBITDA, up 20% y-o-y.

In grain and infrastructure, we managed to post a record 4.7 million tons of exports. Both Ukraine's and Russia's crops were relatively good, which resulted in higher volumes available for export. Additionally, our grain and infrastructure platform benefited from growth in internal crop production as nearly all crops that we produce flow through our value chain. Our export terminals' throughput was also a record all-time high, reaching 4.8 million tons in FY2015. The profitability of our grain and export terminal segments remained robust.

At the same time, our silo services division underperformed in FY2015, it was flat in terms of throughput volumes and there was a significant decline in profitability. The dry weather that prevailed during the harvesting campaign last year led to lower profits as grain drying is the most profitable service for our silo business. Overall, our grain and infrastructure business' EBITDA contribution was USD 114 million in FY2015, down 9% y-o-y.

Our farming division was one of the major drivers of our profits this year. About two years ago, new management started implementing major changes in our production technology, altering our approach to fertilizer application, upgrading the quality of seed and plant protection products, and fine-tuning the organizational structure of our farming division. As a result, our crop yields improved 16-28% y-o-y in FY2015 and reached strong levels for all our major crops. The low moisture content of harvested crops translated into notable savings in silo costs, reducing the overall cost of production. Additionally, we benefited from Ukrainian currency devaluation on the cost side. Overall, our farming division posted a historical high EBITDA of USD 98 million in FY2015.

# Chairman's Statement

In general, almost 50% devaluation of the Ukrainian hryvnia during FY2015 had a positive effect on our export-oriented business, inflating operating profit. At the same time, we booked USD 153 million in foreign exchange losses, part of which was from non-cash items. As a result, our net income amounted to only USD 107 million.

Our cash flow was also a record in FY2015: we generated USD 405 million in net operating cash flow, which we used to strengthen our balance sheet. As a result, our leverage decreased, with net debt to EBITDA down to 0.9x as of 30 June 2015.

Finally, I would also like to highlight our continuous efforts to develop our business sustainably. This report is our first prepared under globally recognized sustainability reporting standards, and it is the first time we sought assurance for our sustainability disclosures. I hope this information will give you a better understanding of our current performance and approach.

We have already turned our attention and efforts to FY2016. With another new year, we are looking forward to facing new challenges and opportunities.

In the sunflower oil business, we are pleased to see Ukrainian farmers delivering a record sunflower seed harvest this autumn, which is expected to contribute at least one million tons of additional sunflower seed supplies on the market compared to last year.

At the same time, after a milder competitive landscape last year, we also see some additional capacity coming to the market, which should absorb most of the new supply. Additionally, farmers are remaining slow sellers in the current weak global price environment – we do not see seeing the usual strong sunflower seed supply coming immediately after harvest. Generally, we expect crushing margins to normalize this season from unusually high levels last year, and we expect to crush around 2.7 million tons of sunflower seed in FY2016, up from 2.5 million tons a year ago.

In grain and infrastructure, we aim to keep our annual exports at similar levels to a year ago, regardless of the lower crop size in both Ukraine and Russia. On the margin side, we expect some decrease in our average grain export margin in FY2016, while export terminals' profitability should remain robust. Silo throughput and profitability should also be below average levels as the current dry weather is allowing farmers to keep some of their crop on-farm as little to no drying is required.

In farming, the weather was not favorable this summer, with a drought in August severely affecting our western Ukraine operations where corn and soybean yields suffered. At the same time, other regions were less affected and delivered expected growth in terms of productivity. As a result, we expect average crop yields for our corn and soybean crops to be marginally flat compared to the previous year. Meanwhile, the drought had a lower detrimental impact on sunflower seed and rapeseed, and we are likely to see better crop yields for these oilseeds.

On the cost side, we see local inflation erasing part of the benefits of Ukrainian hryvnia devaluation, but the dry autumn weather is still keeping drying costs below budgeted levels. We managed to sell a significant portion of our crop at favorable prices prior to a correction this summer. Overall, we expect our farming segment to deliver solid financial performance, in line with the previous year.

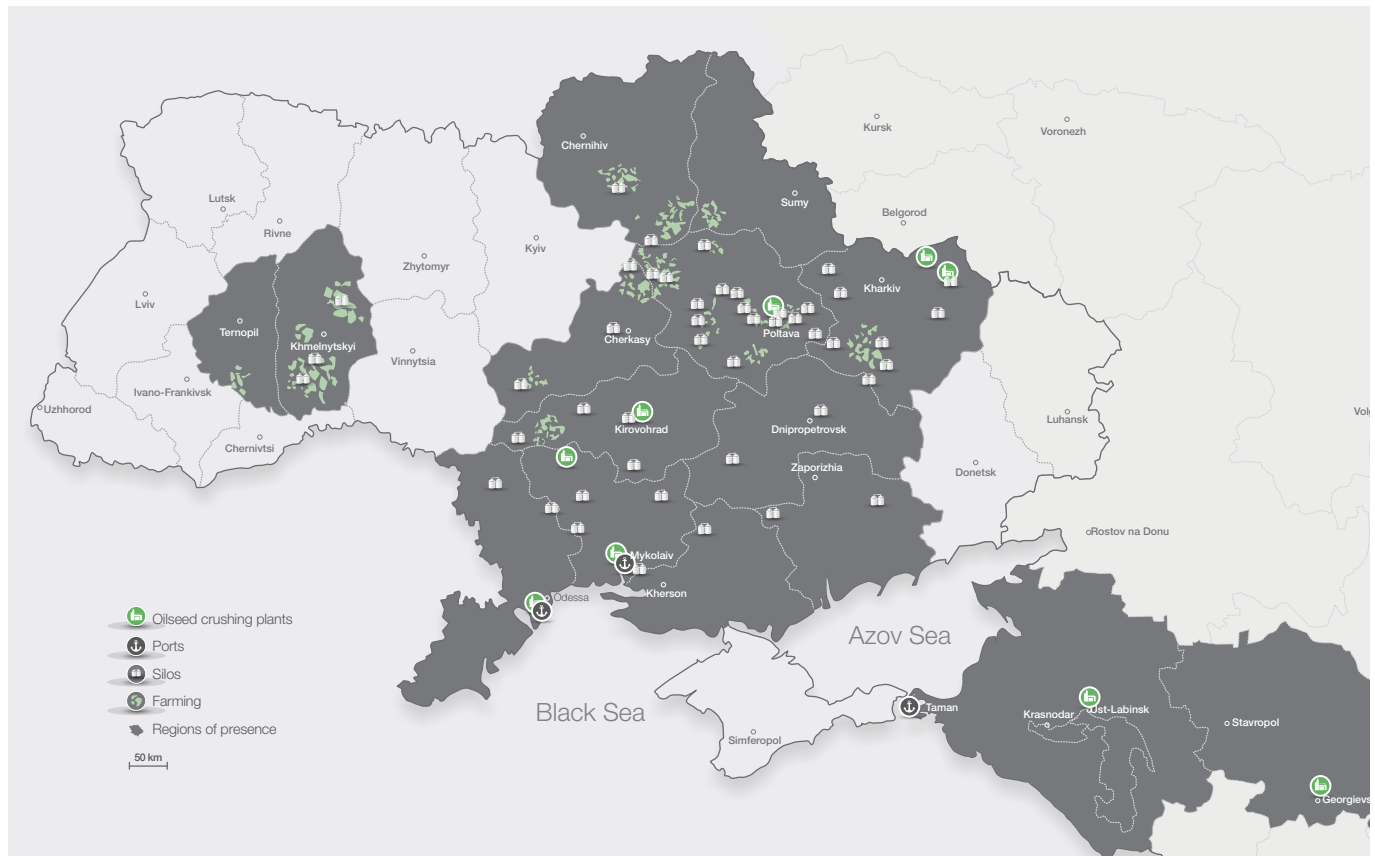
Our mid-term strategy remains unchanged. In the sunflower oil business, we believe we will benefit from sector consolidation in Ukraine, and we are waiting for the right moment to act. In grain and infrastructure, we aim to nearly double our grain export volumes from the levels in FY2014 and we are working on a project to expand our grain export terminals' capacity in Ukraine. In the farming business, we are on the road to improving our technology, focusing on the efficiency of existing operations and cost leadership.

We aim to bring our business to a new level by using the strength of our balance sheet. We believe that the current business environment in Ukraine and Russia will be a catalyst for appealing opportunities in the coming years and we will take full benefit of it by relying on our dominant market position, strong industry expertise, and financial capacities.



**Andriy Verevskyy**  
Chairman of the board of directors

# Kernel at a Glance



## Segment results summary

	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	FY2015	FY2014	y-o-y	FY2015	FY2014	y-o-y	FY2015	FY2014	FY2015	FY2014	y-o-y
<b>Sunflower oil</b>											
Sunflower oil sold in bulk	1,099.7	1,079.0	2%	192.6	151.2	27%	18%	14%	1,030.2	920.3	12%
Bottled sunflower oil	114.1	132.6	(14%)	20.5	26.6	(23%)	18%	20%	98.91	94.4 <sup>1</sup>	5%
<b>Grain and infrastructure</b>											
Grain	1,053.3	1,053.6	(0%)	59.4	59.4	(0%)	6%	6%	4,743.8	4,243.5	12%
Export terminals	55.3	45.5	22%	36.8	27.3	35%	67%	60%	4,821.7 <sup>2</sup>	3,926.4 <sup>2</sup>	23%
Silo services	42.4	74.5	(43%)	18.3	39.2	(53%)	43%	53%	2,523.1	2,586.2	(2%)
<b>Farming</b>											
Farming	310.4	290.1	7%	97.9	(44.3)	n/m	32%	(15%)	1,798.5	1,375.3	31%
Sugar and discontinued operations <sup>3</sup>	25.8	34.9	(26%)	4.0	0.3	11x	15%	1%	50.1	57.8	(13%)
Unallocated corporate expenses				(32.9)	(36.7)	(9%)					
Revenue reconciliation	(371.3)	(317.0)	17%								
<b>Total</b>	<b>2,329.5</b>	<b>2,393.3</b>	<b>(3%)</b>	<b>396.6</b>	<b>223.0</b>	<b>78%</b>	<b>17%</b>	<b>9%</b>			

Note: Differences are possible due to rounding.

1 Million liters.

2 Including 1,173.8 thousand tons transshipped through Taman port in FY2015 and 1,144.7 thousand tons in FY2014 (Kernel's share in joint venture).

Earnings from the joint venture are accounted for below EBITDA.

3 Discontinued operations from sugar and assets held for sale.

Source: Kernel.



# Kernel at a Glance continued



## Sunflower oil

### What do we do?

We produce 7%<sup>1</sup> of the world's sunflower oil and supply it to international markets across the world. Sunflower meal, a protein-rich component of animal fodder, and sunflower seed husk, a biofuel, are by-products of the process.

### What assets do we have?

Our nine oilseed crushing plants are located across sunflower seed belt in the Black Sea region and have a total capacity of 3.0 million tons. We also own three major brands under which we sell in the domestic market in Ukraine.

### What is this business' contribution?

Our sunflower oil business contributed EBITDA of USD 213.1 million in FY2015, 50% of total<sup>2</sup>.

### What is the key risk of this business division?

The sunflower seed harvest in Ukraine is the main determinant of the performance of our sunflower business. Sunflower seed has low density, which prohibits long-distance transportation, thus both import and export of unprocessed sunflower seed is immaterial.

### What makes us competitive?

We operate the largest network of sunflower oil plants in the Black Sea region, which allows us to reduce fixed costs and makes us less prone to volatility in the harvest size within the proximity of each plant. Our policy of locking in our margin at the moment of sunflower seed procurement also reduces our risk profile.

### How many people work in this business division?

2,750 full-time employees.

For more info on our sunflower oil business, see pages 17-22.



## Grain and infrastructure

We provide grain drying, cleaning, and storage services at our silos, merchandise almost 5 million tons of grain, and transship a similar amount of grain through our deep-water ports located on the Black Sea.

We own Ukraine's largest private network of inland silos with a capacity of 2.8 million tons, a deep-water grain terminal of 4.0 million tons in Ukraine and a 50% stake in a 4.0 million ton deep-water grain terminal in Russia.

The grain and infrastructure business contributed EBITDA of USD 114.5 million in FY2015, 27% of total<sup>2</sup>.

Weather can affect the harvest size in Ukraine and Russia. A lower harvest will decrease utilization of our infrastructure and will result in lower export sales in our grain merchandising segment.

Our unparalleled asset base of internal grain storage facilities and world-class deep-water ports allows us to be a largest grain exporter from the Black Sea region and achieve higher than average profitability.

3,103 full-time employees.

For more info on our grain and infrastructure business, see pages 23-27.



## Farming

We lease 390,000 hectares of farmland in Ukraine and grow crops such as corn, soybean, sunflower seed and wheat. 85-90% of our output is further processed or exported through our other segments.

We operate state-of-the-art large-scale farming machinery produced by global leaders, have our own seed plant, and lease our farmland under long-term contracts that give us the right of first refusal for prolongation and land purchase once land trade moratorium is lifted.

The farming segment contributed EBITDA of USD 97.9 million in FY2015, 23% of total<sup>2</sup>.

Global volatility in agricultural prices has the most significant effect on our crop production business, as we sell at international prices. Local weather could also affect production levels.

The large scale of our business model allows us to achieve lower production costs. At the same time, our natural integration with other business segments allows us to earn profits across the whole value chain and weather low parts of the soft commodity price cycle.

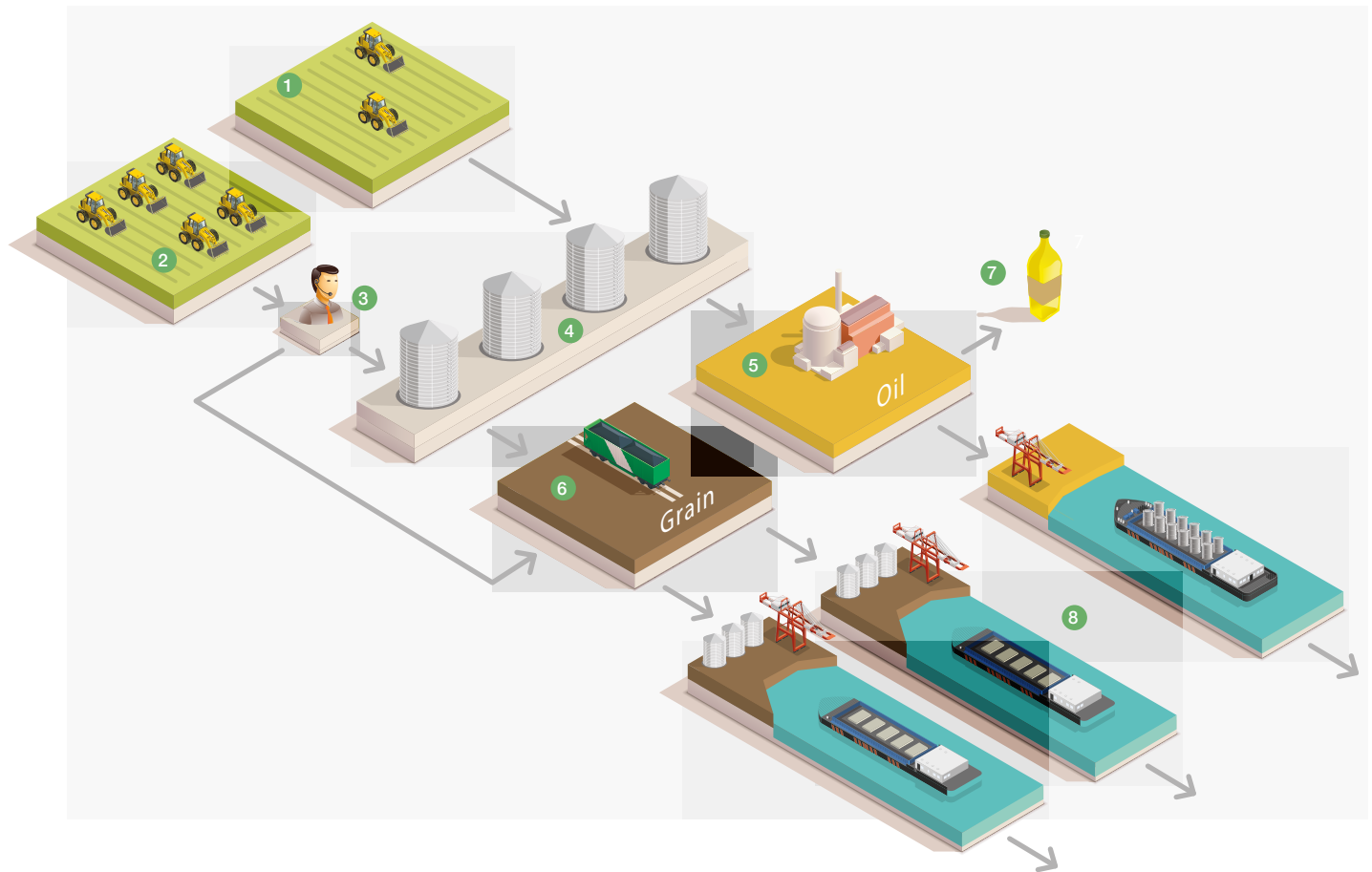
8,691 full-time employees.

For more info on our farming business, see pages 28-32.

<sup>1</sup> Based on USDA data for marketing year 2014/15.

<sup>2</sup> Share of total EBITDA prior to head office costs which are unallocated between segments.

# Our Business Model



## 1 2 Own farming/Third-party farmers

We farm 390,000 hectares of farmland in Ukraine, producing a variety of crops including corn (40-50% of acreage), sunflower seed and soybean (40% of acreage combined), as well as wheat and forage crops. Annually, our farms produce around 2 million tons of grains and oilseeds that go through our other business divisions: this secures 20-30% of our total grain export and 6-9% of sunflower seed crush volumes. Remaining volumes are supplied by third party farmers.

## 3 Procurement

Our origination network is one of the largest and most efficient in the region: we annually procure in excess of 2 million tons of sunflower seeds and more than 3 million tons of grains from about 5,000 farmers. Our daily contact with farmers and reputation as a trustworthy counterparty ensures we are a buyer of choice for small and large crop producers.

## 4 Silo storage

We operate 2.8 million tons of grain silo storage capacity located across different regions of Ukraine. Silos provide grain drying, cleaning and storage services to our and third party farmers. We view our silo network as a vital element of our captive origination platform.

## 5 Oilseed processing

Our nine oilseed crushing plants have a processing capacity of 3.0 million tons of sunflower seed per year. Processing one ton of sunflower seed yields 440 kg of sunflower oil, 390 kg of sunflower meal, and 170 kg of husks on average. Approximately 90% of our sunflower oil production is exported in bulk to a variety of global markets, with India, China, the Middle East and the EU being primary destinations. Sunflower meal is exported mostly to the EU, where it is used as a protein component in livestock fodder. Husks are burnt to produce green energy.

## 6 Grain export

Our export team sells 4-5 million tons of grains and oilseed annually, entering into forward sales contracts within the same time frame as our origination team buys grains and oilseed from farmers, thus locking in the margin at the moment of procurement. Approximately 80% of grains are delivered to the Middle East, North Africa and the EU while about 20% are exported to Eastern Asia and Sub-Saharan Africa.

## 7 Bottled sunflower oil

Approximately 10% of our production of sunflower oil is bottled and sold in Ukraine and abroad under three brands and private labels.

## 8 Export terminals

We operate two deep-water grain export terminals (one is 50/50 owned through a joint venture) and one small sunflower meal terminal with an aggregate transshipment capacity of up to 7 million tons per year.

# Our Three Key Trends

## World's population is growing and getting richer

The World Bank forecasts the world's population to grow to 9.5 billion by 2050 vs. 7.3 billion today. 2/3 of the growth expected in the middle class.

## Accessible farmland is limited

Unused accessible agricultural land is limited. With only marginal growth in acreage possible, crop yields have to double within the next 30 years to match growth in demand.

## Weather and food prices become increasingly volatile

Climate change is driving the increasing intensity of weather extremes, which is leading to higher variations in food production globally, in turn causing an increase in crop price volatility. A 50% change in price within one year is no longer unusual.

### Where do we see opportunity and risk?

As economic growth leads to middle-class expansion in emerging markets, their per capita food consumption will increase at a rate of more than three times that of the developed world. More vegetable oil is consumed, and the shift in the meat consumption will strongly drive demand for grains.

We believe that Ukraine and southern Russia are regions with the highest potential to significantly grow grain production in an accessible manner. At the same time, a technological breakthrough in crop yields globally could pose a risk to long-term crop prices.

High volatility in agricultural prices can turn pure crop producers' profits into the red while volatility in harvest sizes can materially harm small, undiversified crushers. As a regional leader, we see consolidation opportunities within all our business lines.

### What are we doing about it?

All three of the pillars of our business model leverage growth in the population and their income: sunflower oil consumption has been growing at 5% CAGR over last ten years, our grain infrastructure business is linked to growing demand for Black Sea grain, and our own crop production is marketed globally.

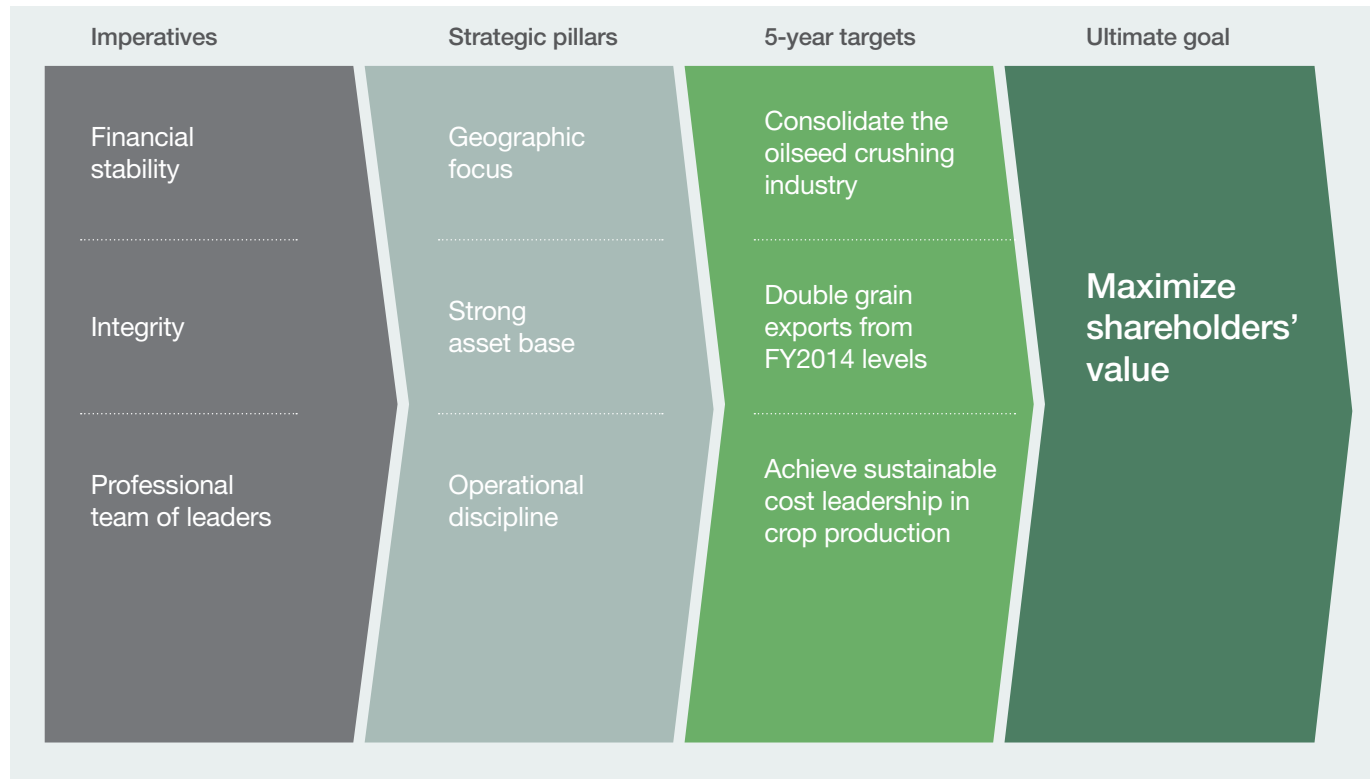
Our grain infrastructure platform links Ukrainian and Russian farmers with international customers and benefits from growing exports: the region's grain exports have increased by 13% CAGR over the last ten years. With local farmers' productivity growth potential still high, we continue to invest in rolling out our infrastructure base to benefit from future growth in exports.

We keep a right mix of infrastructure-type businesses with stable margins, crushing businesses with limited volatility in profits, and crop production that is naturally exposed to commodity price moves. Our aversion to price risk is also a crucial part of our success along with our proven track record in consolidating the industry.

Sources: World Bank, McKinsey, USDA, Kernel.

# Our Strategy

In pursuing leadership in the export-oriented agriculture business in the Black Sea region, we follow a strategy based on fixed imperatives, strategic pillars and an ultimate goal of maximizing our shareholders' value.



## Our strategy pillars in detail

### Geographic focus

Our belief is that the Black Sea region, with Ukraine and Russia playing a principal role, is one of the world's fastest growing suppliers of agricultural commodities to the international market. We utilize our local footprint and experience to profit from this growth along with farmers.

### Strong asset base

We aim to control critical assets along the food export value chain that serve as the backbone for building export flows of different agricultural commodities and improve our earnings quality.

### Operational discipline

Our 'balanced book' policy of locking in the margin as we sell agricultural commodities through forward contracts within the same time frame as we buy them from farmers ensures our risk exposure to commodity price volatility is minimized. We are also averse to counterparty risk.

## FY2015 strategy deliverables

We increased our market share in FY2015, utilizing our leadership positions in the market and superior access to working capital: as a result, our crushing volumes were up 8% y-o-y.

In grain export, we achieved 12% y-o-y growth in volumes in FY2015, as we increased origination from third-party suppliers and internal production. We also identified a project to build a new grain transshipment facility that would double our capacity in Ukraine and increased our capacity in Russia by a half million tons.

Crop yields in our own farming production division increased 16-28% y-o-y as our changes into production technology and management practices started paying off.

In line with the pledge to our stakeholders, we strengthened our balance sheet reallocating our record free cash flow to deleverage our financial position assuring sustainable and robust future development of our business.

# Financial Performance in FY2015



Our profitability surged in FY2015 as we increased production and margins in our sunflower oil business, delivered steady throughput growth in grain and infrastructure, and achieved a stellar turnaround in our farming operations.

## Revenues

**\$2,329.5m**  
-3% y-o-y

## EBITDA

**\$396.6m**  
+78% y-o-y

78% y-o-y growth in the Company's EBITDA was driven by all our three business lines.

The sunflower oil segments benefited from lower competition, which helped improve crushing margins to 18% from 15% a year ago, as well as from strong carryover of sunflower seed stocks that drove crushing volumes up 8% y-o-y.

The grain and infrastructure business posted 12-23% healthy growth in volumes of grain exported and transshipped by export terminals, with margins comparable to the previous year. However, inland silo infrastructure suffered from the dry weather during autumn harvesting, which reduced farmers' demand for grain drying services and off-farm storage, which made the overall contribution from grain and infrastructure comparable to the previous year.

The farming business contributed USD 97.9 million to the Group's EBITDA in FY2015 compared to a negative amount in the last year, as operational changes we have been implementing over the last two years started paying off. Our crop yields improved 16-28% y-o-y and production costs per hectare declined as a result of Ukrainian hryvnia devaluation.

FY2016 looks like a milder year: while we expect to continue increasing our crushing volumes, we also anticipate sunflower oil margins to normalize from unusually high levels seen in FY2015. Grain and infrastructure volumes are expected at comparable levels, with comparable profitability in infrastructure and somewhat lower grain export margins. Our farming segment's earnings contribution should resemble the previous year's, with slightly better crop yields offset by increased production costs.

## Segment performance

For sunflower oil, grain and infrastructure, and farming segment performance, see pages 17-22, 23-27 and 28-32, respectively.

## Key market highlights:

- Ukraine's sunflower seed harvest decreased to 10.1 million tons in 2014/15 from 11.1 million tons a year earlier, but ample carryover stocks from the previous year's harvest allowed for high utilization in the first few months of FY2015.
- Both Ukraine and Russia exported record volumes of grain as a result of good harvests: Ukraine delivered 40 million tons of grains and oilseeds, up 4 million tons y-o-y, while Russia sold 32 million tons of grains to export markets.
- The second consecutive year of strong harvests globally continued to push international agriculture prices down in 2014/15, which was fully reflected in farm-gate price levels in Ukraine.



# Financial Performance in FY2015 continued

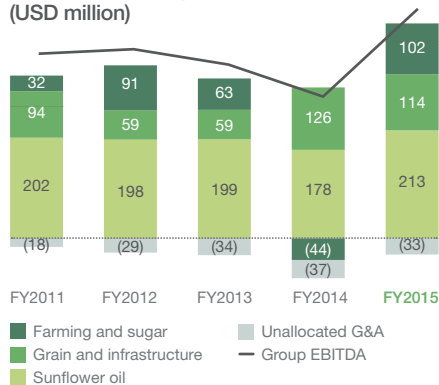
## Income statement highlights

Our EBITDA increased 78% y-o-y to a record USD 396.6 million in FY2015, as our sunflower oil and grain and infrastructure divisions contributed strong earnings, while our farming division improved from a negative contribution last year.

The sunflower oil business' contribution was USD 213.1 million in FY2015, up 20% y-o-y. Our crushing volumes reached an all-time high of 2.5 million tons, with growth of 8% y-o-y reflecting solid carryover stocks from the 2013/14 sunflower seed harvest and robust procurement throughout the 2014/15 season. Our EBITDA margin reached 18% in FY2015, up from 15% a year ago, as competition was subdued because smaller competitors lacked sufficient access to working capital financing.

The grain and infrastructure segments' EBITDA was USD 114.5 million in FY2015, down 9% y-o-y. Our grain sales volumes increased 12% y-o-y to 4.7 million tons, as we boosted internal production and procured more grain from third-party farmers in Ukraine. Export terminals' performance was even better: we increased transshipment volumes by 23% y-o-y, leveraging our growing sales and improved corn handling. Margins in both the grain and export terminals segments were comparable to the previous year. At the same time, silo services' contribution declined y-o-y, with profitability per ton below average levels in FY2015 compared to above average a year ago: dry weather in autumn FY2015 reduced farmers' demand for grain and oilseed drying services and off-farm storage. This was a key element dragging the overall financial performance of grain and infrastructure business down y-o-y.

**Kernel's EBITDA split (USD million)**



Source: Kernel.

1 Hereinafter, segment EBITDA is presented prior to certain unallocated G&A costs

## Income statement highlights

USD million	FY2015	FY2014	y-o-y
<b>Revenue</b>	<b>2,329.5</b>	<b>2,393.3</b>	<b>(3%)</b>
Net IAS 41 loss	(6.8)	(17.1)	(60%)
Cost of sales	(1,810.5)	(1,968.0)	(8%)
<b>Gross profit</b>	<b>512.2</b>	<b>408.2</b>	<b>25%</b>
Other operating income	82.9	60.5	37%
Distribution costs	(198.5)	(262.9)	(24%)
G&A expenses	(68.3)	(77.0)	(11%)
<b>Operating profit</b>	<b>328.3</b>	<b>128.7</b>	<b>2.6x</b>
Finance costs, net	(68.6)	(72.5)	(5%)
Foreign exchange loss, net	(152.9)	(98.8)	55%
Other expenses	(10.5)	(51.8)	(80%)
Share of gain in joint venture	5.1	3.9	30%
<b>Profit/(Loss) before income tax</b>	<b>101.3</b>	<b>(90.4)</b>	<b>n/m</b>
Income tax expenses	(0.4)	(11.4)	(96%)
Loss from discontinued operations	(5.3)	(5.6)	(5%)
<b>Net profit/(loss) attributable to equity holders of Kernel Holding S.A.</b>	<b>106.9</b>	<b>(98.3)</b>	<b>n/m</b>
Non-controlling interest	(11.4)	(9.1)	25%
<b>EBITDA</b>	<b>396.6</b>	<b>223.0</b>	<b>78%</b>

Source: Kernel.

The farming segment's EBITDA contribution turned to positive USD 97.9 million in FY2015 from negative USD 44.3 million a year ago. This huge change in profitability primarily reflected improved crop yields, which were up 16-28% y-o-y as changes in technology we have been implementing over the last two year finally started paying back. Additionally, we benefited from lower production costs as a result of rapid Ukrainian hryvnia devaluation.

For a detailed explanation of operating and financial performance for sunflower oil operations, please refer to pages 17-22 of the report, for grain and infrastructure – pages 23-27, and for farming – pages 28-32.

## Revenues

Our revenues were USD 2,329.5 million in FY2015, down 3% y-o-y. While the Company's sales volumes grew by double digits across most segments, global prices for agricultural commodities declined y-o-y, which was reflected in our revenues and costs of purchased commodities.

## IAS 41 effect

The net change in the fair value of biological assets and agricultural produce amounted to negative USD 6.8 million in FY2015 compared to negative USD 17.1 million in FY2014. This component included a positive gain from revaluing crops in fields to fair value less the cost to sell as of 30 June 2015 and expensing of the respective gain booked a year earlier, as well as a change in the fair value of live animals. These amounts in FY2015 and FY2014 were negative because of downward price trends in global grain and oilseed prices.

## Gross profit

Gross profit came to USD 512.2 million in FY2015, up 25% y-o-y from USD 408.2 million in FY2014, as a result of improved operating performance and devaluation of local currency.

# Financial Performance in FY2015 continued

## Other operating income

Our other operating income amounted to USD 82.9 million in FY2015 compared to USD 60.5 million a year earlier. A major portion of the income (USD 57.4 million in FY2015 vs. USD 35.3 million a year ago) was due to the difference in between the market and official exchange rates for US dollars in Ukraine. The National Bank of Ukraine periodically set the official exchange rate (which is used for accounting purposes to convert our expenses in Ukrainian hryvnias into US dollars, our presentation currency) below the market exchange rate (at which we effectively sell US dollars). As a result, the book value of costs of goods sold in accounts overstates the cash amount paid, while the difference is booked under the other operating income line.

FY2015 other operating income also included USD 10.7 million in state subsidies related to the farming division and USD 7.5 million from cash settlements under contract washouts. For a detailed breakdown, please refer to Note 26 to the financial statements.

## Distribution costs

Distribution costs decreased sharply in FY2015 as Ukrainian hryvnia devaluation (by 48% y-o-y on average) reduced the US dollar value of railway tariffs, which made up a major portion of our distribution expenses. As a result, our distribution costs were down 24% y-o-y and amounted to 8.5% of revenues in FY2015 compared to 11.0% a year ago.

## General and administrative expenses

An 11% y-o-y decrease in general and administrative expenses to USD 68.3 million in FY2015 reflected a combination of 48% y-o-y average Ukrainian hryvnia devaluation on one hand and an increase in variable compensation linked to the achievement of EBITDA minus an interest expenses target.

## Operating profit

As a result of the aforementioned change in EBITDA and a USD 26.0 million y-o-y decrease in the depreciation and amortization charge caused by Ukrainian hryvnia devaluation, profit from operating activities increased 2.6x y-o-y to USD 328.3 million in FY2015, with a margin of 14.1% in FY2015 compared to 5.4% a year ago.

## Financial costs

Financial costs declined 5% y-o-y to USD 68.6 million in FY2015 as a consequence of a decrease in our indebtedness levels. At the same time, we decided to keep abundant liquidity in FY2015 due to political uncertainties in Ukraine, which increased our average cost of financing above typical levels.

## Foreign exchange losses

Foreign exchange losses were USD 152.9 million in FY2015 compared to USD 98.8 million a year ago, with both years' results heavily influenced by Ukrainian hryvnia devaluation: the year-end value of the Ukrainian hryvnia against the US dollar was 44% below the starting level in FY2015, and 32% below the initial value in FY2014. All of the Company's subsidiaries use US dollars as their functional currency, except for the farming, export terminals and silo services enterprises. As a result, devaluation caused USD 73.9 million in foreign exchange losses on their balances and borrowings nominated in foreign currencies in FY2015, most of which are related to intra-group prepayments between enterprises with different functional currencies. Additionally, we revalued prepaid VAT and income tax held in local currency, which led to a loss of USD 78.2 million in FY2015 (vs. USD 71.1 million a year ago).

## Other expenses

Other expenses amounted to USD 10.5 million in FY2015 and reflected mostly a one-off impairment of our domestic trademarks in the premium segment, caused by Ukrainian hryvnia devaluation.

## Share of profit of joint venture

Our share of net income from joint ventures (namely, the Taman grain transshipment terminal in Russia, in which we hold a 50% stake) amounted to USD 5.1 million in FY2015 compared to USD 3.9 million a year ago, as a result of improved profitability of operations.

## Income tax

Income tax expenses amounted to USD 0.4 million in FY2015 compared to USD 11.4 million a year ago, with Ukrainian hryvnia devaluation being the primary reason for the low income tax charge. Our farming operations are exempt from income tax, according to Ukrainian legislation, but are subject to a single agricultural tax, which is booked under cost of goods sold.

## Net profit

As a result, net profit attributable to the shareholders of Kernel Holding S.A. amounted to USD 106.9 million in FY2015, compared to a loss of USD 98.3 million a year ago.

## Dividends

We paid our first dividend of USD 0.25 per share on 30 April 2015, despite adverse financial performance in FY2014. In accordance with the Company's dividend policy of fixed regular dividends, the board of directors recommends the general meeting of shareholders approve a dividend of USD 0.25 per share to be paid during the financial year ending 30 June 2016.

# Financial Performance in FY2015 continued

## Cash flow highlights

### Net cash provided by operating activities

Operating profit before working capital changes was USD 338.7 million in FY2015, compared to USD 195.5 million a year earlier, with the movements explained primarily by the same factors affecting the increase in our EBITDA.

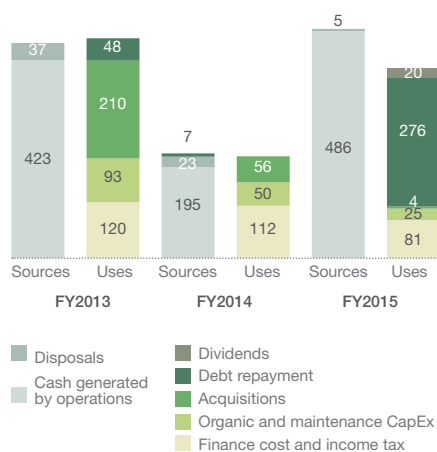
Over FY2015, we released USD 147.4 million of working capital (vs. USD 0.9 million increase a year ago), as working capital requirements decreased following the decline in agricultural commodity prices and the company having lower y-o-y sunflower seed and oil inventories at the end of the period. After accounting for financial and income tax expenses, which were lower y-o-y, net cash provided by operating activities reached a record USD 404.7 million in FY2015, up from USD 82.5 million a year ago.

### Net cash used in investing activities

As we decreased our capital expenditures to a maintenance level in FY2015 and did not make any significant M&A activities, net cash used in investing activities amounted to USD 24.3 million in FY2015, down from USD 83.2 million a year ago.

We used proceeds from operating cash flow to reduce our indebtedness levels and increase our liquidity position.

### Sources and uses of cash (USD million)



Note: Organic and maintenance capital expenditure excludes acquisitions and disposals.  
Source: Kernel.

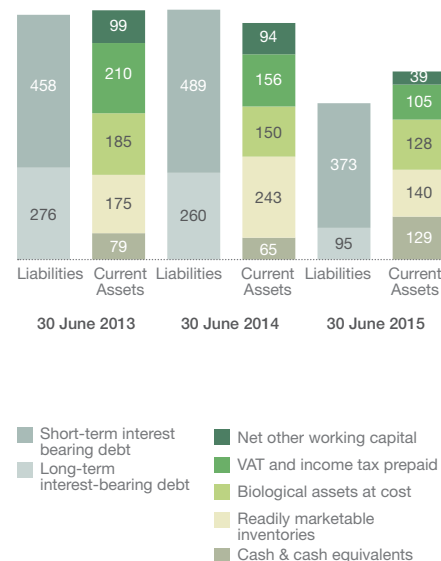
## Credit metric highlights

The opposite table indicates total outstanding short and long-term interest-bearing debt as of 30 June 2015 and 30 June 2014.

Our net debt decreased to USD 339.4 million as of 30 June 2015 compared to USD 684.0 million a year ago, as we used our record operating cash flow to deleverage while capital expenditures were at a maintenance level.

As a result, our net debt to EBITDA ratio decreased to 0.9x as of 30 June 2015 compared to 3.1x a year ago. Adjusted for readily marketable inventories (corn, soybean, wheat, sunflower oil and other that could easily be converted into cash due to their commodity characteristics, widely available markets and international pricing mechanisms), net debt stood at 0.5x as of 30 June 2015 compared to 2.0x a year ago.

### Company's debt vs. working capital (USD million)



Notes: Readily marketable inventories are agricultural inventories such as corn, wheat, barley, soybean, sunflower seed, meal and oil, among others, which are readily convertible into cash because of their commodity characteristics, widely available markets and international pricing mechanism, carried at cost.

Farming work-in-progress represents crop production expenses incurred prior to 30 June. All crops are expected to be harvested within one to four months.

Net other working capital is the sum of trade accounts receivable, prepayments to suppliers and other current assets, other inventories minus trade accounts payable minus advances from customers and other current liabilities.  
Source: Kernel.

### Liquidity position and credit metrics

USD million except ratios	30 June 2015	30 June 2014
Gross interest-bearing debt	468.5	749.4
Cash	129.1	65.4
Net interest-bearing debt	339.4	684.0
Readily marketable inventories	140.1	243.4
Adjusted net financial debt	199.3	440.6
Shareholders' equity	889.6	1,029.7
Net debt / EBITDA	0.9x	3.1x
Adjusted net debt / EBITDA	0.5x	2.0x
EBITDA / Interest	5.8x	3.1x

Source: Kernel.

# Sunflower Oil



Our leadership position in the market allowed us to reach record crush volumes and enjoy a superior crushing margin in an uncertain economic environment.

## Revenues

**\$1,213.7m**  
flat y-o-y

## EBITDA

(before head office expenses allocation)

**\$213.1m**  
+20% y-o-y

### Our business model

As the largest oilseed processor in Ukraine, we produce in excess of 1 million tons of sunflower oil each year, 7% of the world's total. Approximately 90% of output is exported in bulk to India, the EU and the Middle East among other destinations, and about 10% is sold in bottled form in Ukraine or exported. Our business model is margin-driven: we buy sunflower seed from farmers and sell corresponding volumes of sunflower oil and meal through forward contracts in a similar time frame, effectively locking in the margin at the moment of raw materials procurement. With virtually unlimited demand, our business model's success is based on scale, origination capabilities, operational efficiency and prudent risk management.

### FY2015 performance

Our sunflower seed crushing volume reached a record 2.5 million tons, up 8% y-o-y, as our established position as market leader allowed us to capture a higher market share in FY2015. As a result, sunflower oil sales in bulk were up 12% y-o-y to 1.0 million tons and bottled sunflower oil sales increased 5% y-o-y.

Regardless of international sunflower oil prices that were lower y-o-y, our profitability increased in FY2015, as smaller competitors lacked access to sufficient working capital and reduced their procurement and aggressiveness. In consequence, crushing margins increased sector-wide, and our sunflower oil sales in bulk segment's EBITDA margin improved to USD 187/ton in FY2015 compared to USD 164/ton a year ago.

Our retail sales of sunflower oil were up 5% y-o-y in FY2015, as we increased export deliveries amid falling domestic purchasing power.

In total, our sunflower oil business contributed USD 213.1 million in EBITDA in FY2015, up 20% y-o-y.

### FY2016 outlook and strategy

The combination of a 5% capacity increase at our plants and a recent agreement to toll 200,000 tons of capacity at a third-party plant will allow us to increase our crushing volume to around 2.7 million tons in FY2016 vs. 2.5 million tons in FY2015. At the same time, we expect our crushing margin to normalize from last year's unusually high levels.

Our mid-term strategy targets remain unchanged: consolidation of the oilseed crushing industry in Ukraine and continuous operational excellence.

# Sunflower Oil continued

## Key market trends:

- International edible oil prices declined in 2014/15 by 10-20% y-o-y. The sunflower oil price also declined, but only by 7% y-o-y on average, as the decrease in global production made it a scarcer product and sunflower oil started trading at a premium to alternative soybean and rapeseed oils.
- The sunflower seed harvest in Ukraine was 10.1 million tons in 2014/15, down from 11.1 million tons a year ago. As a result, crushing volumes decreased toward the end of the season.

The armed conflict in Eastern Ukraine forced several competitors' plants to close down or operate with disruptions. At the same time, one new plant opening and full-rate production at a few others, which were launched in the middle of the previous season, brought the total industrial crush capacity to an estimated 12 million tons of sunflower seed per year.

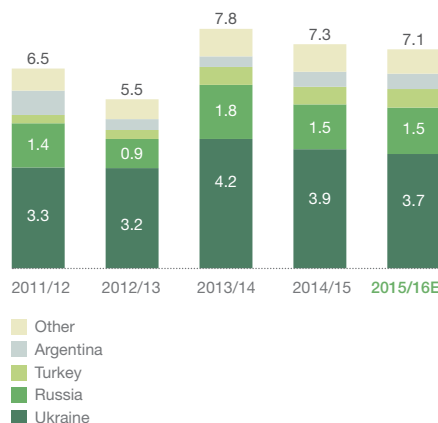
The sunflower seed crushing margin varied widely, reaching high levels in the winter months when working capital peaks and bargaining power was in the hands of those with capital liquidity, and low levels toward the end of the season when availability of sunflower seed declined and competition intensified.

## Our markets

### Global edible oils market trends

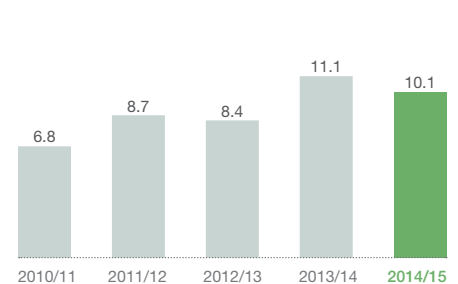
Record-high beginning stocks and strong production of edible oils globally further pressured international prices in 2014/15, with the soybean and rapeseed oil price declining by 15-20% from the previous season's levels. At the same time, poorer weather conditions resulted in a lower sunflower seed harvest globally, which made sunflower oil the only edible oil to decline in production. As the product became relatively scarce, sunflower oil started trading at a premium to soybean and rapeseed oils, and its price decline of 7% on average was lower than for other vegetable oils. During the season, sunflower oil's Black Sea FOB price fluctuated within the range of USD 730-900 per ton.

Global sunflower oil exports  
(million tons)



Source: USDA, September 2015.

Sunflower seed harvest in Ukraine  
(million tons)



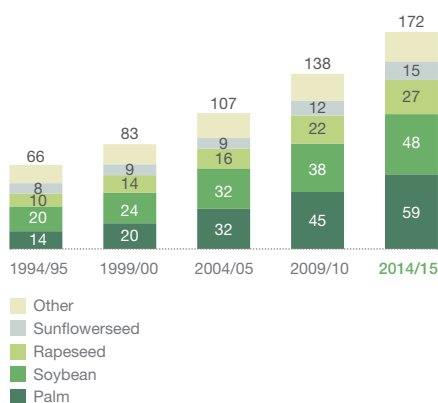
Source: State Statistics Service of Ukraine.

## Outlook

Competition is expected to intensify in FY2016. On the supply side, field data indicates Ukraine will deliver a new record sunflower seed harvest this autumn, with 2015/16 crop estimated in the range of 11-12 million tons, up from 10.1 million tons a year ago. On the demand side, the launch of new oilseed crushing capacity and return of some plants that were underutilized last season will offset an increase in crop size.

2016/17 sunflower seed crop prospects look even better: weak winter wheat plantings this autumn is likely to result in an increase in acreage under spring crops. And sunflower seed, which is the most profitable among spring crops this current season, is likely to capture a significant portion of the spring crops' growth in acreage.

Global consumption of vegetable oils  
(million tons)



Source: USDA, September 2015.

Ukraine was the largest supplier of sunflower oil globally, with its share in international exports at 53% in 2014/15, based on USDA data.

### Sunflower seed processing in Ukraine

The sunflower seed harvest<sup>1</sup> amounted to 10.1 million tons in 2014/15 (harvested in September-October 2014), down from 11.1 million tons a year ago, as a drought in the central and southern regions of Ukraine harmed crop yields while acreage was unchanged. The lower harvest volume resulted in lower crush toward the end of the season, though most of the decline was absorbed by small crushers.

99% of the sunflower seed harvest was crushed domestically to produce 4.4 million tons of sunflower oil in 2014/15, of which 3.9 million tons were exported.

<sup>1</sup> Sunflower seed harvest data by the State Statistics Service of Ukraine.



# Sunflower Oil continued

## Our business model

### Market leader in oilseed crushing

With nine oilseed crushing plants with a total processing capacity of 3.0 million tons of sunflower seed per year, Kernel is the largest oilseed crusher in the Black Sea region. Our production plants are located across the sunflower seed belt in Ukraine (92% of our capacity) and southern Russia (8%). The close proximity of our crushing plants to sunflower seed production ensures the high utilization and profitability of our assets because the low density of sunflower seed prohibits its transportation to distant regions: most sunflower seed we buy is originated within 150-200 km of our plants.

The industrial-scale of our crushing plants, all of which were constructed or fully modernized within the last twelve years, along with a continuous exchange of best practices ensures we have a processing cost advantage to other peers. Our scale also allows us to benefit from more efficient usage of our country-wide origination network and other fixed cost allocations over larger volumes.

### Prudent risk management

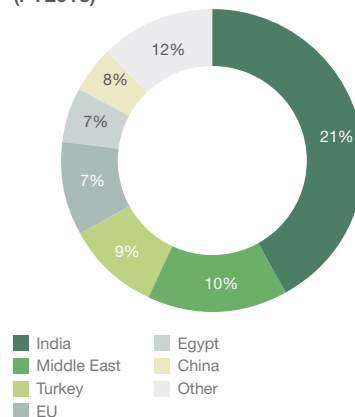
Our business model is margin-driven: we sell sunflower oil and meal through forward contracts in a similar time frame as we buy sunflower seed from farmers, essentially locking in the margin at the time of procurement. Although sunflower seed prices in Ukraine closely correlate with the international price of sunflower oil, because more than 80% of the country's sunflower oil production is exported, our 'balanced book' policy is essential to minimizing the impact of unexpected movements in global commodity prices.

We also mitigate counterparty risk as we sell only either against credit letters from international banks or to top recognized global traders within strictly monitored limits.

### Exports dominate the sales structure

Out of the 1.1 million tons of sunflower oil we typically produce, we export approximately 1.0 million tons in bulk and sell the rest as bottled product, primarily to the domestic market. India, a top importer of edible oils in the world<sup>3</sup>, is the main destination for our sunflower oil. The Middle East and North Africa are the next most important markets for our sunflower oil by volume. Overall, 80% of our sunflower oil is delivered to countries that we classify as growth markets (the World Bank expects the population there to grow by 10% or more within the next ten years).

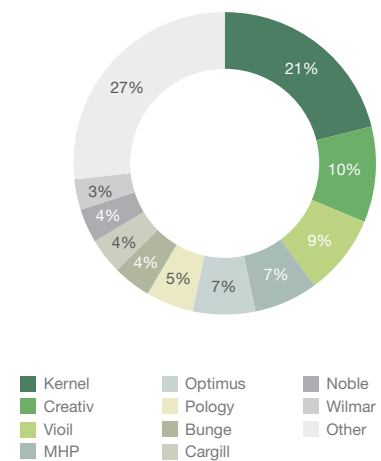
**Sunflower oil exports by destination (FY2015)**



Source: Kernel.

Up to 10% of our total sunflower oil production is bottled in Ukraine and sold under three of our own brands and private labels in Ukraine (70% of total) or exported. Together, our brands account for approximately 30% of the market in Ukraine, with this leadership position allowing us to obtain a relatively higher sales price. Over the long-term, our bottled oil business contributes approximately a 2 percentage points higher margin compared to sales in bulk and is counter-cyclical to international sunflower oil price movements.

**Sunflower seed industrial crushing capacity in Ukraine (million tons)**



Source: Kernel.

## Sunflower seed crushing products

### Sunflower oil

An edible oil rich in Omega-3 and Omega-6 acids. A traditional vegetable oil of choice for many regions of the world, sunflower oil is used only for culinary purposes, primarily for salad dressing and frying.

One ton of sunflower seed yields approximately 44% sunflower oil.

### Sunflower meal

A by-product of the crushing process, sunflower meal is a protein-rich livestock feed. Used for compound feed production for the pork, cattle and poultry industries, it is the third most important meal globally, after soybean and rapeseed.

One ton of sunflower seed yields approximately 39% sunflower meal.

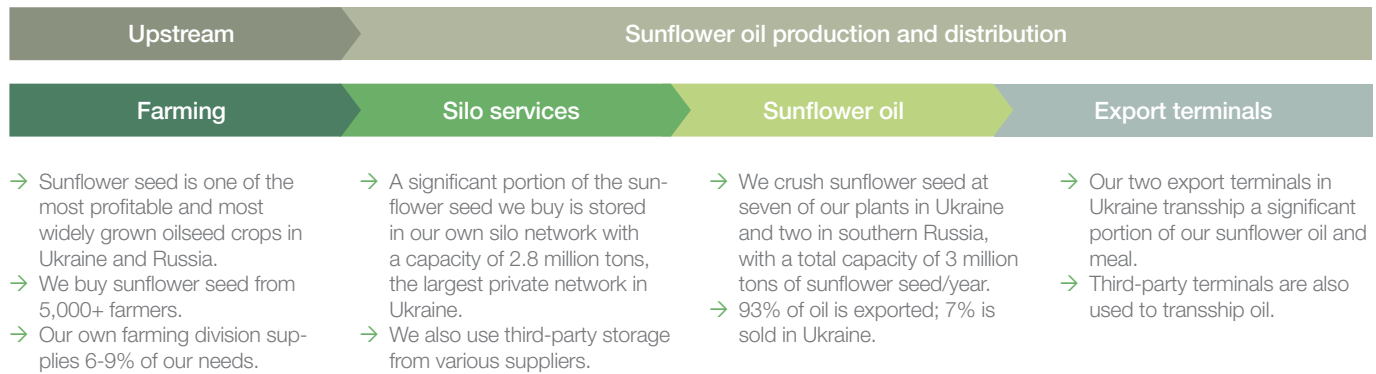
### Sunflower hulls

Before processing, sunflower seeds are dehulled. These hulls are burned at boilers on site at our crushing plants to produce steam and/or electricity. Excessive quantities of hulls are pelletized and sold to co-generation power plants.

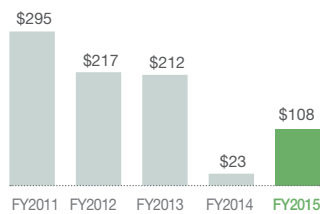
One ton of sunflower seed yields approximately 17% sunflower hulls.

# Sunflower Oil continued

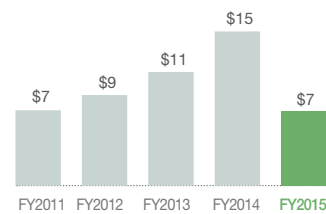
## Value chain



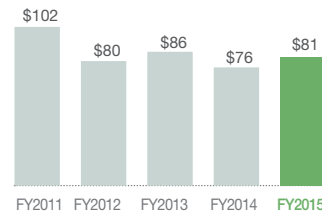
EBITDA, USD/ton  
of sunflower seed grown



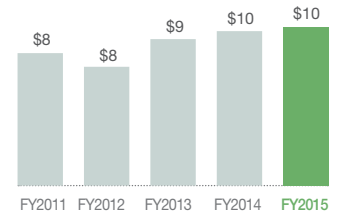
EBITDA, USD/ton  
of silo throughput



EBITDA, USD/ton  
of sunflower seed crush



EBITDA, USD/ton  
of export terminal throughput



Note: EBITDA per ton of sunflower seed grown represents management accounts for our own crop production. Other margin data represents historical EBITDA/ton earned by the Company's segments, average for all types of crops, locations and groups of customers.  
Source: Kernel.

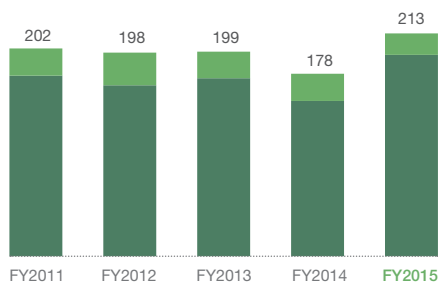
# Sunflower Oil continued

## Financial performance

We report our sunflower oil business under two segments: sunflower oil sales in bulk and bottled sunflower oil.

The total EBITDA contribution of the two segments reached USD 213.1 million in FY2015, up 20% y-o-y, as we increased our crushing volumes and achieved a high crushing margin during the period under review.

### Sunflower oil business' EBITDA (USD million)



■ Bottled sunflower oil  
■ Sunflower oil sold in bulk

Source: Kernel.

### Sunflower oil sold in bulk

Revenue from the sunflower oil sold in bulk's segment increased 2% y-o-y to USD 1,099.7 in FY2015. On the volumes side, 8% growth in our sunflower seed crush volume was the result of higher beginning sunflower seed stocks and several competitors' closing down. On the other side, strong oilseed production globally resulted in a decline in international edible oil prices, with sunflower oil declining by 7% on average compared to the previous year.

The segment's EBITDA amounted to USD 192.6 million in FY2015, 27% growth compared to a year ago, with EBITDA per ton of sunflower oil up to USD 187 in FY2015 compared to USD 164/ton a year ago. The closure of several plants in the east of Ukraine and lower access to working capital for small oilseed crushers improved the industry's crushing margin during the peak of the procurement season.

### Sunflower oil segments' performance

Sunflower oil sold in bulk		FY2015	FY2014	y-o-y
Revenue	USD million	1,099.7	1,079.0	2%
EBITDA	USD million	192.6	151.2	27%
Volumes sold	thousand tons	1,030.2	920.3	12%
Revenue per ton	USD/ton	1,067.4	1,172.5	(9%)
EBITDA per ton	USD/ton	186.9	164.3	14%
EBITDA margin	%	17.5%	14.0%	3.5pp
Bottled sunflower oil		FY2015	FY2014	y-o-y
Revenue	USD million	114.1	132.6	(14%)
EBITDA	USD million	20.5	26.6	(23%)
Volumes sold	million liters	98.9	94.4	5%
Revenue per thousand liters	USD/thousand liters	1,153.1	1,405.6	(18%)
EBITDA per thousand liters	USD/thousand liters	207.7	282.2	(26%)
EBITDA margin	%	18.0%	20.1%	(2.1pp)
<b>Sunflower oil total EBITDA</b>	<b>USD million</b>	<b>213.1</b>	<b>177.8</b>	<b>20%</b>

Source: Kernel.

### Bottled sunflower oil

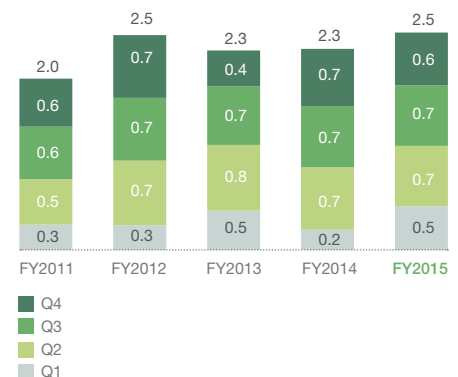
Bottled sunflower oil revenue was down 14% y-o-y to USD 114.1 million in FY2015, as a result of lower selling prices and the segment's EBITDA declined to USD 20.5 million in FY2015 compared to USD 26.6 million a year ago.

Rapid Ukrainian hryvnia devaluation of almost 50% against the US dollar in FY2015 was a key reason for the decline in the segment's profitability, since approximately 70% of the segment's sales are domestic. While any change in the currency exchange rate or the international price of sunflower oil is eventually passed through to consumers, it takes a couple of months to transmit the external factors to the shelf price, which results in short-term fluctuations in profitability. Consequently, our bottled sunflower oil segment's EBITDA margin declined 2 percentage points y-o-y to 18% in FY2015, a level comparable to our sunflower oil sales in bulk.

### FY2016 outlook

We expect to increase sunflower seed crush volumes in FY2016 regardless of intensifying competition. Though our first quarter volumes were down by almost 100,000 tons y-o-y, our full year crush is expected at 2.7 million tons vs. 2.5 million tons a year ago, reflecting a 5% capacity increase and the signing of a tolling agreement to crush 200,000 tons at a third-party plant. Crushing margins are expected to normalize from unusually high levels seen last year.

### Sunflower seed crushing volumes (million tons)



Source: Kernel.

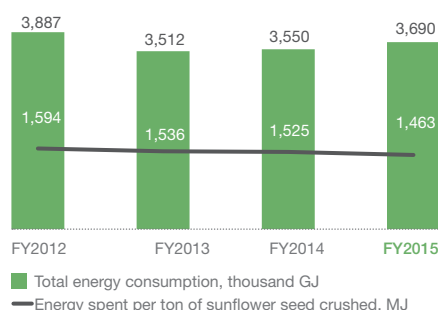
# Sunflower Oil continued

## Non-financial performance

### Health and safety

There were no fatal accidents at our sunflower oil production facilities in FY2015 (there was one fatality in FY2014). Overall, there were two work-related injuries at our sunflower oil plants in the year under review, compared to three incidents a year ago. Each of our production facilities has a dedicated health and safety specialist, who ensures that workplaces comply with safety requirements; all workers are equipped with coveralls and receive proper health and safety training. Over the last year, our specialists underwent training under OHSAS 18001 requirements and launched the identification and mapping of hazard risks as a step toward improving the preventative portion of our health and management system. For more details on our health and safety performance, please refer to page 42 of this report.

### Sunflower oil segments' energy consumption and energy intensity ratio



Source: Kernel.

### Employee training and development

During the financial year ended 30 June 2015, we launched a dedicated management training program for our sunflower oil division. A total of 30 managers were selected to go through this two-year module-based education program aimed at developing general business skills and competencies. With a total of 186 hours of formal learning, additional time for supplementary activities and a diploma project, this educational program is designed to resemble executive business administration courses, adjusted for specific local needs.

Our graduate recruitment program, which was initially focused on our farming division, was also expanded to the sunflower oil business in FY2015. See more details on page 41.

### Energy consumption and emissions intensity

Our energy consumed per ton of sunflower seed crush decreased slightly in FY2015, as we managed to increase the fuel burning efficiency at boilers installed at our production plants. At the same time, total energy consumption increased because of growth in the volumes of sunflower seed crush. During the year, we also benchmarked fuel efficiency at several of our plants to global practices, revealing that our steam and electricity consumption is in line with the low end of the international range.

All but one of our oilseed crushing plants use sunflower seed husk, a waste by-product of processing, as a key energy source to produce the steam required for production. A new sunflower-seed husk boiler was launched in autumn 2015 at the last plant that used natural gas.

### Product safety

93% of our sunflower oil products produced in FY2015 were produced at facilities certified in accordance with ISO 22000 standards, which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application procedures developed by the Codex Alimentarius Commission. In addition, bottling facilities are certified under the FSSC 22000 standard, and all production plants are certified under ISO 9001. We also ensure control over food safety along the protein meal production and distribution value chain: production facilities are certified under GMP+B1, our truck company is certified under GMP+B4, and transshipment and freight chartering is certified under GMP+B3.

During the last financial year, one of our laboratories was also accredited under the ISO 17025 standard, which will allow us to increase the scope of analysis that we conduct internally.

For more details on our health and safety, employee training and development, energy consumption and other sustainability performance and approaches, please refer to pages 38-53 of this report.

# Grain and Infrastructure



As the Black Sea region continues to grow its global market share in grains, so do we: our grain export volumes were up along with utilization of our export-focused infrastructure.

## Revenue

**\$1,150.9m**  
-2% y-o-y

## EBITDA

(before head office expenses allocation)

**\$114.5m**  
-9% y-o-y

### Our business model

Our grain and infrastructure segment links Ukrainian and Russian farmers with global markets. Our 2.8-million-ton silo services network provides essential grain drying, cleaning and storage services to third-party farmers and to our own farming division. A significant portion of grain stored in our silos, and at others, is bought by our grain marketing division for resale to international markets. This grain is further delivered to our two deep water grain export terminals on the Black Sea, where it is transhipped on vessels and sold to international off-takers.

### FY2015 performance

An increase in the harvest level from our own farming division and strong grain supply from third-party farmers were the key reasons behind the 12% growth in grain sales volumes, which reached 4.7 million tons in FY2015. The margin was firm, at EBITDA of USD 13/ton in FY2015, comparable with the previous year.

Export terminals' performance followed the dynamics of the grain segment, with volumes reaching 4.8 million tons in FY2015 and 23% growth y-o-y outpacing grain sales as a higher share of grain exports went through our own terminals. The EBITDA margin from the export terminals' segment was essentially unchanged y-o-y at USD 10/ton of throughput.

At the same time, the silo services segment's performance lagged, as the dry weather during autumn harvesting reduced demand for off-farm storage and grain drying services. As a result, silo services' EBITDA was below average, at USD 7/ton, and capacity utilization decreased compared to a year ago.

In total, our grain and infrastructure segments contributed USD 114.5 million in EBITDA in FY2015, down 9% y-o-y.

### FY2016 outlook and strategy

In FY2016, we aim to keep our grain exports at similar levels to a year ago, with a decrease in origination in Ukraine to be compensated by a slight increase in our own farming production and increase in exports from Russia, where we completed a 0.5-million-ton capacity expansion at the Taman export terminal facility. Export terminals' throughput is expected to be similar to grain exports, while silo services' throughput is likely to increase by about 10% y-o-y.

Looking further, we continue to believe that Ukraine and Russia are one of the few regions in the world that can materially increase grain production, and that increase in crops will be exported. Through continued development of existing port capacity, we aim to nearly double our grain export within several years.



# Grain and Infrastructure continued

## Our markets

### Ukraine's grain production and exports in 2014/15

Ukraine's grain harvest reached a record 64 million tons in 2014/15, up from 63 million a year ago. The increase was primarily driven by good crop yields for early crops, wheat and barley, with their harvest up y-o-y regardless of a decrease in acreage of almost 10%. At the same time, the corn harvest declined as a result of a combination of lower acreage and crop yields, which suffered due to a drought in central regions.

Combined with a decrease in domestic consumption, grain exports from Ukraine increased to 35 million tons in the 2014/15 marketing season compared to 32 million tons a year ago. Corn remained the main export crop, with export supplies unchanged y-o-y at almost 20 million tons in 2014/15. Wheat exports were up to 11 million tons in 2014/15 compared to 9 million tons a year ago and barley exports increased by 2 million tons y-o-y to about 4.5 million tons in 2014/15.

The increase in the grain harvest boosted export terminals' capacity utilization across Ukraine. At the same time, off-farm grain storage capacity utilization went down because of dry weather during autumn harvesting, which significantly reduced farmers' need to dry grain and thus allowed them to reduce costs by using on-farm storage.

### Russia's grain production and exports in 2014/15

The total grain harvest in Russia increased 13% y-o-y to 104 million tons in 2014/15, with wheat, a major crop in the country, adding 7 million tons, and barley contributing an additional 5 million tons to the country's crop. As a result, Russia increased its grain export to 32 million tons in 2014/15 from 26 million tons a year ago. While domestic consumption growth was moderate, the increase in the harvest was not fully transmitted into export volumes and resulted in an increase in the country's carryover stocks. The major reasons were temporary export restrictions in the winter of 2014/15 and the subsequent introduction of a relatively high wheat export duty that barred farmers from delivering their full stocks to export markets.

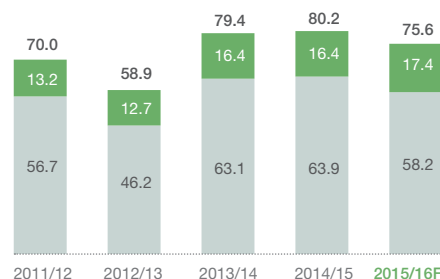
### Markets outlook

At the moment of this report's preparation, the total grain harvest in Ukraine in the 2015/16 marketing season was forecasted at 58 million tons, which should result in a grain export surplus of 32 million tons, 3 million tons down y-o-y. In Russia, the 2015/16 season's grain harvest is estimated at 101 million tons, which, combined with higher carryover stocks, is expected to translate into grain exports of 33 million tons, flat y-o-y.

## Key market trends:

- Another year of strong grain production globally has put further pressure on global prices: corn was down 18% y-o-y on average in Black Sea ports.
- Ukraine's grain harvest reached a record 64 million tons, resulting in new historic high exports of 35 million tons. Export terminals' utilization increased, while demand for silo services was lower due to dry weather in autumn.
- Russia's grain harvest was up 13% y-o-y to 104 million tons, and exports reached 32 million tons in 2014/15 amid grain export duties introduced by the government.

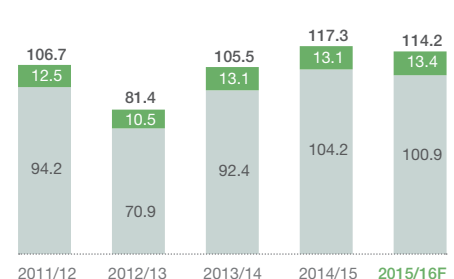
Grain and oilseed production in Ukraine (million tons)



Oilseeds  
Grains

Source: State Statistics Service of Ukraine, APK-Inform forecasts.

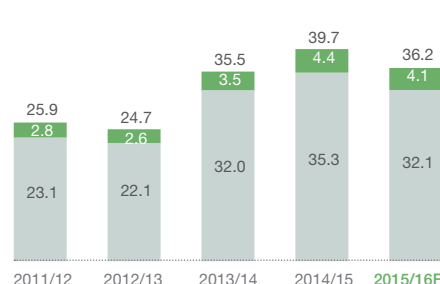
Grain and oilseed production in Russia (million tons)



Oilseeds  
Grains

Source: Russian Federation Federal State Statistics Service, APK-Inform forecasts.

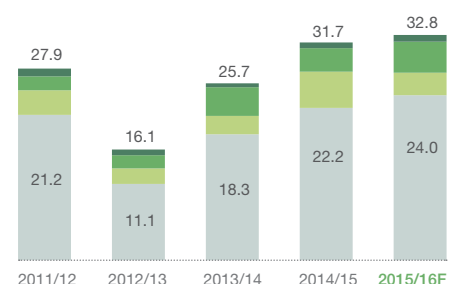
Ukraine's grain and oilseed exports (million tons)



Oilseeds  
Grains

Source: APK-Inform.

Russia's grain and oilseed exports, by crop (million tons)



Other  
Corn  
Barley  
Wheat

Source: APK-Inform.

- 1 Sunflower seed harvest data by the State Statistics Service of Ukraine.
- 2 Sunflower oil production and export data by APK-Inform.

# Grain and Infrastructure continued

## Our business model

Our grain and infrastructure business consists of three parts: silo services, grain marketing, and export terminals. All are interdependent and serve as a supply chain connecting Ukrainian and Russian farmers with international markets.

### Silo services

We own a network of 2.8 million tons of inland grain storage capacity distributed across production regions in Ukraine. These silos provide grain cleaning, drying and storage services to our own farming division and third-party farmers nationwide. Further to the services provided, the silo network serves as a critical origination tool, enabling our procurement team to buy grains and sunflower seed from farmers.

Being an infrastructure type of business, the silo services segment boasts a consistently high EBITDA margin and a significant barrier to entry because of high capital expenditure requirements.

### Grain marketing

Each year we supply almost 10% of grain exported from Ukraine and Russia to international markets. With last year's grain export volumes reaching 4.8 million tons, approximately 1.4 million tons were produced at our own farming division, and 3.4 million tons were bought from thousands of farmers. With our infrastructure serving as a core for origination, our scale, access to relatively cheap financing and prudent risk management are critical capabilities in this low-margin, high-volume business. As with sunflower seed processing, we are averse to commodity price risk in this division and follow a 'balanced book' policy: we sell grain through forward contracts in similar time frames as when we buy it from farmers on the spot market.

Our crop structure and destination mix is comparable to the traditional export distribution for Ukraine and Russia. Corn dominates Ukrainian exports, with wheat and barley also significant, while wheat is a core export crop in Russia. North Africa and the Middle East are typical destinations for the Black Sea's wheat, while corn is primarily exported to the EU, North Africa and the Far East.

### Export terminals

We own a grain export terminal in the port of Ilichevsk, which is located on the Black Sea coast in Ukraine. Its annual transshipment capacity stands at 4 million tons. In Russia, we own a 50% stake in the Taman grain transshipment facility, one of the few grain export terminals on the coast of the Black Sea. Our share of its capacity stands at 1.5 million tons in FY2015 and will increase to 2.0 million tons as of FY2016 as a result of recent expansion. Both ports are deep water facilities able to load Panamax vessels with deadweight of up to 70,000 tons: these large ships provide materially cheaper transportation than 3,000-10,000 ton vessels loaded at shallow water ports.

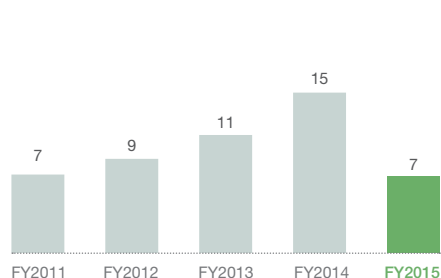
As with the silo services business, our export terminals' segment enjoys consistently high margins in excess of 50%, with a high cost of entry being the primary reason for this performance.

## Strategy

It is our belief that the Black Sea region is one of a few globally that can materially increase grain production. Both Ukraine and Russia possess vast agricultural territory within close proximity to the Black Sea and developed infrastructure to deliver grain to ports. At the same time, farmers' productivity remains far behind of that of developed markets, which can allow farmers to grow output at a faster pace than in many other countries. Furthermore, with domestic grain consumption essentially flat both in Ukraine and Russia, growth in the crop harvest can be fully translated into an increase in export.

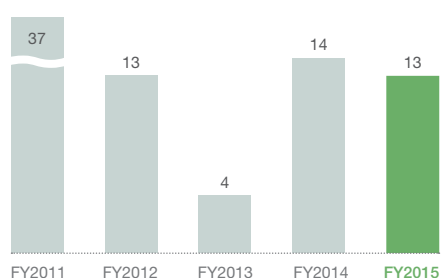
Our mid-term target is to reach grain exports of 6 million tons per year. To achieve this, we have invested in the expansion of the transshipment capacity at both our Ukrainian and Russian ports, which together should add approximately 1 million tons per year to export terminals and grain marketing throughput within the next two years. Looking further, we aim to scale our business model by doubling our port capacity and grain origination in Ukraine, while preserving the pillars of our business model: focusing on margins, a balanced book policy and scale.

**Silo services EBITDA**  
(USD/ton)



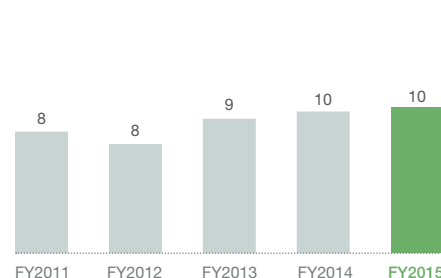
Source: Kernel.

**Grain segment EBITDA**  
(USD/ton)



Source: Kernel.

**Export terminals EBITDA**  
(USD/ton)



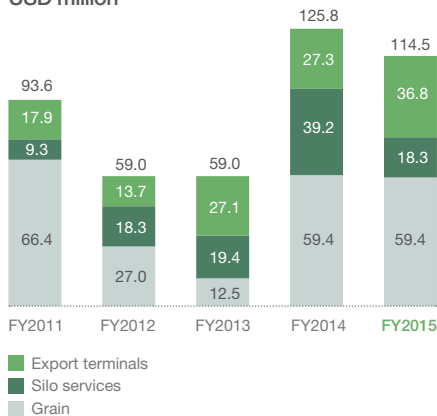
Source: Kernel.

# Grain and Infrastructure continued

## Financial performance

Our grain and infrastructure business is reported under three segments: silo services, grain, and export terminals. The total EBITDA of these segments reached USD 114.5 million in FY2015, down 9% from a record-high the previous year, as volumes were up for grain marketing and export terminals, but silo services' contribution was negatively affected by the dry weather.

**Grain and infrastructure EBITDA contribution, USD million**



Source: Kernel.

### Silo services

Revenues from silo services were down 43% y-o-y to USD 42.4 million in FY2015, and the segment's EBITDA decreased twice y-o-y to USD 18.3 million in FY2015. Dry weather during autumn 2014 significantly reduced demand for grain drying services, the most profitable service provided by the silo division, and decreased farmers' use of off-farm storage. This affected both the profitability and volumes of our silo services' segment, though our total silo throughput was only down 2% y-o-y because we increased storage and intake capacity at our facilities compared to a year ago.

### Grain

Our grain exports reached 4.7 million tons in FY2015, up 12% from a year ago. This growth was driven by an increase in grain production by our own farming division, as well as by an increase in origination in Ukraine driven by the country's harvest volume increasing. At the same time, the segment's revenues were virtually unchanged compared to the previous year, at USD 1,053.3 million in FY2015, because of decreases in international grain prices. The average EBITDA margin was firm at 6% in FY2015, same as a year ago, but declined slightly in absolute terms. Consequently, the segment's EBITDA was unchanged y-o-y at USD 59.4 million as a result of lower prices globally amid higher sales volumes.

### Export terminals

Export terminals' throughput was up 23% y-o-y to 4.8 million tons in FY2015, as we increased the share of grain export transshipped through our own terminals after de-bottlenecking corn handling at our facilities, and our grain export showed firm growth in Ukraine. In Ukraine, our revenues were up 22% y-o-y to USD 55.3 million in FY2015 as a consequence of 31% growth in transshipped volumes. The segment's EBITDA was USD 10 per ton in FY2015, almost unchanged compared to a year ago, as some of the decline in transshipment fees was compensated by a decrease in G&A costs due to Ukrainian hryvnia depreciation. Consequently, the segment's EBITDA, which reflects Ukrainian operations, increased 35% y-o-y to USD 36.8 million in FY2015. In Russia, where we operate a grain export terminal through a joint venture and report contribution under the equity method, we delivered 3% y-o-y growth in volumes transshipped amid the fact that the government introduced an export duty and restricted export goods flow for a certain period of the season. The net contribution from this joint venture amounted to USD 5.1 million in FY2015, compared to USD 3.9 million a year ago.

### FY2016 outlook

With Ukraine's total grain export forecasted to decrease by about 10% y-o-y in 2015/16, we also expect to export less third-party grain from Ukraine. At the same time, higher planted acreage combined with solid crop yields will increase our own harvest export supplies from Ukraine, while the recent completion of at the Taman grain transshipment facility expansion positions us well to achieve growth in export volumes from Russia. Combined, we aim to keep our annual exports at similar levels to a year ago, with a somewhat lower margin compared to the previous year. Export terminals' throughput should be within a similar range and have a stable margin. At the same time, silo services' contribution is likely to be below average, as we expect dry weather during autumn for the second year in a row, which will reduce farmers' demand for grain drying and off-farm storage. Therefore, silo service volumes should grow by only about 10% y-o-y.

### Grain and infrastructure segments' performance

Grain		FY2015	FY2014	y-o-y	
Revenue	USD million	1,053.3	1,053.6	(0%)	
EBITDA	USD million	59.4	59.4	(0%)	
Volumes sold	million tons	4.7	4.2	12%	
Revenue per ton	USD/ton	222.0	248.3	(11%)	
EBITDA margin	USD/ton	12.5	14.0	(11%)	
EBITDA margin	%	5.6%	5.6%	(0.0pp)	
Export terminals		FY2015	FY2014	y-o-y	
Revenue	USD million	55.3	45.5	22%	
EBITDA	USD million	36.8	27.3	35%	
Throughput volumes¹	million tons	3.6	2.8	31%	
Revenue per ton	USD/ton	15.1	16.3	(7%)	
EBITDA margin	USD/ton	10.1	9.8	3%	
EBITDA margin	%	66.6%	60.1%	6.5pp	
Silo services		FY2015	FY2014	y-o-y	
Revenue	USD million	42.4	74.5	(43%)	
EBITDA	USD million	18.3	39.2	(53%)	
Throughput volumes	million tons	2.5	2.6	(2%)	
Revenue per ton	USD/ton	16.8	28.8	(42%)	
EBITDA margin	USD/ton	7.3	15.1	(52%)	
EBITDA margin	%	43.2%	52.6%	(9.4pp)	
Grain and infrastructure total EBITDA		USD million	114.5	125.8	(9%)

<sup>1</sup> Volumes exclude transshipment through the Taman facility, which is owned via a joint venture and accounted for under equity method of accounting.

Source: Kernel.

# Grain and Infrastructure continued

## Non-financial performance

### Health and safety performance

Tragically, there was one fatality at our truck company last year. Overall, there were 11 work-related injuries in our grain and infrastructure business, compared to 7 a year ago. As a part of a group-wide initiative to align our health and safety management practices with OHSAS 18001 standards, we trained our health and safety specialists under these standards last year and launched comprehensive hazard risk identification and mapping. For more details on our health and safety performance, please refer to page 42 of this report.

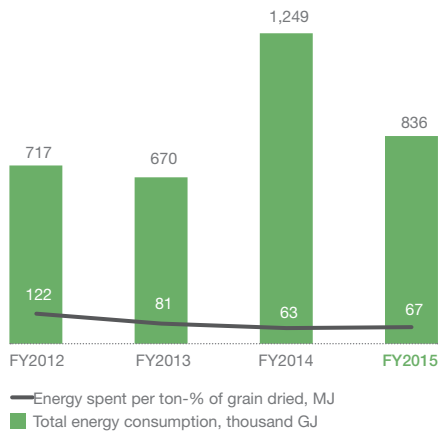
### Employee training and development

In addition to our regular activities to train and develop our personnel, we launched a dedicated corporate MBA for the middle management of our grain and infrastructure segments. The two-year part-time program consists of a mix of case studies, lectures and team projects, taught and led by lecturers who also teach at certified MBA programs. See more details on page 41.

### Energy consumption and emissions intensity

Our energy consumption within the grain and infrastructure segments declined 33% y-o-y to 836,000 gigajoules in FY2015, mainly as a result of dryer weather conditions during autumn. Grain drying is the most energy-intensive part of this segment, and dryer weather led to lower demand from farmers for this service. At the same time, energy intensity remained similar to the previous year, with 67 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 63 megajoules a year ago. For full group disclosure of energy consumption, emissions and intensity ratios, see page 48 of this report.

### Grain and infrastructure energy consumption and energy intensity ratio



Source: Kernel.

# Farming



Our farming division delivered strong 16-28% y-o-y growth in crop yields, reduced production costs and improved its earnings contribution.

## Revenue

**\$310.4m**

+7% y-o-y

## EBITDA

(before head office expenses allocation)

**\$97.9m**

vs. a loss year ago

### Our business model

We grow grains and oilseed on 390,000 hectares of leasehold farmland in the central and western regions of Ukraine, producing almost two million tons of crops each year. Our crop mix is 40-50% corn, 10-20% winter wheat, 15-20% sunflower seed, and 15-20% soybean. We do large-scale farming, utilizing the largest available machinery in the world and with farms that are approximately 100 times larger than the US average farm and about 1,000 times the size of a typical farm in the EU. As crops are harvested, we process them through our supply chain to earn additional profits: grain is stored in our silos and transshipped through our export terminals for sale to export markets, while sunflower seed is also processed at our crushing plants.

### FY2015 performance

Our FY2015 harvest was the first to reflect changes in technology and management we have been implementing over the last two years. Our crop yields increased 16-28% y-o-y and reached a 15-25% premium to Ukraine's average in FY2015. At the same time, production costs per hectare decreased due to the devaluation of the Ukrainian hryvnia and dryer weather conditions during harvesting. While the segment's performance was undermined by a low level of agricultural prices globally, our farm-

ing business' EBITDA amounted to USD 97.9 million in FY2015, up from negative USD 44.3 million a year ago. Furthermore, as our harvest went through our silos, export terminals and processing plants, it added USD 37.8 million to these segments' EBITDA<sup>1</sup>.

### FY2016 outlook and strategy

Our farming division made another step toward improving productivity, which will be evident in a new record yield of oilseed crops that accounted for approximately 40% of our acreage. However, the weather was less favorable this year, with a drought in August having a negative impact on our corn and soybean yields in the western regions of Ukraine. As a result, our average corn yield will only be at a level comparable to the previous season. Overall, the contribution of our farming division is expected to be comparable to the previous year, as the impact negative weather impact on grain crops is mitigated by solid profitability of oilseed crops.

Looking forward, further improvements in productivity remain the key focus of our strategy: we are investing in training and better technology, while our balanced fertilization is gradually improving the quality of the soils we farm.

<sup>1</sup> Based on arm-length average prices in FY2015.



# Farming continued

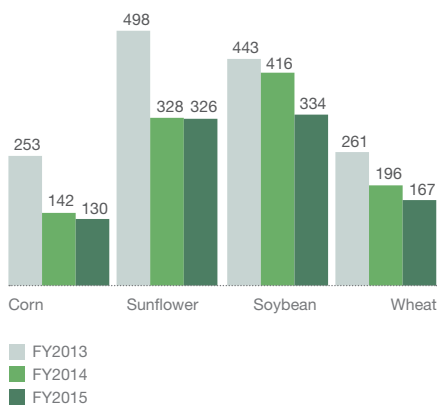
## Our markets

As we sell our crops to international markets, our selling prices follow global trends. The second consecutive year with strong global grain production has resulted in an increase in carryover stocks of wheat and coarse grains. The increase in stocks and US dollar strengthening against currencies of major food exporters put downward pressure on international grain prices.

Additionally, the robust global soybean harvest pushed down oilseed and vegetable oil prices, which resulted in y-o-y lower selling prices for soybean and sunflower seed in Ukraine.

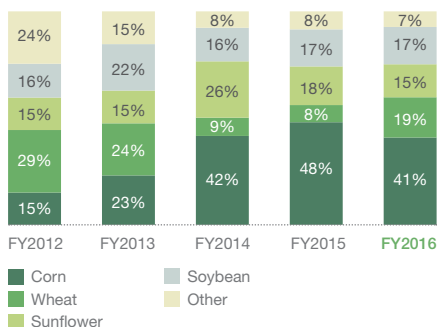
At the same time, devaluation of the Ukrainian hryvnia (by 48% on average in FY2015) lowered the US dollar value of railway tariffs, which resulted in a decrease in the difference between prices at farm-gate and in ports on the Black Sea, improving the profitability of crop producers.

**Average farm-gate prices in Ukraine (USD per ton, ex VAT)**



Source: Kernel

**Kernel's farmed acreage crop mix**

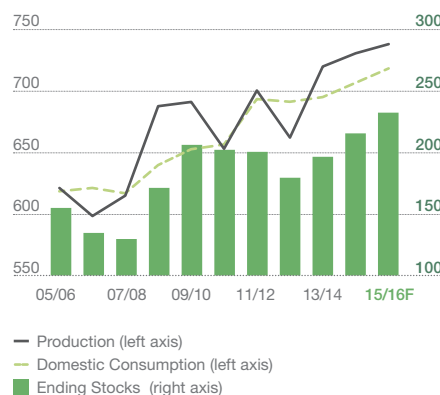


Source: Kernel.

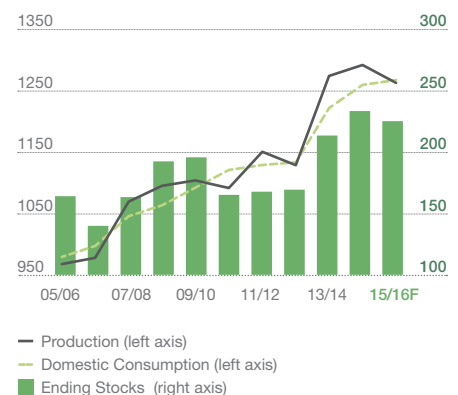
## Key market trends

- The second consecutive year of strong global grain production resulted in a further decrease in international grain prices in 2014/15, which was translated into domestic prices in Ukraine. In addition, the robust global soybean harvest pushed down soybean and sunflower seed prices in Ukraine.
- While in 2015/16 global grain and oilseed production is expected to decrease, strong carryover stocks and US dollar strengthening against the currencies of major food exporters will keep international prices at low levels.

**Wheat production, utilization and stocks (million tons)**



**Coarse grain production, utilization and stocks (million tons)**



# Farming continued

## Our business model

### Large-scale farming

Our farming division grows crops on 390,000 hectares of leasehold farmland in Ukraine located in the central and western regions of Ukraine, which are rich with black soil and receive sufficient precipitation. The third-largest crop producer in Ukraine, we grow approximately 1.5 million tons of grains and 300,000 tons of oilseeds each year. Our crop mix is 40-50% corn, 15-20% sunflower seed, 15-20% soybean and 10-20% winter wheat.

Our operations are structured within nine production clusters, with operational decision making sufficiently decentralized to ensure production teams are capable of reacting quickly to weather changes. At the same time, our central office is responsible for strategic decision-making and the procurement of key inputs, while retaining strict control over operations.

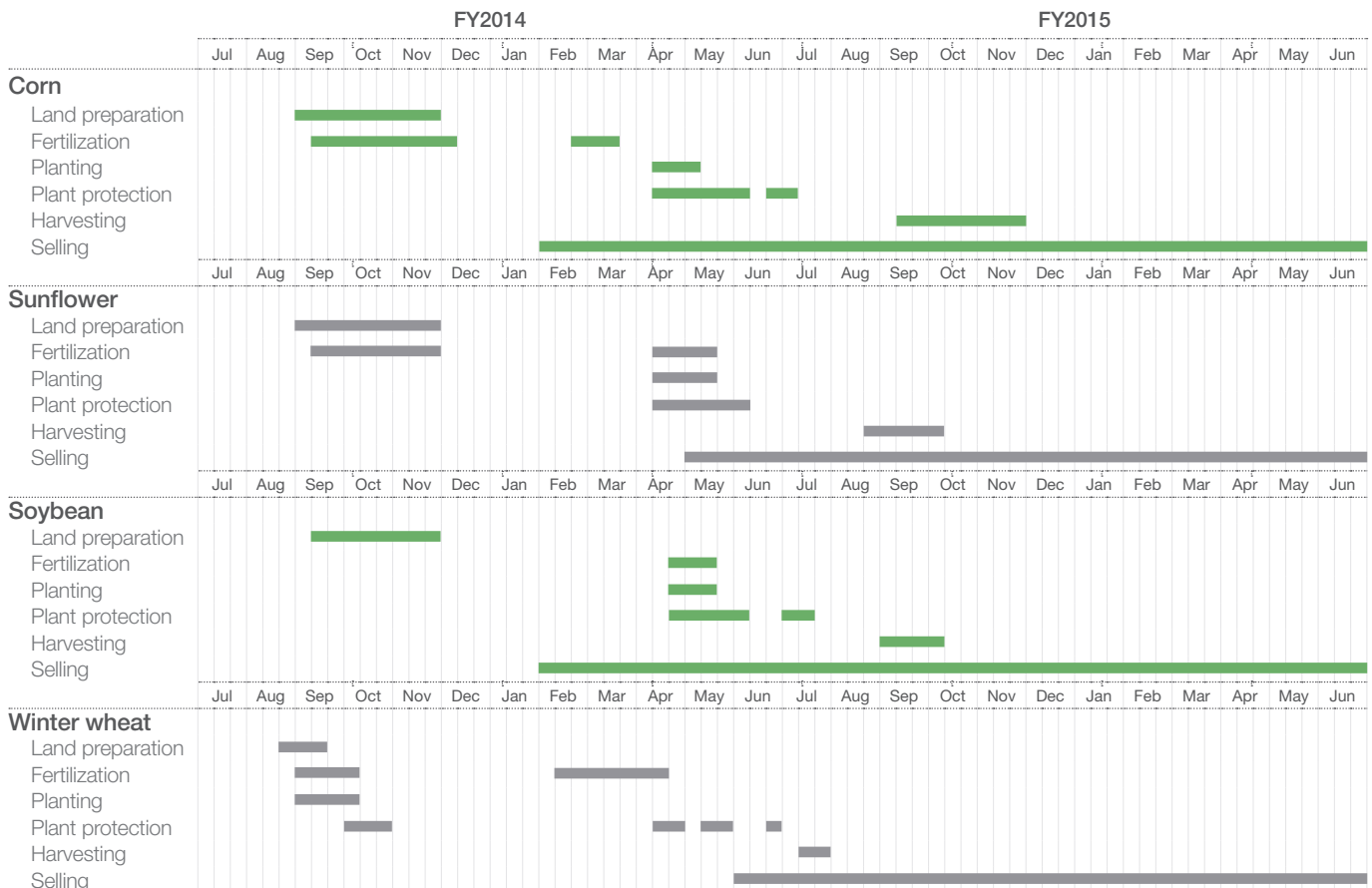
### Modern and sustainable production technology

Our production technology is designed to ensure the long-term productivity of our soils. We use non-GMO seeds either supplied by top international suppliers or grown internally from high-quality parent seeds. We apply balanced fertilization to enrich our soils, utilizing both organic and mineral fertilizers. Unlike the majority of farmers in Ukraine, we apply most of our fertilizer in autumn, ahead of the spring planting campaign. Autumn application provides for a longer time for fertilizers to be absorbed by the land, allows us to use liquid fertilizers that are more digestible compared to dry fertilizer, and results in faster completion of the spring planting campaign.

Our crop rotation cycle is designed to mitigate the build-up of pathogens and pests, and to improve soil structure. Furthermore, we never compromise on environmental risks: the chemicals we use are supplied by well-known international companies and we use only pesticides approved by the Ministry of Ecology and Natural Resources of Ukraine. As an additional step of control, we test all pesticides at our own modern laboratory, which is one of only five such laboratories in Ukraine.

With the exception of approximately 1,500 irrigated hectares that are dedicated to in-house seed production, all our farmland uses natural precipitation.

### Crop production cycle



# Farming continued

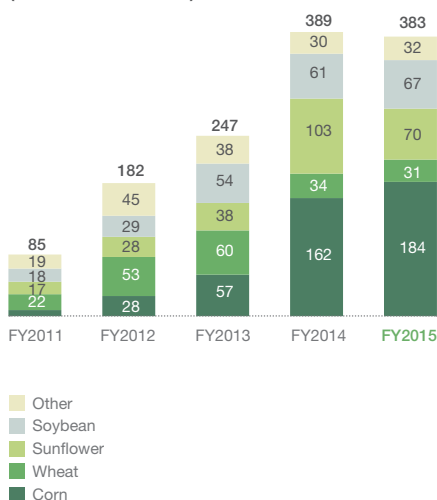
## Leasehold land operations

As per Ukrainian legislation, agricultural land cannot be traded, and all farmers lease land from its current owners. Approximately 80% of land is owned by private individuals in small land plots as a consequence of the land distribution process in the 1990s after the collapse of the Soviet Union. Another 20% of agricultural land is owned by the state and state-owned enterprises. We lease this land through contracts with an average maturity of 7 years, with such contracts containing the right of first refusal to prolong leases or buyout the land should the land market open up in the future. With a recently enacted law that introduced a minimum land lease term of 7 years and improved security for land lessees, this model ensures business security and results in lower land lease payments compared to other producing countries in the world.

## Natural synergy with other business segments

Out of 1.8 million tons of crops we produce, in excess of 90% of our produce goes through our supply chain, while only a minor share of production is otherwise used for in-kind lease payments and as feedstock for our livestock. All sunflower seed we grow is processed at our oilseed crushing plants, while corn, wheat, soybean and rapeseed go through our silos and export terminals. In total, we estimate that our crop contributed USD 37.8 million dollars to the EBITDA of our other segments, based on arm's length average prices of FY2015.

## Acreage harvested by crop (thousand hectares)



Source: Kernel

## Financial performance

Our farming segment's sales were USD 310.4 million in FY2015, with 7% growth y-o-y reflecting 31% growth in production volumes and lower international agricultural prices. At the same time, the segment's EBITDA improved to positive USD 97.9 million in FY2015, compared to negative USD 44.3 million a year ago.

This increase in profitability was driven by a combination of improved crop yields and lower production costs. The changes we implemented to our production technology following a leadership change in 2013 were major factors behind the 16-28% y-o-y growth in crop yields:

1. primary fertilizer application was moved to autumn from spring previously. Autumn application allows us to use liquid fertilizers that have higher absorption rates and complete the spring planting campaign within a shorter time frame, which leads to better vegetation conditions;
2. better quality seeds were used as a result of the improved selection of suppliers and launch of our own seed plant;
3. like for like fertilizer intensity increased by 11-25% y-o-y;
4. higher quality plant protection products were procured;
5. tillage practices were changed for crop cultivation, resulting in better development of plant roots;
6. more managerial responsibility was shifted to cluster levels, with decentralization improving the speed of decision making.

At the same time, production costs declined as a result of Ukrainian hryvnia depreciation against the US dollar (by approximately 50% within FY2015), as well as lower prices for dollar-linked inputs such as seeds and fertilizer. Additionally, low precipitation during autumn harvesting resulted in lower drying costs during harvest intake at silos, and the cost of delivery to port also decreased due to lower railway tariffs as a result of Ukrainian hryvnia devaluation.

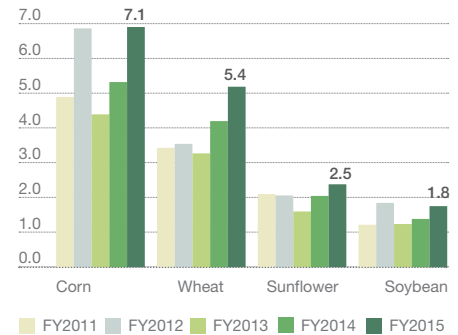
## Farming segment's performance

		FY2015	FY2014	y-o-y
Revenue	USD million	310.4	290.1	7%
EBITDA	USD million	97.9	(44.3)	n/m
Net IAS 41 gain	USD million	(6.8)	(17.1)	(60%)
Volumes sold	thousand tons	1,798.5	1,375.3	31%
Acreage harvested	thousand hectares	382.6	388.7	(2%)
Revenue	USD/hectare	811.3	746.3	9%
Adjusted EBITDA margin <sup>1</sup>	USD/hectare	273.7	(69.9)	n/m
Adjusted EBITDA margin	%	33.7%	(9.4%)	43.1pp

<sup>1</sup> Adjusted EBITDA per hectare is calculated as the farming segment's EBITDA excluding net IAS 41 gain, divided by acreage harvested.

Source: Kernel.

## Crop yields, (tons per hectare, net)



Source: Kernel

## FY2016 outlook

Overall, the financial contribution of our farming segment in FY2016 is expected to be comparable to the previous year's levels, which reflects a variety of factors.

On one hand, corn and soybean crop yields (58% acreage together) were negatively affected by the drought in the western regions of Ukraine this summer. With our other regions performing well our corn and soybean yields should be comparable to the previous year, though at least 15-20% behind the level achievable in average weather conditions. At the same time, our sunflower seed crop yield is likely to grow to of about 2.7 tons per hectare, and we harvested rapeseed at a record 4.3 tons per hectare.

Slightly better grain prices – we sold a significant portion of crop ahead of our harvest in a better price environment – are expected to counterbalance lower oilseed crop pricing and increases in production costs.

# Farming continued

## Non-financial performance

### Health and safety

There were 5 work-related injuries at our farming division in the year under review, compared to 6 incidents a year ago. There were no fatalities in the farming division in FY2015 or in FY2014. During the year, we enhanced our health and safety team, and trained specialists in accordance with the requirements of OHSAS 18001.

### Employee training and development

We focused on training for our farming division within three primary categories: improving the managerial skills of our middle management, developing professional knowledge and competencies across personnel, and keeping health and safety knowledge fresh.

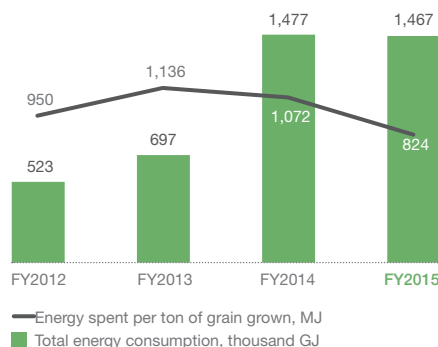
During the year ended 30 June 2015, we celebrated the graduation of the first group from our corporate MBA program – about two years ago we launched a pilot program of executive courses, selecting middle managers from our farming division for the first study group. With a total of almost two hundred hours of lectures and training, the group was taught as by lecturers hired from certified MBA programs, and by the top management of our company.

To develop the general professional skills of our agronomists, machinery engineers, and finance and human resource specialists, we operate a dedicated learning center where we teach primarily short-term courses. Additionally, we conduct annual and semi-annual in-person meetings to foster knowledge and best practice sharing across our operations, which are spread across the country.

### Energy consumption and emissions intensity

Growth in the productivity of our crop production has also resulted in a material decline in our energy consumption in FY2015. Diesel consumed by our agricultural machinery is a key source of Scope 1 emissions and energy consumption in our crop production business, and we consumed more fuel in absolute terms in FY2015 compared to a year ago because our updated production technology entailed more deep tillage. At the same time, drier weather during harvesting campaign compared to the previous year required us to spend less natural gas for drying crops, resulting in total energy consumption being virtually unchanged compared to the previous year. However, as our technology improvements resulted in 31% y-o-y growth in total production tonnage, average energy spent per ton of product decreased 23% y-o-y.

#### Farming segment energy consumption and energy intensity ratio



Source: Kernel.

### Giving back to local communities

Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than 200 of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct contact with local residents allows us to plan and execute our social activities in the most efficient way and receive direct feedback on the impact of our operations on communities. Our key areas of investments in communities in FY2015 were improvements in local schools and kindergartens, infrastructure, and healthcare.

For comprehensive detail on our activities, please refer to page 43 of this report and the website of our charitable foundation, [razom.kernel.ua](http://razom.kernel.ua) (in Ukrainian).

# Risks and Uncertainties

## Kernel's risk identification and mitigation system



Kernel has an annual review cycle for identifying and managing risks. This process, led by the finance department, involves managers from all divisions and support functions. Further to that, controllable risks are periodically reviewed by the internal audit department, which focuses its projects on assessing the robustness of our management processes and procedures.

As a result of the latest review cycle, the following risk set was approved by the board of directors as a list of the top risks faced by the Company.

## Kernel's top 11 risks

### Industry-related risks

- Harvest size
- Agricultural product price volatility

### Ukraine-related risks

- Access to financing and sufficient liquidity maintenance
- Trade restrictions and adverse changes in taxation
- Safety of production assets

### Operational risks

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



# Risks and Uncertainties continued

## Industry-Related Risks

### Harvest size

#### Sunflower seed harvest in Ukraine

##### Possible impact

Utilization of the Company's oilseed crushing plants depends on the availability of sunflower seed produced locally, particularly in Ukraine where around 90% of our crushing capacity is located. A low sunflower seed harvest in Ukraine could have a negative impact on both capacity utilization and crushing margins, adversely affecting the Company's earnings and financial standing.

##### Management approach

Our strategy is to have a diversified asset base across the sunflower seed growing region: our crushing plants are located from the south to the northeast of Ukraine. Given that sunflower seed is primarily originated within close proximity to the plants, this approach mitigates our exposure to weather volatility in any one particular region.

#### Grain harvest in Ukraine and southern Russia

##### Possible impact

Approximately 75% of our grain exports and export terminal throughput, and 50% of silo service intake volumes are originated from third-party farmers. A lower or higher grain harvest affects the country's total volumes available for export, which subsequently affects our origination capabilities.

##### Management approach

Over the last several years, we have significantly diversified our origination base. Our own farming production now contributes 25% of our total grain exports and export terminal throughput volumes. Furthermore, grain exports from Ukraine and Russia are exposed to different weather risks and seasonality: corn, which is harvested in autumn, is a major export crop in Ukraine, while wheat and barley, harvested in summer, are primary export grains in Russia.

### Agricultural product price volatility

#### Sunflower oil price volatility

##### Possible impact

Significant movements in the sunflower oil price within a short period of time during certain periods of the year could cause a decrease or increase in the Company's earnings.

##### Management approach

Our approach to mitigating commodity price risk is based on a 'balanced book' policy. As we buy sunflower seed on a spot basis we, within a similar time-frame, enter into forward contracts to sell sunflower oil, fixing the selling price and volumes in advance. While this policy allows us to mitigate most of the price risk, a certain seasonality mismatch between sunflower seed procurement and demand for edible oils could cause our exposure to price volatility to rise in some periods of time.

#### Corn price volatility

##### Possible impact

A significant decrease in the price of corn, the major crop produced by our farming division, could materially undermine our farming business's profitability.

##### Management approach

We start selling our next year's crop as soon as we have initial visibility of next year's production costs. Utilizing a set of hedging tools, including CME futures and options, forward contracts for Black Sea origin premium and direct forward contracts, we aim to hedge up to 75% of the next year's crop prior to its harvesting.

#### Prolonged period of low global soft commodity prices

##### Possible impact

While our sunflower oil, grain export, and infrastructure businesses have limited exposure to soft commodity price levels, our farming division (23% of total assets) is directly exposed to global soft commodity prices. Hence, low crop prices, particularly for corn, have a negative effect on our earnings, but primarily through the farming segment. Moreover, a prolonged period of low global soft commodity prices, if it occurs, could cause a structural shift in crop production in Ukraine, which would decrease the country's overall harvest size.

##### Management approach

Our grain export team utilizes various sets of hedging tools. We sell a portion of our own farming division's harvest in advance, utilizing CME corn and soybean futures and options, and forward contracts for a Black Sea origin premium to hedge for a longer horizon. Shorter term hedging is executed by entering into physical forward contracts for delivery within up to six months.

# Risks and Uncertainties continued

## Ukraine-Related Risks

### Access to financing and sufficient liquidity maintenance

#### Possible impact

Political or macroeconomic risks in Ukraine might reduce the availability of short-term pre-export financing required for the Company's operations in Ukraine, or increase the cost of long-term financing for the Company's investment projects.

#### Management approach

The Company aims to have a healthy financial position with short-term financing utilized only to fund a portion of working capital requirements. Most of the Company's short-term facilities are pre-export credit lines with commodities serving as collateral and are one of the least-risky types of loans provided by banks. We maintain long-term relationships with our creditors and aim to limit exposure to any particular bank to below 15% of our credit portfolio, syndicating our financing from a wide range of western European banks. The company does not depend on Ukrainian banks neither for short-term nor long-term financing. Since the start of the political crisis, the Company has been maintaining strict capital discipline and has reduced its level of leverage. The Company's policy is also to keep most of its cash outside of Ukraine.

### Trade restrictions and adverse changes in taxation

#### Export duties

#### Possible impact

Ukraine or the Russian Federation might change or introduce indirect or explicit export duties, which would lower our farming segment's earnings. In addition, uncertainties in the timing of taxation changes could alter the grain and farming segments' earnings in either direction.

#### Management approach

Any expected change in export taxation is immediately accounted for in pricing by our grain and oilseed procurement team. In addition, for the last several years, the Ukrainian government has kept a constructive dialog with the leading exporters of grain crops, which has resulted in better predictability of government policy.

#### Refunds of VAT

#### Possible impact

As an exporter, the Company is eligible to get refunds on VAT paid when procuring inputs used for exported goods. In Ukraine and Russia, VAT refunds are delayed, which causes an increase in the Company's working capital and exposure to local currency.

#### Management approach

We have developed strict procedures for acquiring raw materials in order to ensure the highest quality documents for input VAT, which are required to limit delays in VAT refunds.

#### Export restrictions and barriers

#### Possible impact

The unexpected introduction or expectations of the introduction of regulatory measures to restrict grain exports could impact the Company's ability to fulfill its grain export contracts or sell its own farming produce at global price levels, which could negatively affect the Company's profits. Other tax-related risks include legal actions and tax authorities' orders related to VAT refunds and corporate income tax payments, the introduction of VAT promissory notes, and the detrimental impact of the treatment of transfer pricing regulations by tax authorities.

#### Management approach

As part of a group of key grain exporters, we maintain a continuous dialog with the Ukrainian government to ensure that the country's grain balance is properly calculated, and there is no risk of a domestic grain deficit. Overall, our belief is that the risk is decreasing as Ukraine's grain production-to-consumption ratio increased to 2.2x in 2014/15 from 1.5x in 2010/11, which was the last season when Ukraine introduced grain export restrictions. In our own farming division, we account for this risk in crop mix decisions. As a result, corn, soybeans and sunflower seed, which have a very limited risk of being exposed to export restrictions, account for 75-85% of the total acreage.

# Risks and Uncertainties continued

## Operational Risks

### Safety of production assets

#### Possible impact

Should the armed conflict in Ukraine be extended to the Company's regions of operations, our assets could be subject to the risk of damage, stoppage or seizure, among other things, which could negatively affect the Company's standing.

#### Management approach

We follow a prudent insurance policy for our goods and fixed assets, and develop contingency plans for various situations. In addition to typical risk coverage, our key assets are also insured against war-related risks, and our inventory is insured against misappropriation.

### Fraud and counterparty risk

#### Possible impact

The Company's operations are subject to internal and external fraud risk in procurement, thefts, inventory management, and conflicts of interest, among others. Failure by one of the Company's significant counterparties to pay under contract or deliver acquired goods could negatively affect the Company's financial position.

#### Management approach

The Company actively manages fraud risk through continuous improvement of its procedures, periodical assessments conducted by the internal audit department, and through the spread and popularization of the company's values among employees. We follow a conservative counterparty risk policy both in the domestic market and globally. When buying grain and sunflower seed from farmers, we rarely provide any pre-payment unless in immaterial cases with established credit limits, where we can ensure future delivery. When selling our goods to off-takers around the world, we execute delivery either against letters of credit or limit counterparty risk to only established global players.

### Inventory safety

#### Possible impact

Insufficient quality of controls over stock keeping may result in an increase in the occurrence of fraud and loss of inventory.

Additionally, the safety of the Company's inventories stored at third-party silos is subject to the risk of fraud or the bankruptcy of silo owners, which if materialized could result in a write-off of the Company's current assets.

#### Management approach

Our stock keeping procedures undergo periodical internal audits, and we are gradually increasing the level of automation of processes at our storage facilities.

The Company also performs prudent due diligence of each of silo counterparty prior to purchasing grain or oilseed stored in those silos. In addition, we follow a prudent insurance policy for our goods and periodical inventory checks are executed to reduce possible risks.

### Key personnel resignation

#### Possible impact

Resignation or loss of the services of key personnel might negatively affect the Company's performance.

#### Management approach

We are in the process of establishing a group-wide key personnel reserve program. Furthermore, since FY2016 we aim to launch a continuous high potential training and development program. At the top management level, the compensation structure is skewed significantly toward long-term performance.

### Information technology adequacy

#### Possible impact

Insufficient automation of the Company's processes or the failure of the existing ERP system might increase the business's exposure to fraud, reduce the accuracy of business planning and affect the Company's standing.

#### Management approach

We are gradually increasing the automation of our business processes by expanding the coverage of our enterprise resource planning and testing its capacity through internal audits. Since from FY2016, the organizational structure has been altered to include the CIO role in the top management team.

# Risks and Uncertainties continued

## Operational Risks

### Land lease prolongation and relations with local communities

#### Possible impact

The Company's farming division leases the land it farms from numerous individual owners across Ukraine for an average term of approximately seven years. While these contracts entail a right of first refusal provision, the Company may fail to prolong certain land lease agreements, which would result in a decrease in acreage farmed.

#### Management approach

Our strategic approach is to pay the market price for land leases, but positively differentiate ourselves from competitors through reliability, active support for the communities, and the sustainability of our farming practices. We employ dedicated teams of relationship managers to the villages where we operate which will allow us to keep direct contact with our land lessors, and to respond to the community need.

### Ineffective purchases

#### Possible impact

The Company may choose non-optimal suppliers and contractors, or grant excessive trade loans, which could affect the Company's profitability and balance sheet standing.

#### Management approach

Last year, we conducted several internal audits to assess the effectiveness of our procurement of non-core raw materials (i.e. excluding oilseed crops and grain). While implementing certain focal changes immediately, we decided to launch a group-wide overhaul of the procurement policy, which should be finished during FY2016.

Other risks identified by the Company's management include:

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

# Sustainability



## Social spending

\$1.9m

-29% y-o-y

## Energy consumption

6,026 terragoules

-5% y-o-y

Sustainability section is prepared in accordance with GRI G4 'Core' framework. For independent assurance report, see page 40. For GRI content index, see page 51.

We strive to produce the highest quality food products, farm in a sustainable way and ensure our supply chain is compliant with modern quality requirements. We actively use biomass to substitute fossil fuel and utilize large-scale machinery to minimize diesel spent. To our employees, we guarantee competitive compensation and an emphasis on their health and safety.

### Our approach

There are several pillars behind our vision for the long-term sustainability of our business. We strive to produce our products efficiently, with the lowest energy consumption and within strict compliance with regulatory, product safety and quality requirements. We grow our crops in a way to maximize the long-term productivity of our soils and ensure the efficient use of resources. We also understand human capital is crucial for our success, develop our employees through a variety of means, and ensure health and safety is a top priority across our value chain. In addition, we maintain our social license to operate through structured efforts to develop communities where we have a presence, with a particular focus on rural regions.

### FY2015 performance

Over the last year, we have trained our health and safety specialists under OHSAS 18001 requirements, a first step toward broad implementation of a modern health and safety management system. Most regrettably, we had one fatal accident during the last year, wherein a truck driver lost control of his truck. This accident just emphasized the importance of a proper system for preventing potential risks, which we have continued to develop during the last year.

The first group of mid-level managers from the farming division graduated last year from our corporate MBA, which we launched two years

ago. With coverage expanding to other divisions last year, our corporate MBA program is focused on developing crucial leadership, managerial and soft skills among our managerial staff. In FY2015, we also launched an individual development planning system.

We continued long-term cooperation with rural regions where we operate. Over the last year, we extended our dedicated network of relationship managers, which allows us to engage with the community directly and manage our activities in more efficient way. Our social spending increased 24% y-o-y to UAH 30.6 million, but was down in US dollars due to the rapid devaluation of the local currency.

In FY2015, we modernized the boiler at one of our crushing plants, the last one that used natural gas to produce steam for processing needs. As a result, all of our crushing facilities will be running biomass boilers since FY2016, saving an equivalent of 80 million cubic meters of natural gas annually.

### FY2016 outlook

Selected projects scheduled for FY2016 include: the launch of a project to upgrade one of our biomass boilers, a feasibility study for biomass electricity generation, further expansion of our corporate MBA coverage, launch of a formal tutoring practice, and a project to improve medical services in rural regions, among others.



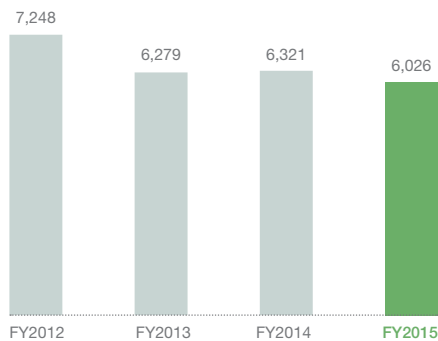
# Sustainability continued

## Key non-financial KPIs

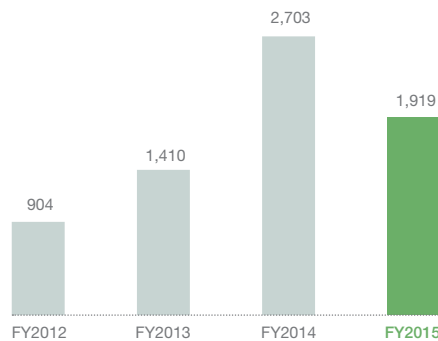
		FY2015	FY2014	FY2013	FY2012
Total number of employees		15,229	16,518	17,603	17,743
sunflower oil		18%	17%	17%	17%
grain and infrastructure		20%	20%	18%	18%
farming		57%	59%	59%	54%
headoffice and other		4%	4%	6%	11%
Total injury accidents		19	18	25	33
incl. fatalities		1	2	–	4
Injury frequency rate	accidents/million worked hours	0.66	0.59	0.85	1.29
Total training expenditures	USD thousand	241	254	244	172
Total social spending	USD thousand	1,919	2,703	1,410	904
Direct (Scope 1) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	248	284	274	323
Total energy consumption	thousand gigajoules	6,026	6,321	6,279	7,248
incl. renewable	thousand gigajoules	2,849	2,549	2,462	2,553
Renewable energy produced and sold	thousand gigajoules	45	42	46	55
Energy spent per ton of sunflower seed crushed	megajoules	1,463	1,525	1,536	1,594
Energy spent per ton-% of grain dried	megajoules	67	63	81	122
Energy spent per ton of grain grown	megajoules	824	1,072	1,136	950
Sunflower oil produced at ISO 22000 certified plants	%	96%	94%	92%	92%

Source: Kernel.

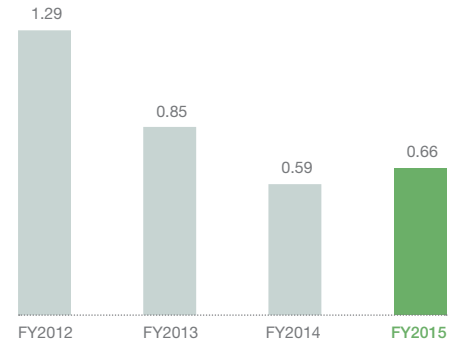
### Energy consumption (thousand gigajoules)



### Total social spending (USD thousand)



### Injury frequency rate (accidents per million worked hours)



Source: Kernel.

## Our approach to materiality and report content

This report is prepared in accordance with G4 guidance ('Core' option) issued by GRI and contains elements of integrated reporting. Management considers capital providers and employees to be key target audiences for the annual report of the company,

while communication with other stakeholder groups is primarily done through other communication channels. This report focuses on material issues determined as such based on responses to questionnaires run separately for employee and capital provider groups and

a managerial assessment of the aspects' importance for the sustainable development of the company. Following the materiality exercise, the list of aspects to be disclosed was approved by the executive management. See an index of GRI content on page 51.

# Sustainability continued

## Mapping material issues to external stakeholder groups

Debt providers and rating agencies	National and local media	Local communities	Local officials	Regulatory authorities	Customers
Energy consumption and efforts to reduce it	Ethical business operations	Employment	Employment and job creation	Product safety	Product safety
What does the Company do to identify and combat fraud and corruption	Dialogue, transparency, collaboration	Land lease payments	Emissions	Health and safety	GHG emissions
Product safety		Fair agriculture practices	Direct economic value generated and distributed		
Direct economic value generated and distributed		Investments in local infrastructure and social development	Local investments		

Other engagement channels include special publications, emails, interviews, and teleconferences. For the full list of stakeholders, see page 50 of this report.

## Independent assurance report

### To the management of Kernel Holding S.A.

We have been engaged by the management of Kernel Holding S.A. (hereinafter also the 'Company') to perform a limited assurance engagement on selected information on economic, social and environmental responsibility for the reporting period of 1 July 2014 to 30 June 2015, disclosed in section 'Sustainability' of Kernel Holding S.A. Annual Report and Accounts for the year ended 30 June 2015 (hereinafter 'Sustainability Reporting'). The assured information is indicated in the Company's GRI G4 Content Index 2015.

### Management Responsibility

The Management of Kernel Holding S.A. is responsible for preparing the Sustainability Reporting in accordance with the Reporting criteria as set out in the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative and in the G4 Sector Disclosure Food Processing.

This responsibility includes the selection and application of appropriate methods to prepare the Sustainability Reporting and the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Sustainability Reporting.

### Practitioner's Responsibility

Our responsibility is to express a conclusion on the Sustainability Reporting based on our work performed. Our assurance report has been prepared in accordance with the terms of our engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'. This Standard requires that we comply with ethical requirements of the Code of Ethics for Professional Accountants of the International Federation of Accountants to ensure our independence and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and, therefore, less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability Reporting. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability Reporting.

Our work consisted of, amongst others, the following procedures:

- An evaluation of processes for determining the material issues at the Group level.
- Interviewing senior management of the Company.
- Interviewing employees responsible for collecting and reporting the information presented in the Sustainability Reporting at the Group level and at the different sites.
- An analytical review of the data and trend explanations submitted by all businesses units at the Group level.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

### Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that Sustainability Reporting has not been prepared, in all material respects, in accordance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative and in the G4 Sector Disclosure Food Processing.

### Alexander Pochkun

Managing Partner  
'BAKER TILLY UKRAINE' LLP  
21 October 2015  
Kyiv, Ukraine

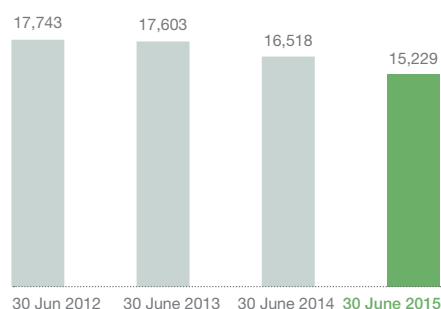
# Sustainability continued

## Human capital

### Competitive compensation strategy

Our remuneration policy is based on the provision of competitive compensation that matches or exceeds the levels observed in our industries. We also strictly comply with labor legislation and are one of the few employers in the Ukrainian agriculture sector who rigorously pays all salary-related taxes and social contributions.

#### Full-time employees (USD thousand)



### Investing in training and development

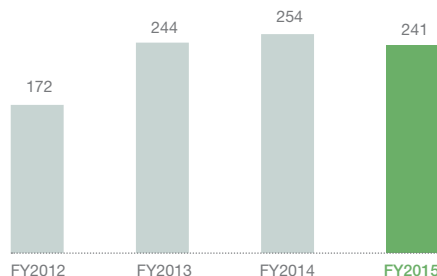
We structure our training activities in several different directions. The major portion of our training activities covers various groups of personnel and is related to the development of professional qualifications related to their jobs. These trainings are supplied by both internal and external providers. We also operate a fully-equipped modern training facility, where we provide module-based education to the employees of our farming division. These short-term courses, taught by Ukrainian and visiting European specialists, are specifically designed to deliver practical knowledge related to modern farming practices. Last year, we also launched similar module-based courses for our sunflower oil production department.

Special attention is paid to the training of our managerial staff, which consists of thousands of managers at different levels. Two years ago, we launched a pilot corporate MBA program, which consists of a set of modules on general management skills. The program has a total of almost two hundred hours of lectures and trainings. Courses are taught by lecturers who also teach at certified MBA programs and include case studies delivered by top management and team-based assignments. The program finishes with a final project.

During the year ended 30 June 2015, we celebrated the graduation of the first group from our corporate MBA, which consisted of middle-level management from our farming division. In spring and June 2015, we also launched similar two-year programs for our sunflower oil production and infrastructure operations.

A simplified version of this corporate MBA program is also available to high potential specialists and members of our personnel reserve pool. Our plans for FY2016 include increasing enrollment in our corporate MBA program with employees from various levels.

#### Training expenditures (USD thousand)



In addition to formal education, we also promote an on-the-job training culture and experience sharing. Given the geographical dispersion of our operations, we regularly organize divisional meetings, where specialists meet to exchange their best practices and knowledge. Last year, we also organized a special visit of farming machinery engineers to a leading factory in Austria and of a group of our employees involved in cattle farming to several milk farms in Germany.

### Labor practices

We are committed to providing safe working conditions in strict compliance with labor legislation. Our commitment includes, among other things: compliance with minimum wage requirements; respect for working hours, vacations and sick leaves; full payment of taxes and social contributions related to salaries; and holding jobs for employees on maternity leave.

### Career planning and individual development system

Last year, as a part of the launch of our performance management system, we introduced a unified approach to planning individual development. While in the early stage of implementation and covering only about a hundred employees at the moment, it aims to improve career planning and give the company's management better visibility of the ambitions of the talent pool, their training needs and progress. The FY2016 pipeline includes a gradual increase in the coverage of this system and the automation of individual development planning data through its inclusion into the company's enterprise resource management software.

In the second half of last year, we also introduced a formal mentorship program. Through this program, incoming employees are assigned a mentor and their relationships are structured, formalized and overseen by a program manager. Mentors receive appropriate training to improve their coaching skills and ability to give feedback.

### Expanding the scope of education to other universities

Understanding the significance of the gap between higher education delivered by Ukrainian universities and business needs, we are actively involved in improving university education. Last financial year, we launched a pilot project at the Sumy Agrarian University to improve the quality and structure of educational content. As part of this project, we trained university teachers in modern crop production practices and delivered proposals on what should be included in the university's curriculum. Furthermore, we selected a group of students to receive additional training sponsored by us, and go through summer internships at our enterprises.

These endeavors are further supported by our graduate recruitment program: recent graduates recruited under this program undergo intensive training with rigorous oversight from mentors.

Following the first year of the pilot project at the Sumy Agrarian University, we established dialogue with the agriculture education department of the Ministry of Education in order to improve the quality of agricultural education across the country.

In FY2016, we will launch a similar project at the Kamenets-Podilsky University in western Ukraine.

# Sustainability continued

## Our values and principles

Our core values and principles are the following:

- Strategic and systematic approach to management
- Synergy and consistency in goal setting
- Efficient use of resources
- Openness to change and innovation
- Integrity
- Responsible leadership
- Compliance with laws and internal rules
- Sustainable development
- Partnership and common goals
- Entrepreneurship spirit
- Mutual respect and trust
- Development of human potential

Most of our production units employ dedicated health and safety specialists, all of whom are supervised by a group-level health and safety committee. During the last financial year, all our specialists underwent training to improve their knowledge and skills under OHSAS 18001. With a medium term goal of making the health and safety systems at most of our production units fully compliant with OHSAS 18001, we have also launched a process of hazard risk identification and ranking, which should serve as a backbone for building a proper preventive system. We also strengthened our health & safety team last year.

Most regrettably, there was one fatality last year. Also, during the year ended 30 June 2015, there were 18 reported non-fatal injuries at our enterprises, compared to 16 a year ago.

## Human rights

Kernel is committed to developing a group-wide culture that implements a policy of support for internationally recognized human rights, seeks to avoid human rights abuses within our sphere of influence and makes sure we are not complicit in human rights abuses. Supporting guidelines set by the United Nations Global Compact, we are against all forms of the exploitation of children, use of any child labor, and use of any forced or compulsory labor. We respect our employees' privacy.

The right to collective bargaining is embedded in the collective agreements that exist at all of our enterprises, with all due respect to workers' rights to form associations and join organizations of their own choosing. We are also committed to not discriminating on the basis of religion, race, color, sex, sexual orientation, disability, or national or ethnic origin.

Our commitment is embedded in our Code of Conduct and in collective agreements at our subsidiaries.

To ensure group-wide compliance with our policy, we operate a hotline 0 800 50 10 59 that employees can use to report violations, and we encourage our workers to communicate concerns to their supervisors, or if not possible, to a local HR specialist.

## Health and safety

Acknowledging that we operate in regions with traditionally poor work-related safety cultures, we aim to improve the safety and health of our workers through various means, with our main target to reach zero fatalities and reduce injuries. Our jobs are classified by risk exposure, and those workers who fall under medium and high hazard risk, are required to go through compulsory safety training, the frequency of which is dependent on the risk exposure. All workplaces and production processes comply with safety requirements, with periodical third-party audits conducted. Workers are equipped with all required special work clothes and undergo medical examinations as required by their role.

### Injuries and fatalities by business division

	FY2015	FY2014	FY2013	FY2012
<b>Fatalities</b>	<b>1</b>	<b>2</b>	<b>–</b>	<b>4</b>
Sunflower oil	–	1	–	2
Grain and infrastructure	1	1	–	1
Farming	–	–	–	1
<b>Non-fatal injuries</b>	<b>18</b>	<b>16</b>	<b>25</b>	<b>29</b>
Sunflower oil	2	3	6	8
Grain and infrastructure	11	7	4	4
Farming	5	6	15	17
<b>Total accidents</b>	<b>19</b>	<b>18</b>	<b>25</b>	<b>33</b>

Injury data was collected in accordance with local regulatory requirements in Ukraine and the Russian Federation. The injury rate does not include minor (first-aid level) injuries and does not include contractors working on-site.

# Sustainability continued

## Giving back to local communities

Our business franchise is based on us being an integral part of the communities we operate in. Our operations are spread geographically and cover many communities, with in excess of 2/3 of our employees working in rural regions. To deal fairly and effectively with the significant number of communities we operate in, we established a dedicated team of relationship managers, which consists of more than 200 employees. All of them are local residents; they maintain direct contact with local councils, key opinion leaders, and residents. This allows us to conduct our activities based on what is of the foremost importance for the community and receive face-to-face feedback on the impact of our operations. Over the course of the year ended 30 June 2015, our direct spending to support our communities amounted to USD 1.9 million (UAH 30.6 million, 24% up compared to the previous year). The main areas of our investments in communities included financing local schools, kindergartens, infrastructure, and healthcare. Of note, all our charitable activities were strictly focused on regions where we had operations.

Over the course of the next financial year, we also plan to launch a special project aimed at improving the quality of healthcare services available in rural regions. Most villages have only one general medical specialist. With state financing of healthcare in rural regions extremely limited, we plan to sponsor training for these local doctors and upgrade their first aid kits.

Our teams also conduct numerous activities to engage rural residents in an active social life through the facilitation of local sports tournaments, art competitions for children and site visits for older age schoolchildren to our production and farming facilities.

To maintain a continuous dialog with the communities we operate in, we publish a corporate newspaper with a total monthly circulation of approximately 50,000 copies, where we give updates on our social and business activities. We welcome feedback in various forms: our local representatives are available for direct contact, but we also operate a hotline (0 800 50 10 59), and receive mailed feedback, which often helps us to improve the efficiency of our social activities.

Most of our community support is structured through the charitable foundation 'Together with Kernel', which operates a standalone website aimed at increasing awareness about our presence and improving stakeholder feedback.

## Indirect economic impact

In addition to creating direct economic value (see page 47 for details on our value distribution), we also have a significant indirect economic impact. Two-thirds of our business is conducted in rural regions that have high poverty levels. We believe we benefit these regions indirectly through the jobs we create, the dissemination of farming best practices, which quickly spread to neighboring farmers, and the enhancement of the knowledge and skills of our employees. We also make an effort to retain young workers in rural regions by showing that through our operations modern crop production can make for a promising career. At the same time, we admit that our efficiency improvements result in a gradual reduction in the full-time headcount at our farming operations.

As discussed above, we also support local communities with the development of critical local infrastructure. Our total infrastructure spending amounted to UAH 15.8 million in FY2015, excluding spending related to our business needs. Additionally, we are one of the largest taxpayers to local government budgets in rural regions, as we are committed to full compliance with tax payments even though this is not a widespread practice in the domestic farming business.

## Anti-corruption

For Kernel, pursuing a policy against corruption is both a legal obligation and an ethical commitment. As integrity is part of our core values, we strive to eliminate all forms of corruption across our operations. Our commitment against corruption is set out in our Code of Conduct and in various group and enterprise-level procedures. Our anti-corruption policy, a group-wide version of which was being developed at the moment of this report's publication, is designed to assist employees in navigating challenges with respect to gifts, events, facilitation payments, public authorities and business partners. And though these guidelines are set to assist employees in making right decisions, our employees are strongly advised to seek out assistance when in doubt.

During the last financial year, we made our farming division a focus for our anti-fraud and anti-corruption efforts. With a post-Soviet legacy system part of the mentality for many people in our regions of operations, our efforts have been designed to break through this mentality by showing strict non-tolerance to incidents of fraud and corruption.

At the same time, we assess all our operations for risks related to fraud and corruption deep and focused assessments varying depending on the type of operations. Key identified risks include general procurement, theft of inventory, conflicts of interest, raw materials procurement from unreliable suppliers, fuel consumption expensing, and excessive delegation of power.

That said, we clearly understand that we operate in Ukraine and Russia, both ranked high in Transparency International's Corruption Perceptions Index, and that our quest to fight corruption will be a long journey.



# Sustainability continued



## Producing green energy from waste

8 of our 9 oilseed crushing plants (96% of total capacity) use sunflower seed husks, a waste by-product of crushing process, as their fuel source to produce steam required for the production process. Approximately 43% of sunflower seed husk produced are burned to generate steam, a process that saved us 80 million cubic meters of natural gas in FY2015, which would have been used otherwise. At one of our plants, we also co-generate electricity, which we sell to the national electricity grid.

Remaining volumes of sunflower seed husks are pelletized and sold to third-party co-generation plants in Poland. These plants mix sunflower seed husk with coal to reduce their consumption of fossil fuels. The portion of electricity they produce from our sunflower seed husk covers the annual demand of approximately 300,000 households.

## Environment

Our approach to the environment is based on two pillars: no material harm to nature and continuous improvements in energy efficiency.

### Energy consumption within the organization

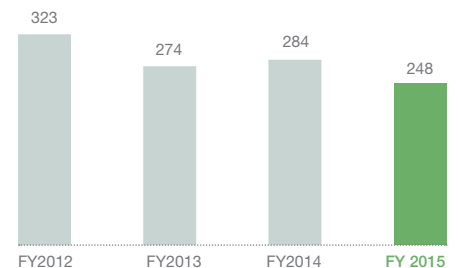
Our farming business is the most material consumer of fossil energy within our business model: tractors, harvesters, and other machinery use diesel as their fuel source. Silo services are a close second: natural gas is used to dry freshly harvested grain and oilseed crops to standard moisture conditions. Grain crop transportation by our truck company and electricity consumption during the oilseed crushing process are the next energy-consuming processes on the list.

The energy efficiency initiatives in our farming division are classified under two main areas. First, a gradual increase in the size of our machinery results in lower intensity: larger tractors expend less diesel per hectare compared to smaller size tractors. Given the scale of our farming operations, with each cluster 100x larger than the US average farm, we use only large-scale machinery. All our motor vehicles are produced by recognized global leaders and we normally replace machinery after seven years of use. Under our current replacement program, the new equipment we buy is typically 20-30% more powerful than replaced units and is the largest or second-largest available from the supplier.

Secondly, our operational changes contribute to changes in consumption trends. On one hand, our fuel consumption per hectare went up when we increased the share of corn in our crop mix and implemented deeper tillage practices to boost corn crop yields. On the other hand, as our production tonnage increased as a result, our fuel intensity per ton of output decreased. Over the last several years, we also have implemented numerous control points to ensure fuel is used for the proper purpose. We installed GPS trackers in all our fuel-intensive fleet and launched several control centers to monitor vehicle movements. Additionally, we equipped these vehicles with fuel sensors to eliminate diesel theft, which has historically accounted for 10-20% of fuel use. Fuel consumption benchmarking to international practices were conducted last year, revealing that our diesel consumption per hectare was within the typical range. As a next step, we have started implementing autopilot modes on machinery since the FY2016 harvesting campaign, which ensures better execution of production technology and will eventually result in better fuel intensity.

We also strive to be energy-efficient in other business divisions. The silo business is naturally energy-intensive, because the grain has to be dried to quality standards during intake at silo storage facilities. Over the years, we have gradually been upgrading our drying equipment with more energy-efficient models, and redirecting commodity flows to silos with more efficient equipment. During the next year, we aim to test and develop driers fueled by sunflower seed husk, a waste by-product of sunflower oil production.

**Total GHG emissions, CO<sub>2</sub> equivalent  
(thousand tons, scope 1)**



At our crushing facilities, all but one use sunflower seed husk to produce the steam needed for the crushing process instead of natural gas (see the box above for more details). Over the last financial year, we have been rebuilding the boiler at our only plant still running on natural gas. A new boiler should be launched in autumn 2015 and will substitute natural gas with sunflower seed husk. Our plans for next year also include the first stage of a three-year project to replace the existing biomass boiler and ancillary facilities at one of our crushing plants. Once completed, the new boiler will increase fuel efficiency and subsequently decrease emissions generated during sunflower seed husk burning. The average steam and electricity consumption of our major plants is in line with the low end of the international range, according to an energy audit conducted last year.

# Sustainability continued

As most of our carbon emissions are related to energy consumption, we manage our emissions by focusing on the optimization of our use of energy resources. At the same time, we strictly control other emissions that are naturally generated at our sunflower oil production plants, fully complying with local legislation and the specific limits set for our production plants by local regulatory authorities. For the disclosure of our emissions by type and asset group, please refer to page 48 of this report.

## Sustainable farming

Our sustainable approach to farming places an emphasis on long-term soil productivity rather than short-term profits from crops. We prudently plan our crop rotation mix with the objective of ensuring proper replenishment of nutrients in the soil, and apply balanced fertilization to restore nutrients taken out by crops. We leave straw on fields to serve as an organic fertilizer and to help reduce soil erosion. In selecting tillage technology, we develop a balance between root development and soil erosion risk and apply different methods depending on crop, location and soil pattern. Periodically, we also conduct soil analysis, which is used to adjust our crop mix plans, production technology, and fertilization practices.

We also apply an integrated pest management system, which ensures thresholds are set for any pest control actions, and cultural methods are applied prior to the use of pesticides. Any pesticides are used in strict accordance with regulations, and we additionally control the quality of products in our laboratory prior to wide application. We do not use substances forbidden by the Stockholm Convention on Persistent Organic Pollutants and/or substances listed in Annex 3 of the Rotterdam Convention.

99% of our acreage is non-irrigated: we use irrigation only to grow seeds for internal needs.

## Waste management

Our waste management approach is based on the general principles of waste hierarchy. Sunflower seed husk is our main waste by volume generated by our oilseed crushing business. Out of 418 thousand tons of sunflower seed husk produced in FY2015, 39% was burned at boilers on-site to produce the steam needed for our production process, 4% was burned to produce both steam and electricity at our Kirovohrad crushing plant, and another 57% was pelletized and sold to third-party co-generation plants.

Straw is the key waste generated by our farming division. We leave straw on our fields, which serves as an organic fertilizer and helps to mitigate soil erosion. At our silo division, approximately 50% of waste generated is reused in cattle feed, while another 50% is disposed of in landfills.

Over the last year, we trained our environmental specialists under ISO 14001 standards and have launched the alignment of our environment management processes in line with the standards.

## Biodiversity

The Company farms only agricultural land previously used to grow crops. We do not operate in protected areas or areas with a high biodiversity value, and our operations do not affect endangered species. At the same time, the Company's farming operations cover a significant acreage of 3,900 square kilometers, and thus could have some unintended impact on biodiversity. The crops we grow are typical in the regions where we operate, and the company utilizes well-established farming practices with proper oversight from our agronomy team. The Company applies only pesticides approved for use by the Ministry of Ecology and Natural Resources.

## Product responsibility

As one of the world's largest sunflower oil producers, with a 7% global market share (based on the USDA data for 2014/15), we strive to ensure our produce meets the highest quality standards. The food safety management systems at all of our sunflower oil production facilities in Ukraine are certified under the ISO 22000 standard, which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application of procedures developed by the Codex Alimentarius Commission. Our food management system is preventive, aimed at addressing the risk of potential biological, chemical, and physical hazards in production processes, and ensures the traceability of products in our value chain. The system also controls the traceability of our vegetable oils and meals across the entire value supply chain under our control. Our two small Russian plants are not certified under ISO 22000 because their products and processes are certified under strict local standards and are either used for domestic feed consumption or for exports to destinations that do not require ISO 22000 certification.

# 96%

of our sunflower oil produced at  
ISO 22000 certified facilities

Those of our facilities that produce bottled sunflower oil are additionally certified under the FSSC 22000 standard and all of our production plants are certified under ISO 9001. We also ensure control over food safety along the protein meal production and distribution value chain: production facilities are certified under GMP+B1, our truck company is certified under GMP+B4, and transshipment and freight chartering is certified under GMP+B3. Additionally, during the last financial year, one of our laboratories was accredited under the ISO 17025 standard, which will allow us to increase the scope of analysis conducted at our own facilities.

In our farming production division, corn cultivation is certified under the RBSA standard, which specifies requirements set for biofuel supply chain sustainability under the Renewable Energy Directive. Kernel is also certified under the ISCC EU framework for soybean, rapeseed, and wheat. During the next financial year, Kernel also aims to certify its corn and barley supply chain under the specific standards required by China.

The robustness of our food safety management system is periodically audited by certified third parties and is constantly audited by our internal food safety team. The coverage of our product safety assessments includes all manufacturing and production, storage, distribution and supply. Given the nature of our business, marketing and promotion, product concept, and development are related to an immaterial portion of the output.

## Product labeling and packaging

Only approximately 1% of our output is packed and labeled (measured by tonnage) while the majority of our produce is sold in bulk. For packaged products, we strictly follow the national legislation of the country for which the product is destined. Typically, labeling is subject to three-stage control and requires an accredited laboratory or third-party issued proof for any claim or information presented on the label.

# Sustainability continued

## 1. Human capital indicators

	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total number of employees</b>	<b>15,229</b>	<b>16,518</b>	<b>17,603</b>	<b>17,743</b>	<b>G4-10</b>
by geography					
Ukraine	96%	97%	95%	95%	G4-10
Russia & other	4%	3%	5%	5%	G4-10
by gender					
men	73%	68%	70%	69%	G4-10
women	27%	32%	30%	31%	G4-10
by age					
<30 years old	20%	21%	18%	19%	G4-10
30-50 years old	55%	55%	56%	56%	G4-10
>50 years old	24%	24%	25%	25%	G4-10
by level					
managers	8%	7%	8%	8%	G4-10
specialists	20%	19%	19%	19%	G4-10
workers	72%	74%	73%	74%	G4-10
by business division					
sunflower oil	18%	17%	17%	17%	G4-10
grain and infrastructure	20%	20%	18%	18%	G4-10
farming	57%	59%	59%	54%	G4-10
headoffice and other	4%	4%	6%	11%	G4-10
Percentage of women in executive management	29%	29%	29%	29%	
Percentage of women on the board of directors	25%	25%	25%	25%	

Headcount data include full-time employees as of 30 June of respective period. Differences in percentages are possible due to rounding.

## 2. Health and safety indicators

	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total fatalities</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>4</b>	<b>G4-LA6</b>
sunflower oil	-	1	-	2	G4-LA6
grain and infrastructure	1	1	-	1	G4-LA6
farming	-	-	-	1	G4-LA6
<b>Total non-fatal injuries</b>	<b>18</b>	<b>16</b>	<b>25</b>	<b>29</b>	<b>G4-LA6</b>
sunflower oil	2	3	6	8	G4-LA6
grain and infrastructure	11	7	4	4	G4-LA6
farming	5	6	15	17	G4-LA6
<b>Total accidents</b>	<b>19</b>	<b>18</b>	<b>25</b>	<b>33</b>	<b>G4-LA6</b>
Ukraine	18	16	24	27	G4-LA6
Russia	1	2	1	6	G4-LA6
Injury frequency rate, accidents/million worked hours	0.66	0.59	0.85	1.29	G4-LA6

Injury data is collected in accordance with local regulatory requirements in Ukraine and the Russian Federation. The injury rate does not include minor (first-aid level) injuries and does not include contractors working on-site.

## 3. Talent development

	FY2015	FY2014	FY2013	FY2012	GRI Index
Training expenditures	USD thousand	254	244	172	
Training hours	hours	n/a	n/a	n/a	G4-LA9
% of workforce taking part in standardized performance appraisals	1%	n/a	n/a	n/a	G4-LA11

The Company is in the process of establishing a group-wide policy of accounting for training hours. Only expenditures explicitly classified as related to labor training are included in the calculation of training expenses. These numbers are likely to underestimate actual training-related expenses due to the early stage of the practice of accounting for training-related expenses.

# Sustainability continued

## 4. Community

		FY2015	FY2014	FY2013	FY2012	GRI Index
Total social spending	USD thousand	1,919	2,703	1,410	904	
incl. social infrastructure	USD thousand	1,025	n/a	n/a	n/a	G4-EC7
Operations with implemented local community engagements	% of total	64%	n/a	n/a	n/a	G4-SO1

Social spending includes only direct expenses by the Company.

## 5. Value added

		FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Overall distributed net value added</b>	<b>USD million</b>	<b>2,348</b>	<b>2,418</b>	<b>2,833</b>	<b>n/a</b>	<b>G4-EC1</b>
of which to:						
suppliers	USD million	1,853	2,043	2,449	n/a	G4-EC1
human resources	USD million	61	90	85	n/a	G4-EC1
shareholders	USD million	20	–	–	n/a	G4-EC1
national and local budgets	USD million	44	89	70	n/a	G4-EC1
local communities	USD million	2	3	1	n/a	G4-EC1
providers of debt capital	USD million	69	72	75	n/a	G4-EC1
the Company's system	USD million	299	121	153	n/a	G4-EC1

Added value represents the wealth generated by the company in carrying out its activities. The form chosen for this report is total added value. Value added distributed to suppliers is presented net of taxes and expenses accounted for in other items. Value added distributed to human resources is equal to salaries and wages accrued, as well as related social contributions. Value added distributed to shareholders is equal to the amount of paid dividends. Value added distributed to national and local budgets is equal to corporate income tax paid during the period, wage, and land lease expenses-related income tax expense, VAT paid on inputs used in production of exported grain that cannot be recovered due to tax regulations, the fixed agriculture tax, and certain minor taxes, but excludes VAT paid by consumers of the Company's products. Value added distributed to local communities is equal to the Company's social spending expense. Value added distributed to providers of debt capital is equal to net finance costs. Value added distributed to the Company's system is a balancing item.

## 6. Greenhouse gas emissions

		FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Direct (Scope 1) GHG emissions</b>	<b>thousand tons of CO<sub>2</sub> equivalent</b>	<b>248</b>	<b>284</b>	<b>274</b>	<b>323</b>	<b>G4-EN15</b>
sunflower oil	thousand tons of CO <sub>2</sub> equivalent	19	30	33	47	G4-EN15
grain and infrastructure	thousand tons of CO <sub>2</sub> equivalent	46	70	39	42	G4-EN15
farming	thousand tons of CO <sub>2</sub> equivalent	181	182	114	99	G4-EN15
other	thousand tons of CO <sub>2</sub> equivalent	2	2	88	135	G4-EN15
Biogenic GHG emissions	thousand tons of CO <sub>2</sub> equivalent	282	252	244	253	G4-EN15
Gross indirect (Scope 2) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	183	182	174	176	G4-EN16
<b>GHG emissions intensity ratio</b>						
per ton of sunflower seed crushed	tons CO <sub>2</sub> equivalent	0.008	0.013	0.014	0.019	G4-EN18
per ton of grain grown	tons CO <sub>2</sub> equivalent	0.102	0.132	0.187	0.179	G4-EN18

Scope 1 emissions are calculated based on volumes of fossil fuel used across the company and those generated by livestock. Emissions are calculated based on volumes of energy used and conversion factors sourced from DEFRA. Emissions from livestock farming are calculated based on the average headcount of cattle for the reporting period and established regional normative levels for emissions per head.

Scope 2 emissions represent emissions from purchased electricity. The conversion factor was sourced from Global Carbon B.V.'s assessment of emissions factors for the Ukrainian electricity grid.

# Sustainability continued

## 7. Energy consumption

		FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total energy consumption</b>	<b>thousand gigajoules</b>	<b>6,026</b>	<b>6,321</b>	<b>6,279</b>	<b>7,248</b>	<b>G4-EN3</b>
by division						
sunflower oil	thousand gigajoules	3,690	3,550	3,512	3,887	G4-EN3
grain and infrastructure	thousand gigajoules	836	1,249	670	717	G4-EN3
farming	thousand gigajoules	1,467	1,477	697	523	G4-EN3
other	thousand gigajoules	33	45	1,400	2,121	G4-EN3
by source						
natural gas	thousand gigajoules	834	1,435	2,172	3,153	G4-EN3
diesel, gasoline	thousand gigajoules	1,607	1,608	950	836	G4-EN3
electricity	thousand gigajoules	732	727	695	704	G4-EN3
other non-renewable	thousand gigajoules	4	–	–	–	G4-EN3
sunflower seed husk (renewable)	thousand gigajoules	2,849	2,549	2,462	2,553	G4-EN3
by country						
Ukraine	thousand gigajoules	5,732	5,874	5,869	6,759	G4-EN3
Russia	thousand gigajoules	294	447	410	487	G4-EN3
<b>Renewable energy produced and sold</b>	<b>thousand gigajoules</b>	<b>45</b>	<b>42</b>	<b>46</b>	<b>55</b>	<b>G4-EN3</b>
electricity	thousand gigajoules	32	30	31	38	G4-EN3
heating	thousand gigajoules	13	12	15	17	G4-EN3
<b>Energy intensity</b>						
Energy spent per ton of sunflower seed crushed	megajoules	1,463	1,525	1,536	1,594	G4-EN5
Energy spent per ton-% of grain dried	megajoules	67	63	81	122	G4-EN5
Energy spent per ton of grain grown	megajoules	824	1,072	1,136	950	G4-EN5

Only energy purchased from external suppliers is included in energy consumption. Energy generated internally is excluded. Additionally, energy consumption figures exclude heating purchased from third-party suppliers due to the non-materiality of volumes. There was no consumption of externally purchased cooling and steam.

Volumes of natural gas and diesel fuel used for energy production are measured by equipment installed at each point of consumption. Volumes of diesel fuel, petroleum and liquefied natural gas used in automobiles and agricultural machinery are calculated based on mileage data and approved norms of fuel consumption. The volume of sunflower seed husk used to generate steam and electricity is accounted based on records from scales installed at each point of husk consumption. Electricity purchased and used is measured by metering devices.

Energy sold includes heating and electricity produced from sunflower seed husk burned at boilers located at our oilseed crushing plants. The volume of electricity sold is measured by equipment connected to the country's electricity grid. Heating sold is measured based on the volume of hot water supplied to external consumers and is measured by equipment installed at the point of consumption. All noted measuring equipment is certified and regularly checked for accuracy by independent external experts.

The conversion of energy into joules is made using conversion factors sourced from DEFRA.



# Sustainability continued

## 8. Materials used in production

		FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Sunflower oil production</b>						
Sunflower seeds	thousand tons	2,523	2,335	2,286	2,439	G4-EN1
% of renewable	%	100%	100%	100%	100%	G4-EN1
Associated process materials	thousand tons	1	1	2	2	G4-EN1
% of renewable	%	0%	0%	0%	0%	G4-EN1
Packaging	thousand tons	5	4	5	5	G4-EN1
% of renewable	%	43%	43%	42%	45%	G4-EN1
<b>Crop production</b>						
Seeds	thousand tons	26	22	25	21	G4-EN1
Fertilizer	thousand tons	260	285	206	80	G4-EN1
% of organic fertilizer	%	51%	44%	57%	27%	G4-EN1
Other non-renewable	thousand tons	2	2	1	1	G4-EN1

The data excludes the grain and infrastructure business, which primarily provides services and the sugar segment, which is classified as held for sale. Fuel volumes are excluded from the calculation and are presented in a separate disclosure.

Our sunflower oil production uses sunflower seed as the primary input material. Additionally, hexane is used as a component in the solvent extraction process. Less than 10% of our sunflower oil output is packaged. The cardboard we use for packaging (43% of total materials used for packaging) is sourced from reused materials.

Our grain and infrastructure business primarily re-sells grain and provides logistics services. Thus materials used in the production calculation are not relevant to this division.

In our farming operations, we use seeds, fertilizer and plant protection products as primary inputs (diesel spent is calculated in a separate disclosure). Seed usage varies based on shifts in crop mix and technology. For example, the increase in acreage under winter wheat in FY2015 was behind the increase in seed usage, because wheat planting requires 0.2 tons per hectare, while corn planting requires 0.02 tons per hectare of the respective seeds. Similarly, fertilizer usage varies because of changes in technology and the variety of available fertilizers with different nitrogen, phosphorus and potassium content. The significant y-o-y increase in FY2013 and FY2014 was primarily driven by an increase in acreage following the consolidation of acquired enterprises.

## 9. Aspect boundaries

Material issues	Material aspects and indicators disclosed	Material within the organization	Materiality boundaries within organization	Material outside the organization	Relevance outside the organization
<b>Economic performance</b>	Economic performance (G4-EC1, G4-EC4)	+	All business units	+	Impacts people and economic development in countries of our operations.
<b>Human capital</b>	Training and education (G4-LA11)	+	All business units	+	Training and developing our employees, as well as ensuring a proper health and safety environment, contributes to the social and economic development of the communities where we operate.
	Health and safety (G4-LA6)	+	All business units	+	
<b>Giving back to local communities</b>	Local communities (G4-SO1)		Farming	+	Our social activities and investments in local infrastructure directly benefit regions where we operate, while our performance also indirectly impacts communities' development through jobs and local tax payments.
	Indirect economic impacts (G4-EC8)			+	
<b>Anti-corruption</b>	Anti-corruption (G4-SO3)	+	All business units	+	Reducing corruption within and outside the organization improves the social-economic growth of the countries we operate in.
<b>Product responsibility</b>	Customer health and safety (G4-PR1, G4-FP5)	+	Sunflower oil	+	Ensuring the high quality of our products benefits customers' health worldwide.
	Energy (G4-EN3, G4-EN5)	+	All business units	+	
<b>Environment</b>	Materials (G4-EN1)			+	Reducing energy consumption and carbon emissions contributes to the slowdown of global warming.
	Emissions (G4-EN15, G4-EN16, G4-EN18, G4-EN21)			+	
<b>Sustainable farming</b>	Indirect economic impacts (G4-EC8)	+	Farming	+	Growing crops in a sustainable way contributes to local communities' well-being.

# Sustainability continued

## 10. Key stakeholder groups and engagement channels

	Website	Hotline	Social networks	Direct engagement	External media	Corporate newspaper	Intranet	Events
<b>Internal</b>								
Employees	+	+	+	+	+	+	+	+
Management	+			+		+	+	
Shareholders	+			+				+
<b>External</b>								
Debt providers and rating agencies	+			+				+
National media	+			+				
Local media	+			+		+		
Local communities	+	+		+	+	+		+
Local officials	+			+	+	+		+
Regulatory authorities	+			+				
Suppliers	+		+	+				
Customers	+		+	+				

Other engagement channels include special publications, emails, interviews, and teleconferences.

# Sustainability continued

## 11. GRI G4 Content Index

### GENERAL STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
<b>Strategy and analysis</b>			
G4-1	Statement from the most senior decision-maker.	No	Chairman of the board of directors' letter (pages 6-7).
<b>Organizational profile</b>			
G4-3	Name of organization.	No	Kernel Holding S.A.
G4-4	Primary brands, products and services.	No	Kernel at a Glance (page 9).
G4-5	Headquarters' location.	No	Kyiv, Ukraine.
G4-6	Number and names of countries where the organization operates.	No	Ukraine and the Russian Federation.
G4-7	Nature of ownership and legal form.	No	Note 2 'Change in Issued Capital' to the Consolidated Financial Statements (page 69).
G4-8	Markets served.	No	Kernel at a Glance (page 9), Sunflower Oil (page 19), Grain and Infrastructure (page 25).
G4-9	Scale of the organization.	No	Employee structure (page 46), Key highlights (page 3), Kernel at a Glance (page 9).
G4-10	Workforce statistics.	No	Employee structure (page 46).
G4-11	Percentage of total employees covered by collective bargaining agreements.	No	Approximately 95% of our employees are covered by collective bargaining agreements.
G4-12	Description of organization's supply chain.	No	Sunflower Oil (page 20), Grain and Infrastructure (page 25).
G4-13	Significant changes during the reporting period.	No	Notes 1 to the Consolidated Financial Statements (page 68), Sunflower Oil (page 21).
G4-14	Application of precautionary approach or principle.	No	Product responsibility (page 45).
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	No	International Labour Organization's Fundamental Principles and Rights at Work, United Nations Global Compact (UNGC), United Nations Universal Declaration of Human Rights
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations.	No	Kernel, through its subsidiaries, is a member of several industry associations, including the Federation of Oils, Seeds and Fats Associations, the Grain and Feed Trade Association, the Ukrainian Grain Association, the Ukrainian Agri-business Club, the Ukrainian Agrarian Association, the American Chamber of Commerce, and the European Business Association.
<b>Identified material aspects and boundaries</b>			
G4-17	Coverage of entities in relation to organization's consolidated financial statements or equivalent documents.	No	Notes 1 to the Consolidated Financial Statements (page 68). Certain sustainability information does not include data for all entities, which is highlighted in each case.
G4-18	Process for defining report content and aspect boundaries	Yes	'Our approach to materiality and report content' on page 39.
G4-19	Material aspects identified.	Yes	Pages 40,49.
G4-20	Aspect boundaries within the organization for each material aspect.	Yes	'Aspect boundaries' (page 49).
G4-21	Aspect boundaries outside the organization for each material aspect.	Yes	
G4-22	Restatements.	N/a	This is the first report presented under GRI methodology.
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries.	N/a	This is the first report presented under GRI methodology.
<b>Stakeholder engagement</b>			
G4-24	List of stakeholder groups engaged by the organization.	Yes	Key stakeholder groups and engagement channels (page 50).
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Yes	'Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' on page 50. Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest.
G4-25	Organization's approach to stakeholder engagement.	Yes	
G4-25	Key topics and concerns raised through stakeholder engagement.	Yes	'Mapping material issues to external stakeholders' (page 40), 'Our approach to materiality and report content' (page 40). Also discussed throughout this report.

# Sustainability continued

## GENERAL STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
<b>Report profile</b>			
G4-28	Reporting period.	N/a	Fiscal year 2015, ended 30 June 2015. See also Note 1 to the Consolidated Financial Statements (page 68).
G4-29	Date of most recent previous report.	N/a	There were no previous reports published in line with GRI methodology. The previous annual report, which includes a sustainability section, was published for the fiscal year 2014.
G4-30	Reporting cycle.	No	Annual.
G4-31	Contact point for questions regarding the report or its contents.	No	Yegor Samusenko, sustainability@kernel.ua
G4-32	'In accordance' option.	Yes	This report was prepared in accordance with the GRI G4 'Core' option. We have sought and received external assurance for some data-driven indicators. See Assurance Letter on page 40.
G4-33	Policy and current practice with regard to seeking external assurance of the report.	Yes	Certain data-driven sustainability indicators have been assured by Baker Tilly; see Assurance Letter on page 40. Financial data in Consolidated Financial Statements for 12 months ended 30 June 2015 was audited by Deloitte Audit; see Report of the Reviseur d'Entreprises agree on page 60.

## Governance

G4-34	Governance structure of the organization.	No	Corporate Governance (pages 54-59).
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## Ethics and integrity

G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Yes	'Our values and principles' (page 42).
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## SPECIFIC STANDARD DISCLOSURES

### CATEGORY: ECONOMIC

#### Material aspect: Economic performance

G4-DMA	Generic disclosures on management approach.	No	The Group's strategy defines shareholders' value creation as an ultimate goal, which makes economic performance a material aspect. See also 'Strategy' (page 12). Also discussed throughout this report.
G4-EC1	Direct economic value generated and distributed.	No	Page 47
G4-EC4	Financial assistance received from the government.	No	Note 26 'Other operating income' to the Consolidated Financial Statements (page 101).

#### Material aspect: indirect economic impact

G4-DMA	Generic disclosures on management approach.	No	Indirect economic impact (page 43), Giving back to local communities (page 43), Sustainable farming (page 45)
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	No	Indirect economic impact (page 43), Giving back to local communities (page 43), Sustainable farming (page 45).

### CATEGORY: ENVIRONMENTAL

#### Material aspect: Materials.

G4-DMA	Generic disclosures on management approach.	Yes	'Materials used in production' (page 49), 'Our approach to materiality and report content' (page 39).
G4-EN1	Materials used by weight or volume.	Yes	'Materials used in production' (page 49).

#### Material aspect: Energy.

G4-DMA	Generic disclosures on management approach.	Yes	The Company is not subject to any government or industry-specific policy for energy use. Management approach disclosed in 'Energy consumption within the organization' (page 44), 'Our approach to materiality and report content' (page 39).
G4-EN3	Energy consumption within the organization.	Yes	'Energy consumption within the organization' (page 44).
G4-EN5	Energy intensity.	Yes	'Energy consumption within the organization' (page 44).

# Sustainability continued

## SPECIFIC STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
<b>Material aspect: Emissions.</b>			
G4-DMA	Generic disclosures on management approach.	Yes	'Environment' (pages 44-45), 'Our approach to materiality and report content' (page 39).
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1).	Yes	'Environment' (pages 44-45).
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2).	Yes	'Environment' (pages 44-45).
G4-EN18	Greenhouse gas (GHG) emissions intensity.	Yes	'Environment' (pages 44-45).
G4-EN21	NOX, SOX, and other significant air emissions.	No	The Company is in the process of establishing group-wide data collection for non-GHG emissions.
G4-EN31	Total environmental protection expenditures.	No	Not disclosed. The company is in the process of adjusting its data collection system in order to consolidate this data at the group level.

## CATEGORY: SOCIAL

### SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK

#### Material aspect: Occupational health and safety.

G4-DMA	Generic disclosures on management approach.	Yes	'Health and safety' (page 42), 'Our approach to materiality and report content' (page 39).
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	Yes	'Health and safety' (page 42). Certain indicators are not disclosed because they are not tracked by the company's management system.

#### Material aspect: Training and education.

G4-DMA	Generic disclosures on management approach.	Yes	'Investing in training and development' (page 41), 'Our approach to materiality and report content' (page 39).
G4-LA9	Average hours of training per year per employee by gender, and by employee category.	No	This data is currently not tracked. The Company is assessing ways to incorporate this data into its management accounting system.
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	Yes	Kernel started implementing a group-wide performance management system. Approximately 1% of all employees are covered by the program.

### SUB-CATEGORY: SOCIETY

#### Material aspect: Local communities.

G4-DMA	Generic disclosures on management approach.	Yes	'Giving back to local communities' (page 43), 'Our approach to materiality and report content' (page 39).
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Yes	We calculate that 64% of our operations (by labor count) are actively involved in local community engagements, though the frequency and depth of engagement differs by region. See 'Giving back to local communities' (page 43) for details.

#### Material aspect: Anti-corruption.

G4-DMA	Generic disclosures on management approach.	Yes	'Anti-corruption' (page 43), 'Our approach to materiality and report content' (page 39).
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Yes	'Anti-corruption' (page 43).

### SUB-CATEGORY: PRODUCT RESPONSIBILITY

#### Material aspect: Customer health and safety.

G4-DMA	Generic disclosures on management approach.	Yes	'Product responsibility' (page 45), 'Our approach to materiality and report content' (page 39).
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	Yes	90% of produced products by value (excluding products that were traded and services).
FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.	Yes	'Product responsibility' (page 45).



# Corporate Governance

## Group structure

Kernel Holding S.A. is a holding company for the Kernel group of companies, which includes Kernel Holding S.A. and its subsidiaries (hereinafter – ‘the Group’ or the ‘Company’). A public limited company (société anonyme), Kernel Holding S.A. was incorporated on 15 June 2005 under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and has been the holding company of the Group since incorporation. Kernel Holding S.A. shares are listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. Kernel Holding S.A.’s registered address is 19, rue de Bitbourg, L-1273, Luxembourg. The list of the Company’s principal subsidiaries is presented on page 68 of this report.

## Corporate governance framework

Kernel system of governance is defined in Kernel Holding S.A. articles of association, which are available on the Company’s web-site. Fully adhering to the corporate law of the Grand Duchy of Luxembourg, the Company also voluntarily aims to comply with the Code of Best Practice for companies listed on the Warsaw Stock Exchange and the Ten Principles of Corporate Governance issued by Luxembourg Stock Exchange, with exceptions as mentioned below.

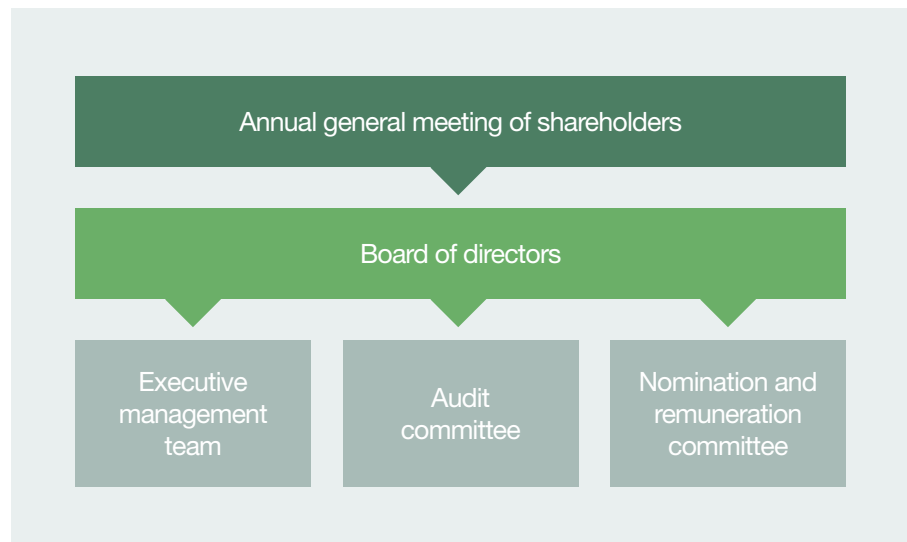
## Significant shareholdings and share capital

Kernel Holding S.A. has a single class of shares, all ranking *pari passu*, having equal voting rights and no special control rights attached to any of the shares. As of 30 June 2015, there were 79,683,410 ordinary shares issued and fully paid. Two shareholders owned more than 5% of the Company’s share capital as of 30 June 2015, based on the notifications received from the shareholders:

- Namsen Limited owns 31,247,152 shares, which represents 39.21% of the share capital; and
- Nationale-Nederlanden PTE S.A. (formerly known as ‘ING Otworthy Fundusz Emerytalny’) notified that as of 9 June 2014 it owned 4,786,230 shares, which represents 6.01% of the share capital.

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

## Governance structure



The Company did not own any of its own shares as of 30 June 2015. As part of the management incentive program, the Company grants options to the management team. As of 30 June 2015, there were a total of 7,407,820 options outstanding, out of which 3,232,820 were vested, with each option representing a right to acquire one ordinary share of the Company.

## General meeting of shareholders

Under Luxembourg company law, the Company’s annual or extraordinary general meetings of shareholders represent the entire body of shareholders of the Company. The general meetings of shareholders have the broadest powers and resolutions passed by such meetings are binding for all shareholders.

Any shareholder who is recorded in the Company’s shareholder register at least eight days before a meeting is authorized to attend and vote at the meeting. Each share is entitled to one vote at all general shareholders’ meetings.

The date of the annual general meeting is fixed in the Company’s articles of association and is 10 December or the next business day should such a date be a legal holiday.

The proposed agenda for shareholders meeting is published along with a convening notice at least 30 days before the meeting on, among other places, the Company’s website. A notice period of 17 days applies in case of a second or subsequent convocation of the general meeting convened for a lack of quorum required for the first meeting to be convened. One or more shareholders holding at least 5% of shares can put topics on the agenda of the annual meeting of shareholders and propose draft resolutions, with such proposals to be made no later than 14 days prior to the meeting of shareholders.

As per Luxembourg corporate law, shareholders may opt to participate in the general meeting via proxy or by sending a filled in voting form via email. Both forms are published by the Company along with the convening notice on the Company’s website (kernel.ua). The proxy does not have to be a shareholder of the Company. As shareholders historically participate in the general meeting through voting and proxy forms, there is no major representation of the board and executive managers at the meeting, while they are available to shareholders for dialog in the ordinary course of the business. Unless otherwise provided by law, resolutions of the meeting of shareholders are passed by a simple majority vote of shareholders present or represented.

# Corporate Governance continued

During the annual general meeting held on 10 December 2014, the Company approved the management report and annual accounts for the financial year ended 30 June 2014, approved the board's proposal to distribute USD 0.25 per share dividend. The meeting also granted discharge to the directors of the Company and its independent auditor, while also renewed the mandates of seven of the Company's directors, approved directors' remuneration, and reappointed Deloitte Audit S.a.r.l. as an independent auditor.

There were no extraordinary meetings of shareholders held during the reporting year.

## The board of directors

The board of directors (hereinafter the 'Board') currently comprises eight directors, three of whom are independent, and five are executive directors. For the directors' biography, please refer to the Company's web-site. There were no changes in the composition of the Board during the period under review.

The Board is responsible for overall direction and strategy of the Company, and is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Company's corporate objective. All powers not expressly reserved by law or by the Company's articles of association to the general meeting of shareholders fall within the competence of the Board.

All the directors are appointed at the general meeting of shareholders with a term of the office limited to six years. Directors may be reelected for consecutive terms of office. The directors are elected by simple majority vote of the shares present or represented at the general meeting of shareholders. The formal criteria and procedure for the directors' appointment are being developed by the Nomination and Remuneration committee.

## Independence criteria

The Company follows directors independence criteria set up in Annex II of the European Commission Recommendation of 15 February 2005. To fulfill the criteria of independence, the directors should:

- not be an executive director (or manager) of the Company or an associated company, and have not been in such a position over the past five years;

- not be employees of the Company or associated companies, and have not been in such a position during the past three years;
- not receive and have not received significant additional remuneration from the Company or associated companies apart from a fee received as an independent director;
- not represent and have not represented in any way a strategic shareholder with a ten per cent or greater holding;
- not have and not have had within the last financial year a significant business relationship with the Company or associated companies, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship;
- not be and have not been during the last three years a partner or employee of the present or former external auditor of the Company or associated companies;
- not be executive directors (or managers) at another company at which an executive director (or manager) of the Company is an independent director and not have other significant links with the executive directors (or managers) of the Company due to positions held in other companies or bodies;
- have not served on the Board as independent directors for more than twelve years; and not be close family members of an executive director or managers.

## Board meetings

The Board has held seven scheduled meetings during the year ended 30 June 2015. The main areas of focus by the Board during the period under review are shown below.

## Evaluation of the Board

In accordance with the Ten Principles of Corporate Governance issued by the Luxembourg Stock Exchange, the board of directors assesses its operating methods and relationship with the executive management. The evaluation is conducted through an online questionnaire with each director anonymously assessing the Board's effective fulfillment of its remit, composition, organizational structure and its effectiveness as a collective body, among other things. The evaluation of the Board is performed on an annual basis, and the Board is due to decide on a self-evaluation procedure for its committees.

## Main board activities in FY2015

Strategy	<ul style="list-style-type: none"> <li>• Strategy discussions.</li> <li>• Mid-term targets review.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>• Operations updates.</li> <li>• Managerial accounts review.</li> <li>• Trading policies.</li> </ul>
Finance and planning	<ul style="list-style-type: none"> <li>• Quarterly, semi-annual and annual financials.</li> <li>• Budget review and approval.</li> <li>• Financial agreements.</li> <li>• Dividends distribution.</li> </ul>
Risks	<ul style="list-style-type: none"> <li>• Approval of the top risks.</li> <li>• Reviewing the Group risk management process.</li> <li>• An overview of outstanding legal cases and a progress report on these cases.</li> <li>• Insider trading manual.</li> </ul>
Board development	<ul style="list-style-type: none"> <li>• Discussing the need to establish new committees within the Board of Directors.</li> <li>• Update on the corporate governance best practices implementation.</li> <li>• Board evaluation.</li> </ul>

# Corporate Governance continued

## Audit committee

The audit committee of the board of directors consists of three independent non-executive directors, headed by the chairman of the committee.

The audit committee's role is to assist the board of directors in monitoring the integrity and reliability of financial information provided by the Company, in particular by reviewing the relevance and consistency of the accounting standards applied by the Company, including consolidation criteria. The committee also assists in formulating a description of the risks specific to the Company, while a respective system of risk control to monitor the latter is implemented by the executive managers of the Company with appropriate identification and disclosure to the board of directors and the audit committee. The audit committee also receives frequent updates from the internal audit, as well as makes appropriate recommendations to internal audit if required.

Following each meeting of the committee, the chairman of the audit committee makes a report to the board of directors identifying the issues with respect to which the audit committee considers action or improvement is called for or makes recommendations on necessary adjustments in internal regulations if required. The internal and external auditors have free access to the audit committee in the ordinary course of business. Periodically, the audit committee meets the auditors in the absence of executives.

## Nomination & remuneration committee

The role of the nomination and remuneration committee is to identify and recommend appropriate candidates to fill Board positions, nominate a chairman for the Board, assess skills, knowledge and experience of the individuals appointed and review the remuneration policy of the Company.

The nomination and remuneration committee consists of three members including the chairman of the committee, all of them being members of the board of directors. The chairman of the committee is elected by the committee members. Given that the committee combines nomination and remuneration functions, it is composed of two non-executive independent directors and chairman of the board of directors.

## Main activities of the audit committee in FY2015

<b>Financial reports</b>	<ul style="list-style-type: none"> <li>Quarterly, semi-annual and annual financial reports.</li> <li>Critical accounting policies.</li> </ul>
<b>External audit</b>	<ul style="list-style-type: none"> <li>Annual audit plan and areas of focus.</li> <li>Management letter review.</li> <li>Face-to-face discussion with auditors in absence of executives.</li> <li>Review of the contract with the auditors.</li> </ul>
<b>Internal audit</b>	<ul style="list-style-type: none"> <li>Quarterly reports on internal audit projects and recommendations implementation dynamics.</li> <li>Projects planning on semi-annual basis.</li> <li>Face-to-face discussion in absence of executives.</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>Top risks identification.</li> <li>Group risk process.</li> <li>Periodic reports on risk mitigation plan implementation.</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>Review of compliance with best corporate governance practices.</li> <li>Monitoring compliance of subsidiaries outside of Ukraine and the Russian Federation with local accounting standards.</li> </ul>

The committee is assisting the Board in fulfilling its responsibilities by reviewing, advising and making recommendations to the Board on the appropriate size and composition of the Board, necessary and desirable competencies of directors, appointment and removal of directors, succession plan for the Board and senior management, induction program for new directors, the Company's recruitment and health and safety strategic objectives and policies, and oversight of the development and implementation of a process for the evaluation of the performance of the Board and its committees. The committee also develops appointment criteria and procedures for directors and reviews executive managers' remuneration but does not submit remuneration proposals.

Its functions also include assisting the Board on remuneration policies, the remuneration and incentive policies for directors and senior executives, key terms of appointment for directors and senior executives, and management incentive schemes for directors and senior management. The committee's meetings are not recorded due to confidentiality reasons.

## Executive management

The Company's daily operations are managed by executive team of fourteen managers, employed by the Company's subsidiaries, who are responsible for the operating segments and support functions of the Company. The full list of executive managers and their short biographies is available on the Company's web-site ([kernel.ua](http://kernel.ua)).

## Audit committee composition

Name	Membership status
Sergei Shibaev (chairman)	Chairman since December 2012
Ton Schurink	Member since December 2012
Andrzej Danilczuk	Member since December 2012

## Nomination & remuneration committee composition

Name	Membership status
Ton Schurink (chairman)	Chairman since June 2013
Andrzej Danilczuk	Member since June 2013
Andriy Verevsky	Member since June 2013

# Corporate Governance continued

## Remuneration of the board of directors and executive management team

The remuneration of the members of the board of directors consists of a fixed annual fee, with no variable or long-term compensation. In addition to this, the directors are reimbursed for certain travel, hotel and other expenses related to the exercise of their directorship duties. The members of the board of directors are not granted with any pension, retirement or similar benefits by the Company. The total remuneration of the board of directors, approved at the annual general meeting of shareholders, amounted to USD 382 thousand in FY2015, which was split between the directors as indicated in the table to the right.

The members of the executive management team are compensated by a fixed salary, short-term variable bonus and long-term awards granted in non-vested stock options. The compensation of the executive management team is determined by the chairman of the board Andriy Verevskyy and is reviewed by the nomination and remuneration committee of the board of directors. Short-term variable bonus pool of the executive management is linked to a target EBITDA minus financial expenses, with a minimum threshold level required to activate a payout.

Long-term awards are granted in a form of share options, with a management incentive plan duly reviewed by the nomination and remuneration committee and approved by the board of directors. Such options are granted non-vested, have a vesting period of three to five years, carry no rights to dividends and no voting rights, and have to be exercised in cash.

During the year ended 30 June 2015, the board of directors approved a new management incentive plan, under which a total 3,750,000 options were issued, with a strike price equal to the average share price in 2014, being equal to PLN 29.61. Additionally, the board of directors approved an extension of the preceding management incentive plan and issued 600,000 options with a strike price of PLN 75. As a result, a total of 7,407,820 options were issued as of 30 June 2015, out of which 3,232,820 were vested. Details of the options plans are provided in the Note 2 to the financial statements on page 69.

## Remuneration of the board of directors, in USD thousands

Group of directors	FY2015	FY2014
Chairman of the Board	116.7	–
Three non-executive directors	215.0	215.0
Four executive directors	50.0	50.0
<b>Total board of directors</b>	<b>381.7</b>	<b>265.0</b>

Remuneration of executive management team of the Group, totaling 14 people, amounted to USD 8,564 thousand in FY2015, compared to USD 2,242 thousand a year ago, with an increase being primarily driven by a provision for variable compensation related to achievement of EBITDA minus financial expenses target (there were no such payout a year ago because of low level of profitability).

The members of the executive management team are not granted any pensions, retirement or similar benefits by the Company.

## External audit

The Company's annual consolidated and standalone accounts are audited by an external auditor appointed by the annual general meeting of shareholders. On 10 December 2014, the general meeting of shareholders appointed Deloitte Audit, having its registered office at 560 rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B67895, as independent auditor of the consolidated and unconsolidated annual accounts of Kernel Holding S.A. for the year ended 30 June 2015. Deloitte audits the Company's accounts since financial year ended 30 June 2012.

The audit committee regularly meets with the auditors, including meetings without the presence of executive management, to discuss the audit process and management letter among other things and makes recommendations on the external auditor's work program. The amount of non-audit services provided by external auditors is specifically disclosed in the notes to annual accounts and, whilst services are authorized ex officio, the Audit Committee periodically examines the nature and scope of the non-audit services provided with a view to avoiding any conflicts of interest. Total amount of non-audit fees paid to Deloitte was USD 33 thousand in FY2015, compared to audit fees of USD 432 thousand.

## Internal audit

Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, as well as assists the personnel and management of the Company in improving the risk mitigation and internal controls systems. The Company's internal audit function, headed by experienced head of internal audit, reports to the board of directors and works closely with the audit committee of the board of directors.

During the reporting period, internal audit provided reasonable assurance on key controls in such operational processes as repairs and equipment maintenance in the farming division, fixed assets management, safety of raw materials in the farming division, sunflower seed and grain procurement at Russian business division. As well, the department followed closely the performance of implementation of the recommendations issued during previously completed audits. The audit committee of the board of directors reported it was satisfied with the progress of the audit projects and with the management's response.

Internal audit cooperates with the external auditor, with the procedures in place to ensure internal audit periodically meets external auditor in the absence of executives.

## Takeover disclosure

The Company's shares are in electronic form and freely transferable, subject only to the provisions of law and the Company's articles of association. There are no agreements between the Company and its employees or directors providing for compensation of the loss of office or employment (whether through resignation, purported redundancy, or otherwise) that would occur because of a takeover bid. Options granted under management incentive scheme incorporate accelerated vesting in case of takeover.

The Company in the ordinary course of business has entered into various agreements with customers and suppliers around the world.

# Corporate Governance continued

Some of the Company's borrowing agreements, which either by their nature or value may represent significant agreements, do provide for the right of termination upon a change of control of the Company. The commercial sensitivity of these agreements prevents their details from being disclosed.

Save the preceding disclosure, there are no other significant agreements to which the Company is a party that take effect, alter, or terminate upon a change of control following a takeover of the Company.

## Dividend

The Company's dividend policy is to maintain a sustainable annual dividend of USD 0.25 per share, payable in US dollars. The dividend of USD 0.25 per share for FY2014 has been distributed on 30 April 2015 to shareholders on the register at the close of business on 23 April 2015.

## Conflicts of interest

The board of directors has developed a formal conflict of interest policy. Each director is required to report to the chairman of the Board or the audit committee conflicts of interest when they arise and shall refrain from deliberating or voting on issues concerned in accordance with relevant legal provisions, except for everyday transactions entered into under normal conditions. Any abstention due to a conflict of interest shall be indicated in the minutes of the meeting and disclosed at the next general meeting, in accordance with applicable legal provisions. Notwithstanding any contrary provision, any material agreement between the Company and related parties must be approved in advance by the board of directors, with at least one independent director voting in the favor of proposed agreement.

## Insider dealing

Kernel follows insider dealing and market abuse regulations applicable to issuers listed on the Warsaw Stock Exchange as well as the respective regulation under Luxembourg law. In particular, all members of the board of directors and executive managers are required to disclose to the Company, to the Commission de Surveillance due Secteur Financier and to the Polish Financial Supervision Authority all their transactions with the Company's shares or share options, within a five-day period after such transactions reach a cumulative value equivalent of 5,000 euros. Further to this notice, the Company notifies the stock exchange and posts respective information on its website. The Company also adopted an insider trading manual, which broadens the group of persons to which insider dealing regulations apply, defines restricted periods for transactions with the Company's shares and options, and specifies dealings with insider information. The Company keeps and regularly updates the list of people that have access to inside information.



# Board of Directors

The board of directors is composed of eight directors, three of whom are independent non-executive directors. The directors presently serving on the board are the following:



**Andriy Verevskyy**  
Chairman,  
age 41

Appointed in September 2007

Committee membership:  
Member of the Nomination and  
Remuneration Committee.



**Ton Schurink**  
Non-executive independent  
director, age 69

Appointed in October 2007

Committee membership:  
Chairman of the Nomination  
and Remuneration Committee,  
member of the Audit Committee.



**Andrzej Danilczuk**  
Non-executive independent  
director, age 52

Appointed in October 2007

Committee membership:  
Member of the Audit Committee  
and Nomination and Remuneration  
Committee.



**Sergei Shibaev**  
Non-executive independent  
director, age 56

Appointed in November 2012

Committee membership:  
Chairman of the Audit Committee.



**Anastasiia Usachova**  
Chief financial officer,  
age 44

Appointed in September 2007

Committee membership:  
None.



**Kostiantyn Lytvynskyi**  
Chief operating officer,  
age 42

Appointed in December 2011

Committee membership:  
None.



**Viktoriia Lukianenko**  
Chief legal officer,  
age 40

Appointed in September 2007

Committee membership:  
None.



**Yuriy Kovalchuk**  
Corporate investment director,  
age 34

Appointed in December 2011

Committee membership:  
None.

For the directors' biography please refer to the Company's web-site [kernel.ua](http://kernel.ua).

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

# Report of the Réviseur d'Entreprises agréé

## Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated December 10, 2014, we have audited the accompanying consolidated financial statements of Kernel Holding S.A., which comprise the consolidated statement of financial position as at 30 June 2015, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted in Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgment including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Kernel Holding S.A. as of 30 June 2015, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Emphasis of Matter

We draw your attention to Note 34 "Commitments and Contingencies" to the consolidated financial statements, which describes the current political crisis in Ukraine. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

### Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The accompanying corporate governance statement on pages 54 to 58, which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial companies and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit, Cabinet de révision agréé

**Sophie Mitchell,**  
Réviseur d'entreprises agréé  
Partner

21 October 2015

# Statement of Management Responsibilities

for the year ended 30 June 2015

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

- The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by 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; 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.

21 October 2015

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Selected Financial Data

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014	30 June 2015	30 June 2014
I. Revenue	2,329,507	2,393,251	8,117,400	7,403,283	1,947,235	1,764,305
II. Profit from operating activities	328,277	128,717	1,143,914	398,173	274,407	94,890
III. Profit/(Loss) before income tax	101,327	(90,423)	353,084	(279,715)	84,699	(66,660)
IV. Profit/(Loss) for the period from continuing operations	100,882	(101,795)	351,533	(314,893)	84,327	(75,043)
V. Net cash generated by operating activities	404,723	82,472	1,410,297	255,120	338,308	60,798
VI. Net cash used in investing activities	(24,305)	(83,210)	(84,693)	(257,402)	(20,317)	(61,342)
VII. Net cash used in financing activities	(321,698)	(6,558)	(1,120,988)	(20,287)	(268,907)	(4,835)
VIII. Total net cash flow	58,720	(7,296)	204,616	(22,569)	49,084	(5,379)
IX. Total assets	1,465,618	1,919,022	5,517,319	5,847,835	1,315,391	1,405,492
X. Current liabilities	458,104	597,363	1,724,533	1,820,344	411,148	437,509
XI. Non-current liabilities	116,670	290,973	439,204	886,682	104,711	213,109
XII. Issued capital	2,104	2,104	7,921	6,412	1,888	1,541
XIII. Total equity	890,844	1,030,686	3,353,582	3,140,809	799,532	754,874
XIV. Number of shares	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410
XV. Profit/(Loss) per ordinary share (in USD/PLN/EUR)	1.34	(1.23)	4.68	(3.82)	1.12	(0.91)
XVI. Diluted number of shares	79,779,975	79,856,603	79,779,975	79,856,603	79,779,975	79,856,603
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	1.34	(1.23)	4.67	(3.81)	1.12	(0.91)
XVIII. Book value per share (in USD/PLN/EUR)	11.16	12.92	42.03	39.38	10.02	9.46
XIX. Diluted book value per share (in USD/PLN/EUR)	11.15	12.89	41.97	39.29	10.01	9.44

# Consolidated Statement of Financial Position

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2015	As of 30 June 2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	129,121	65,400
Trade accounts receivable, net	9	56,135	99,796
Prepayments to suppliers and other current assets, net	10, 33	60,647	56,924
Corporate income tax prepaid		16,600	11,689
Taxes recoverable and prepaid, net	11	88,246	144,539
Inventory	12	158,756	299,527
Biological assets	13	146,571	182,836
Assets classified as held for sale	14	2,482	11,818
<b>Total current assets</b>		<b>658,558</b>	<b>872,529</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	15	535,177	643,462
Intangible assets, net	16	52,572	94,739
Goodwill	17	119,442	138,575
Investments in joint ventures	32	57,037	98,075
Deferred tax assets	23	15,524	11,648
Corporate income tax prepaid		13,940	33,533
Other non-current assets	18, 33	13,368	26,461
<b>Total non-current assets</b>		<b>807,060</b>	<b>1,046,493</b>
<b>Total assets</b>		<b>1,465,618</b>	<b>1,919,022</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade accounts payable		27,384	33,369
Advances from customers and other current liabilities	19, 33	63,380	79,570
Short-term borrowings	20	298,005	405,821
Current portion of long-term borrowings	21	69,335	77,335
Liabilities directly associated with assets classified as held for sale	14	—	1,268
<b>Total current liabilities</b>		<b>458,104</b>	<b>597,363</b>
<b>Non-current liabilities</b>			
Long-term borrowings	21	88,901	247,525
Obligations under finance leases	22	6,277	12,486
Deferred tax liabilities	23	19,613	17,236
Other non-current liabilities	33	1,879	13,726
<b>Total non-current liabilities</b>		<b>116,670</b>	<b>290,973</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>			
Issued capital		2,104	2,104
Share premium reserve		463,879	463,879
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve		4,793	3,176
Revaluation reserve		39,456	39,456
Translation reserve		(586,283)	(367,691)
Retained earnings		925,661	848,793
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>889,554</b>	<b>1,029,661</b>
Non-controlling interests		1,290	1,025
<b>Total equity</b>		<b>890,844</b>	<b>1,030,686</b>
<b>Total liabilities and equity</b>		<b>1,465,618</b>	<b>1,919,022</b>
Book value		889,554	1,029,661
Number of shares	37	79,683,410	79,683,410
Book value per share (in USD)		11.16	12.92
Diluted number of shares	37	79,779,975	79,856,603
Diluted book value per share (in USD)		11.15	12.89

On behalf of the Board  
**Andriy Verevskyy**  
 Chairman of the Board

**Anastasiia Usachova**  
 Chief Financial Officer

# Consolidated Statement of Profit or Loss

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2015	30 June 2014
<b>Revenue</b>	24	<b>2,329,507</b>	<b>2,393,251</b>
Net change in fair value of biological assets and agricultural produce	13	(6,789)	(17,110)
Cost of sales	25	(1,810,484)	(1,967,974)
<b>Gross profit</b>		<b>512,234</b>	<b>408,167</b>
Other operating income, net	26	82,914	60,474
<b>Operating expenses</b>			
Distribution costs	27	(198,546)	(262,920)
General and administrative expenses	28	(68,325)	(77,004)
<b>Profit from operating activities</b>		<b>328,277</b>	<b>128,717</b>
Finance costs, net	29	(68,575)	(72,459)
Foreign exchange loss, net	30	(152,942)	(98,805)
Other expenses, net	31	(10,520)	(51,777)
Share of gain of joint ventures	32	5,087	3,901
<b>Profit/(Loss) before income tax</b>		<b>101,327</b>	<b>(90,423)</b>
Income tax expenses	23	(445)	(11,372)
<b>Profit/(Loss) for the period from continuing operations</b>		<b>100,882</b>	<b>(101,795)</b>
<b>Discontinued operations:</b>			
Loss for the period from discontinued operations	14	(5,349)	(5,611)
<b>Profit/(Loss) for the period</b>		<b>95,533</b>	<b>(107,406)</b>
<b>Profit/(Loss) for the period attributable to:</b>			
<b>Equity holders of Kernel Holding S.A.</b>		<b>106,930</b>	<b>(98,306)</b>
Non-controlling interests		(11,397)	(9,100)
<b>Earnings per share</b>			
From continuing and discontinued operations			
Weighted average number of shares	37	79,683,410	79,683,410
Profit/(Loss) per ordinary share (in USD)		1.34	(1.23)
Diluted number of shares	37	79,779,975	79,856,603
Diluted profit/(loss) per ordinary share (in USD)		1.34	(1.23)
From continuing operations			
Weighted average number of shares	37	79,683,410	79,683,410
Profit/(Loss) per ordinary share (in USD)		1.40	(1.17)
Diluted number of shares	37	79,779,975	79,856,603
Diluted profit/(loss) per ordinary share (in USD)		1.40	(1.17)

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

	30 June 2015	30 June 2014
<b>Profit/(Loss) for the period</b>	<b>95,533</b>	<b>(107,406)</b>
<b>Other comprehensive loss</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	(216,407)	(213,728)
<b>Items that will not be reclassified to profit or loss:</b>		
Income tax relating to components of other comprehensive loss	—	(597)
<b>Other comprehensive loss, net</b>	<b>(216,407)</b>	<b>(214,325)</b>
<b>Total comprehensive loss for the period</b>	<b>(120,874)</b>	<b>(321,731)</b>
<b>Total comprehensive loss attributable to:</b>		
Equity holders of Kernel Holding S.A.	(111,662)	(305,972)
Non-controlling interests	(9,212)	(15,759)

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

Attributable to Kernel Holding S.A. shareholders										
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance as of 30 June 2013</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>3,028</b>	<b>40,053</b>	<b>(160,622)</b>	<b>947,099</b>	<b>1,335,485</b>	<b>16,784</b>	<b>1,352,269</b>
Loss for the period	—	—	—	—	—	—	(98,306)	(98,306)	(9,100)	(107,406)
Other comprehensive loss	—	—	—	—	(597)	(207,069)	—	(207,666)	(6,659)	(214,325)
<b>Total comprehensive loss for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(597)</b>	<b>(207,069)</b>	<b>(98,306)</b>	<b>(305,972)</b>	<b>(15,759)</b>	<b>(321,731)</b>
Recognition of share-based payments (Note 2)	—	—	—	148	—	—	—	148	—	148
<b>Balance as of 30 June 2014</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>3,176</b>	<b>39,456</b>	<b>(367,691)</b>	<b>848,793</b>	<b>1,029,661</b>	<b>1,025</b>	<b>1,030,686</b>
Profit/(Loss) for the period	—	—	—	—	—	—	106,930	106,930	(11,397)	95,533
Other comprehensive (loss)/income	—	—	—	—	—	(218,592)	—	(218,592)	2,185	(216,407)
<b>Total comprehensive (loss)/income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(218,592)</b>	<b>106,930</b>	<b>(111,662)</b>	<b>(9,212)</b>	<b>(120,874)</b>
Payment of dividends (Note 2)	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Effect of changes in non-controlling interests (Note 1)	—	—	—	—	—	—	(10,141)	(10,141)	9,477	(664)
Recognition of share-based payments (Note 2)	—	—	—	1,617	—	—	—	1,617	—	1,617
<b>Balance as of 30 June 2015</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>4,793</b>	<b>39,456</b>	<b>(586,283)</b>	<b>925,661</b>	<b>889,554</b>	<b>1,290</b>	<b>890,844</b>

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Cash Flows

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2015	30 June 2014
<b>Operating activities:</b>			
<b>Profit/(Loss) before income tax</b>		<b>97,244</b>	<b>(97,429)</b>
<b>Adjustments for:</b>			
Amortization and depreciation		68,287	94,308
Finance costs, net	29	68,575	72,522
Movement in allowance for doubtful receivables	28	2,279	6,133
Other accruals		4,463	1,024
(Gain)/Loss on disposal of property, plant and equipment	31	(494)	2,487
Net foreign exchange loss		93,238	79,133
Write-offs and impairment loss		4,282	15,286
Net change in fair value of biological assets and agricultural produce	13	6,789	17,110
Share of gain of joint ventures	32	(5,087)	(3,901)
(Gain)/Loss on sales of Subsidiaries	7, 14, 31	(861)	8,871
<b>Operating profit before working capital changes</b>		<b>338,715</b>	<b>195,544</b>
<b>Changes in working capital:</b>			
Change in trade accounts receivable		29,517	26,419
Change in prepayments and other current assets		(10,148)	33,594
Change in restricted cash balance		(5,000)	6,193
Change in taxes recoverable and prepaid		(14,888)	(10,598)
Change in biological assets		18,374	44,895
Change in inventories		123,940	(29,657)
Change in trade accounts payable		5,509	(13,590)
Change in advances from customers and other current liabilities		102	(58,130)
<b>Cash generated from operations</b>		<b>486,121</b>	<b>194,670</b>
Finance costs paid		(68,371)	(72,002)
Income tax paid		(13,027)	(40,196)
<b>Net cash generated by operating activities</b>		<b>404,723</b>	<b>82,472</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(24,728)	(49,906)
Proceeds from disposal of property, plant and equipment		2,052	8,182
Purchase of intangible and other non-current assets		(4,105)	(519)
Acquisition of Subsidiaries		—	(55,402)
Disposal of Subsidiaries	7, 14	2,476	14,435
<b>Net cash used in investing activities</b>		<b>(24,305)</b>	<b>(83,210)</b>
<b>Financing activities:</b>			
Proceeds from borrowings		147,265	654,255
Repayment of borrowings		(423,005)	(647,387)
Payment of dividends	2	(19,921)	—
Repayment of reimbursed debt	33	(13,499)	—
Acquisition of non-controlling interests	1	(664)	—
<b>Net cash (used in)/generated from financing activities</b>		<b>(309,824)</b>	<b>6,868</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(11,874)	(13,426)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>58,720</b>	<b>(7,296)</b>
Cash and cash equivalents, at the beginning of the year	8	65,401	72,697
Cash and cash equivalents, at the end of the year	8	124,121	65,401

On behalf of the Board

**Andriy Verevsky**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

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

The Group's principal business activity is the production and subsequent export of sunflower oil and meal in bulk, the production and sale of bottled sunflower oil, the wholesale trade of grain (mainly corn, soybean, wheat and barley), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine and the Russian Federation. As of 30 June 2015, the Group employed 15,229 people (16,518 people as of 30 June 2014).

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

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

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

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of	
			30 June 2015	30 June 2014
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%
Tweelingen Ukraine LLC		Ukraine	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%
Stavropol oil CJSC		Russian Federation	100.0%	100.0%
Ust-Labinsk Florentina OEP LLC		Russian Federation	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%
Agrofirma Kuybyshevo LLC		Ukraine	100.0%	65.6%
Palmira LLC		Ukraine	100.0%	93.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	83.3%

During the year ended 30 June 2015, the Group acquired non-controlling interests in agricultural farms with a total negative net assets in the amount of USD 9,477 thousand, for a cash consideration in the amount of USD 664 thousand. These operations were recorded within the statement of changes in equity as transactions between equity holders.

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 21 October 2015.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'). The issued capital of the Holding as of 30 June 2015 and 2014 consisted of 79,683,410 ordinary electronic shares without indication of the nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

	As of 30 June 2015		As of 30 June 2014	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	31,247,152	39.21 %	31,182,711	39.13 %
Free float	48,436,258	60.79 %	48,500,699	60.87 %
<b>Total</b>	<b>79,683,410</b>	<b>100.00 %</b>	<b>79,683,410</b>	<b>100.00 %</b>

As of 30 June 2015 and 2014, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

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

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

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

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 30 June 2015, may not be distributed as dividends.

As part of the management incentive scheme, the Company's executives and senior employees are granted options to acquire shares of the Company. During the year ended 30 June 2015, the board of directors approved a new management incentive plan and amendment to the previous management incentive plan, issuing a total of 4,350,000 new options (600,000 options with a strike price of PLN 75.00 and 3,750,000 options with a strike price of PLN 29.61), with the authorized capital due to be approved by the general meeting of shareholders. As a result, as of 30 June 2015, a total of 7,407,820 options were issued, of which 3,232,820 were vested. 657,820 options (all vested) have a strike price of PLN 24.00, 3,000,000 options (out of which 2,575,000 are vested) have a strike price of PLN 75.00 per share, and 3,750,000 options (out of which none are vested) have a strike price of PLN 29.61. Weighted average remaining contractual life was 12 years. These options granted under the Company's management incentive scheme carry no rights to dividends and no voting rights.

The fair value of the share-based options was USD 4,793 thousand as of 30 June 2015 and USD 1,617 thousand was recognized as an expense (part of payroll and payroll related expenses) during the year ended 30 June 2015 with a corresponding increase in equity over the vesting period (30 June 2014: USD 3,176 thousand and USD 148 thousand, respectively).

At the Annual General Meeting held as of 10 December 2014, the resolution of dividend payment was approved in the amount of 0.25 cents per share and amounted to USD 19,921 thousand.

On 30 April 2015, the dividends were fully paid to the shareholders.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies

### Basis of Preparation and Accounting

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment for bulk and bottled oil segments, available-for-sale financial assets, biological assets, agricultural produce, financial assets and financial liabilities at fair value through profit or loss.

The Group's subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's subsidiaries' accounts under local accounting regulations, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

### Adoption of New and Revised Standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 July 2014:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'
- Amendment to IAS 27 'Separate Financial Statements' (revised 2011) – Investment entities
- Amendments to IAS 32 'Financial instruments: Presentation' – Application guidance on the offsetting of financial assets and financial liabilities
- Amendments to IAS 36 'Recoverable amount disclosures for non-financial assets'
- Amendments to IAS 39 'Novation of derivatives and continuation of hedge accounting'
- IFRIC 21 'Levies'

IFRS 10 'Consolidated Financial Statements' – IFRS 10 replaces the parts of IAS 27 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements and SIC-12 'Consolidation – Special Purpose Entities'. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group. The application of IFRS 10 has not had any material impact on the amounts recognized in the consolidated financial statements.

IFRS 11 'Joint Arrangements' – Replaces IAS 31 'Interests in Joint Ventures'. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then accounting for those rights and obligations in accordance with that type of joint arrangement: joint operations or joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 'Investments in Associates and Joint Ventures' (2011). Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted. The application of IFRS 11 has not had any material impact on the amounts recognized in the consolidated financial statements.

IFRS 12 'Disclosure of Interests in Other Entities' – Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Adoption of IFRS 12 resulted in more extensive disclosure of investment in joint venture (please see Note 32).

The adoption of other new or revised standards did not have any effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Standards and Interpretations Issued but not Effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations, as well as amendments to the standards had been issued but were not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions	1 February 2015
Amendments to IFRSs – 'Annual Improvements to IFRSs 2010-2012 Cycle'	1 February 2015
Amendments to IFRSs – 'Annual Improvements to IFRSs 2011-2013 Cycle'	1 February 2015
IFRS 9 'Financial Instruments: Recognition and Measurement'	Not yet adopted in the EU
IFRS 14 'Regulatory Deferral Accounts'	Not yet adopted in the EU
IFRS 15 'Revenue from Contracts with Customers'	Not yet adopted in the EU
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	Not yet adopted in the EU
Amendments to IFRS 9 'Financial Instruments: Recognition and Measurement' – Classification, Measurement and Accounting for Financial Assets and Liabilities and Derecognition Requirements	Not yet adopted in the EU
Amendments to IFRS 9, IFRS 7 and IAS 39: Hedge Accounting	Not yet adopted in the EU
Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations	Not yet adopted in the EU
Amendments to IAS 16 and IAS 41: Bearer Plants	Not yet adopted in the EU
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet adopted in the EU
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	Not yet adopted in the EU
Amendments to IAS 1: 'Disclosure Initiative'	Not yet adopted in the EU
Amendments to IAS 27 'Separate Financial Statements' (revised 2011) - Equity Method in Separate Financial Statements	Not yet adopted in the EU
Amendments to IFRSs – 'Annual Improvements to IFRSs 2012-2014 Cycle'	Not yet adopted in the EU

Management is currently evaluating the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. For other standards and interpretations, management anticipates that their adoption will not have a material effect on the financial statements of the Group in future periods.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Functional and Presentation Currency

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

### Foreign Currencies

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

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

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

Currency	Closing rate as of 30 June 2015	Average rate for the year ended 30 June 2015	Closing rate as of 30 June 2014	Average rate for the year ended 30 June 2014
USD/UAH	21.0154	17.4029	11.8233	9.1307
USD/EUR	0.8975	0.8359	0.7324	0.7372
USD/RUB	55.5240	49.5381	33.6306	33.8131
USD/PLN	3.7645	3.4846	3.0473	3.0934

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

All foreign exchange gain or loss that occurs on revaluation of monetary balances, presented in foreign currencies, is allocated as a separate line in the Consolidated Statement of Profit or Loss.

### Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2015.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its Subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Basis of Consolidation continued

Consolidation of a Subsidiary begins when the Company obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary. Specifically, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the Subsidiary.

The results of Subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition and up to the effective date of disposal.

All inter-company transactions and balances between the Group's enterprises are eliminated on consolidation. Unrealized gains and losses resulting from inter-company transactions are also eliminated, except for unrealized losses that cannot be recovered.

Non-controlling interests as of the reporting date represent the non-controlling equity holders' portion of the fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date and the non-controlling equity holders' portion of movements in equity since the date of acquisition. The total comprehensive income of Subsidiaries is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs are expensed when incurred and included in general and administrative expenses.

At the acquisition date, identifiable assets acquired and liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits', respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 'Share-based Payment at the acquisition date'; and
- Assets (or those held for disposal by the Group) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that standard.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Business Combinations continued

In case identifiable net assets attributable to the Group, after reassessment, exceed the cost of acquisition, the difference is recognized in the Consolidated Statement of Profit or Loss as a gain on a bargain purchase.

For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at a proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during a measurement period of 12 months after the acquisition date.

Changes in the Group's ownership interests in Subsidiaries that do not result in the Group losing control over the Subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect changes in their relative interests in Subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Holding.

### Goodwill

Goodwill arising from a business combination is recognized as an asset at the date that control is acquired (acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity net the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the profit or loss in the Consolidated Statement of Profit or Loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On the disposal of a relevant cash-generating unit, an attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Investments in Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

### Discontinued Operations

In compliance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Non-current assets are measured at the lower of the previous carrying amount or the fair value less costs to sell.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Discontinued Operations continued

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control, and there is sufficient evidence that the Group remains committed to its plan to sell the asset. In such circumstances, the asset is measured at its fair value less costs to sell at each reporting date. Any impairment loss arising subsequent to reclassification as held for sale is recognized in the Consolidated Statement of Profit or Loss.

If criteria for classification of the asset as held for sale are no longer met at the reporting date, the Group ceases to classify the asset as held for sale.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a Subsidiary acquired exclusively with a view to resale.

The result from discontinued operations is presented in the Consolidated Statement of Profit or Loss as a separate item after the profit from continuing operations. If the criteria for classification of the disposal group held for sale are met after the reporting date, the disposal group is not presented as held for sale in those financial statements when issued. However, when those criteria are met after the reporting date but before the authorization of the financial statements for issue, the Group discloses the relevant information in notes to the financial statements.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost consists of the purchase cost and, where applicable, those expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Biological Assets and Agricultural Produce

The Group classifies crops in fields and cattle as biological assets. The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the Consolidated Statement of Profit or Loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising from the initial recognition of agricultural produce at fair value less costs to sell is included in the Consolidated Statement of Profit or Loss.

Biological assets for which quoted market prices are not available and for which alternative estimates of fair value are considered to be clearly unreliable are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

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

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets except non-current cattle were classified as current, as their average useful life is less than one year.

### Property, Plant, and Equipment

Buildings, constructions, production machinery and equipment (both in bulk and bottled oil segments) are accounted for at revalued amounts, being the fair value, which is determined using external professional expert evaluation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Except for land, all other property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses and is not depreciated.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Property, Plant and Equipment continued

The fair value is defined as the amount for which an asset could have been exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of marketable assets is determined by their market value. If there is no market-based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, income or a depreciated replacement cost approach is used to estimate the fair value. Valuations are performed frequently enough to ensure that the fair value of a remeasured asset does not differ materially from its carrying amount. Property, plant and equipment acquired in a business combination are initially recognized at their fair value, which is based on valuations performed by independent professionally qualified appraisers.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of assets or increase their revenue-generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the Consolidated Statement of Profit or Loss as incurred.

If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to other comprehensive income and accumulated in revaluation surplus in equity. However, such an increase is recognized in the Consolidated Statement of Profit or Loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in the Consolidated Statement of Profit or Loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the Consolidated Statement of Profit or Loss. However, such a decrease is debited directly to the Other Comprehensive Income or Loss to the extent of any credit balance existing in the revaluation surplus with respect to that asset.

Depreciation on revalued assets is charged to the Consolidated Statement of Profit or Loss. On the subsequent sale or retirement of revalued assets, the revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized. Property, plant and equipment are depreciated over the estimated useful economic lives of assets under the straight-line method.

Useful lives of property, plant, and equipment are as follows:

Buildings and constructions	20 - 50 years
Production machinery and equipment	10 - 20 years
Agricultural equipment and vehicles	3 - 10 years
Other fixed assets	5 - 20 years
Construction in progress (CIP) and uninstalled equipment	not depreciated

Construction in progress consists of costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overhead incurred during construction. Depreciation of these assets commences when the assets are put into operation.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statement of Profit or Loss.

### Intangible Assets

#### Trademarks

Intangible assets acquired separately from a business are capitalized at initial cost. The 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks have indefinite useful lives and are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

#### Land Lease Rights

Land lease rights acquired in a business combination are recognized separately from goodwill at their fair value at the acquisition date (which is subsequently regarded as their cost).

Amortization of land lease rights is calculated on a straight-line basis during the term of a lease contract. For land lease rights, the amortization period varies from 1 to 22 years.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the Consolidated Statement of Profit or Loss when the asset is derecognized.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Impairment of Non-current Assets, Except Goodwill

At each reporting date, the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Financial Instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of financial instruments. Financial instruments are classified according to the following categories: financial assets or financial liabilities recognized at fair value through profit or loss (FVTPL); held-to-maturity investments; available-for-sale financial assets; loans and receivables and other financial liabilities. The classification depends on the nature and purpose of the financial assets or financial liabilities and is determined at the time of initial recognition.

The financial assets of the Group are represented by cash, loans and receivables and financial assets at fair value through profit or loss.

The effective interest method calculates the amortized cost of a debt instrument and allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below the market is recognized net of the tax effect as an income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

### Financial Assets or Financial Liabilities at Fair Value through Profit or Loss

These are financial instruments acquired mainly with the purpose of gaining from short-term price fluctuations or designated as such upon initial recognition. Financial assets or liabilities are recognized at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Classified by the Group as an instrument at the moment of initial recognition, they are measured at fair value with any resultant gain or loss recognized in the Consolidated Statement of Profit or Loss.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash with banks, and deposits with original maturities of three months or less.

### Loans Receivable

Loans provided by the Group are non-derivative financial assets, created by means of granting money directly to a borrower or participating in the provision of credit services, not including those assets that were created for the purpose of immediate sale or sale during a short-term period or classified as investments held for trading. For loans given at a rate and on terms that are different from market terms and conditions, the difference between the par value of the resources provided and the fair value of the amount lent is reflected in the Consolidated Statement of Profit or Loss for the period when the amount was lent as an adjustment to the loan amount. Loans with fixed maturity terms are measured at amortized cost using the effective interest method. Loans without fixed maturity terms are carried at initial cost. Loans provided are reflected in the Consolidated Statement of Financial Position, less an allowance for estimated non-recoverable amounts.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Trade Accounts Receivable

Trade accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade accounts receivable are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

The Group's trade accounts receivable and loans receivable are included in full in non-current assets, except for those cases when the term of redemption expires within 12 months of the reporting date. Financial assets, which are recognized at fair value through profit or loss, are a part of current assets and available-for-sale investments if the Group's management has the intent to realize them within 12 months from the reporting date. All acquisitions and sales of financial instruments are registered at the settlement date. Investments in equity securities where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

### Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indications of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Probability of the borrower filing for bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade accounts receivable, assets that are assessed as not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, and observable changes in national or local economic conditions that correlate with defaults on accounts receivable.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

### Derecognition of Financial Assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and all the risks and rewards to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the Consolidated Statement of Profit or Loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in the Consolidated Statement of Profit or Loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Financial Liabilities

The financial liabilities of the Group are represented by other financial liabilities and financial liabilities at fair value through profit or loss.

Other financial liabilities (including borrowings, obligations under finance lease, trade and other payables) are subsequently measured at amortized cost using the effective interest method.

Borrowings are recorded as proceeds received, net of direct issue costs. Finance charges, including payments at origination and settlement, are accounted for on an accrual basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Financial liabilities at fair value through profit or loss were represented by non-deliverable currency forwards, which were used by the Group in order to protect against unfavorable USD/UAH exchange rates movements. Such liabilities, including derivatives that are liabilities, shall be measured at fair value. Gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized in the Consolidated Statement of Profit or Loss.

### Derecognition of Financial Liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the Consolidated Statement of Profit or Loss.

### Taxes Recoverable and Prepaid

Taxes recoverable and prepaid are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as an obligation under finance lease. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are included in expenses for the period to which they relate on a straight-line basis over the term of the relevant lease.

### Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

### Provisions

A provision is recognized in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but is disclosed when an inflow of economic benefits is probable.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Employee Benefits

Certain entities within the Group participate in a mandatory government defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognized in the Consolidated Statement of Financial Position with respect to the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date, less adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

### Repurchase of Issued Capital

When issued capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are presented as a deduction from total equity.

### Equity-settled Transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date the relevant employees become fully entitled to the award.

Fair value is calculated using the Black-Scholes model. No expense is recognized for awards that do not ultimately vest.

At each reporting date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognized in the Consolidated Statement of Profit or Loss, with a corresponding entry in equity.

### Earnings per Share

Earnings per share are calculated by dividing net profit attributable to equity holders of the Holding by the weighted average number of shares outstanding during the period.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group, and the revenue can be reliably measured.

**The following specific recognition criteria must also be met before revenue is recognized:**

#### Sale of Goods and Finished Products

Revenue is recognized when the significant risks and rewards of ownership of goods for resale and finished products have passed to the buyer, the amount of revenue can be measured reliably, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

#### Rendering of Services

Revenue is recognized in the accounting period in which services are rendered.

The main type of services provided by the Group are transshipment services by terminals and crop cleaning, drying and storage services by the Group's silos. Revenue from transshipment services is recognized based on actually performed work. Revenue from grain cleaning, drying and storage services is recognized on an accrual basis, based on the fees for the specific service, volumes of crops under service and days of storage.

### VAT Benefits

Some of the Group's companies are subject to special tax treatment for value added tax (VAT). The Group's enterprises that qualify as agricultural producers are entitled to retain net VAT payable. VAT amounts payable are not transferred to the government, but credited to the entity's separate special account to support the agriculture activities of the Group. The net result of VAT operations calculated as an excess of the VAT liability over VAT credit is accounted for in the Consolidated Statement of the Profit or Loss as other operating income. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities in the next period.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statement of Profit or Loss in the period in which they are incurred. The interest expense component of finance lease payments is recognized in the Consolidated Statement of Profit or Loss using the effective interest rate method.

### Income Taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently enacted in the legal jurisdictions where the operating entities are located.

Current and deferred tax are recognized in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The current income tax charge is the amount expected to be paid to, or recovered from, taxation authorities with respect to taxable profit or losses for the current or previous periods. It is calculated using tax rates that have been enacted or substantially enacted by the reporting date in the countries where the Holding and its Subsidiaries operate and generate taxable income. Taxable profit differs from 'profit before tax' because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible taxes other than income tax are recorded within operating expenses. Some of the Group's companies that are involved in agricultural production are exempt from income taxes and pay the Fixed Agricultural Tax instead.

Deferred income tax is recognized on temporary differences arising between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse or the tax loss carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities for taxable temporary differences associated with investments in Subsidiaries and joint ventures are recognized, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

### Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 30 June 2014 and for the year then ended to conform to the current year's presentation.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The application of IFRS requires the use of reasonable judgments, assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The estimates are based on the information available as of the reporting date. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying grain is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying grain indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 48,837 thousand and USD 93,079 thousand for the years ended 30 June 2015 and 2014, respectively.

#### Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (bulk and bottled oil segments). At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period. Based on the results of this review, the Group concluded that the carrying amount of buildings, constructions, production machinery and equipment (bulk and bottled oil segments) does not materially differ from the fair value as of 30 June 2015.

#### Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill is impaired requires an estimation of the value in use or fair value less costs to sell the cash-generating units to which goodwill has been allocated. The calculation of value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate their present value.

As of 30 June 2015, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 133,282 thousand (30 June 2014: USD 155,884 thousand). As of 30 June 2015, the impairment loss for intangible assets with indefinite useful lives was recognized in the amount of USD 6,169 thousand (Note 16) (30 June 2014: USD 2,027 thousand). Details of management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Notes 16 and 17.

#### Impairment of Property, Plant and Equipment

Management reviews the carrying amounts of assets to determine whether there is any indication that those assets are impaired.

In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

The assessment of whether there are indicators of a potential impairment are based on various assumptions including market conditions, asset utilization and the ability to utilize the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount.

The value in use is based on estimated future cash flows that are discounted to their present value. Estimated future cash flows require management to make a number of assumptions including customer demand and industry capacity, future growth rates and the appropriate discount rate. Any change in these estimates may result in impairment in future periods.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty continued

### Useful Lives of Property, Plant and Equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The factors that could affect the estimation of the life of a non-current asset and its residual value include the following:

- Changes in technology;
- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values. The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in the estimated useful life or residual value is recorded on a prospective basis from the date of the change.

### Fair Value of Biological Assets and Agricultural Produce

Biological assets are recorded at fair value less costs to sell. The Group estimates the fair values of biological assets and agricultural produce based on the following key assumptions:

- Expected crop output (for crops in fields);
- Expected future inflows from livestock;
- Average number of heads of milk cows and its weight;
- Productive life of one milk cow;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results (Note 13).

### Deferred Tax Recognition

Deferred tax assets, including those arising from unused tax losses are recognized to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

### VAT Recoverability

As of 30 June 2015, total VAT recoverable amounted to USD 80,211 thousand (as of 30 June 2014: USD 138,722 thousand) (Note 11). The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by setting it off against VAT liabilities in future periods. Management classifies the VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within 12 months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed to be created.

In making this assessment, management considered the past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess VAT output over VAT input in the normal course of the business.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 5. 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 members of the board of directors of the Group are identified as the chief operating decision makers.

Segments in the consolidated financial statements are defined in accordance with the type of activity, products sold or services provided. The operating segments' activities are as follows:

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

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2015:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	114,060	1,099,674	76	29,010	1,053,267	7,668	27,446	—	—	(1,694)	2,329,507
Intersegment sales	—	—	55,186	281,383	—	34,725	—	—	(371,294)	—	—
<b>Total revenue</b>	<b>114,060</b>	<b>1,099,674</b>	<b>55,262</b>	<b>310,393</b>	<b>1,053,267</b>	<b>42,393</b>	<b>27,446</b>	<b>—</b>	<b>(371,294)</b>	<b>(1,694)</b>	<b>2,329,507</b>
Net change in fair value of biological assets and agricultural produce	—	—	—	(6,789)	—	—	—	—	—	—	(6,789)
Other operating income	863	39,077	479	22,642	19,588	265	52	—	—	(52)	82,914
<b>Profit/(Loss) from operating activities</b>	<b>17,582</b>	<b>175,847</b>	<b>33,768</b>	<b>58,404</b>	<b>59,369</b>	<b>13,684</b>	<b>4,262</b>	<b>(34,334)</b>	<b>—</b>	<b>(305)</b>	<b>328,277</b>
Finance costs, net											(68,575)
Foreign exchange loss, net											(152,942)
Other expenses, net											(10,520)
Share of gain of joint ventures											5,087
Income tax expense											(445)
Profit for the year from continuing operations											100,882
<b>Total assets</b>	<b>68,798</b>	<b>772,323</b>	<b>122,548</b>	<b>340,061</b>	<b>80,106</b>	<b>71,792</b>	<b>881</b>	<b>6,627</b>	<b>—</b>	<b>—</b>	<b>1,463,136</b>
Capital expenditures	2,786	6,917	749	14,031	—	9,151	—	497	—	—	34,131
Amortization and depreciation	2,958	16,703	3,028	39,535	—	4,640	—	1,423	—	—	68,287
Liabilities	2,074	41,754	902	24,740	13,891	6,319	923	484,171	—	—	574,774

During the year ended 30 June 2015, none of the Company's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 94% of total external sales.

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

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

	Revenue from external customers	Non-current assets
	Year ended 30 June 2015	As of 30 June 2015
Ukraine	2,019,732	721,309
Russian Federation	309,775	85,751
<b>Total</b>	<b>2,329,507</b>	<b>807,060</b>

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment continued

Key data by operating segment for the year ended 30 June 2014:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	132,637	1,079,037	3,180	62,322	1,053,613	27,538	35,953	—	—	(1,029)	2,393,251
Intersegment sales	—	—	42,284	227,764	—	46,923	—	—	(316,971)	—	—
<b>Total revenue</b>	<b>132,637</b>	<b>1,079,037</b>	<b>45,464</b>	<b>290,086</b>	<b>1,053,613</b>	<b>74,461</b>	<b>35,953</b>	<b>—</b>	<b>(316,971)</b>	<b>(1,029)</b>	<b>2,393,251</b>
Net change in fair value of biological assets and agricultural produce	—	—	—	(17,110)	—	—	—	—	—	—	(17,110)
Other operating income/ (expenses)	2,083	22,331	577	26,718	12,317	508	2,181	(4,060)	—	(2,181)	60,474
<b>Profit/(Loss) from operating activities</b>	<b>24,707</b>	<b>130,990</b>	<b>24,019</b>	<b>(102,868)</b>	<b>59,357</b>	<b>30,748</b>	<b>(2,779)</b>	<b>(38,583)</b>	<b>—</b>	<b>3,126</b>	<b>128,717</b>
Finance costs, net											(72,459)
Foreign exchange loss, net											(98,805)
Other expenses, net											(51,777)
Share of gain of joint ventures											3,901
Income tax expense											(11,372)
Loss for the year from continuing operations											(101,795)
<b>Total assets</b>	<b>64,858</b>	<b>904,021</b>	<b>183,000</b>	<b>483,248</b>	<b>108,719</b>	<b>134,130</b>	<b>27,532</b>	<b>1,696</b>	<b>—</b>	<b>—</b>	<b>1,907,204</b>
Capital expenditures	174	1,828	277	28,279	—	26,223	—	2,607	—	—	59,388
Amortization and depreciation	1,926	20,212	3,288	58,571	12	8,407	—	1,892	—	—	94,308
Liabilities	998	31,705	816	43,223	14,945	15,136	635	779,610	—	—	887,068

During the year ended 30 June 2014, none of the Company's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 91% of total external sales.

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

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

	Revenue from external customers	Non-current assets
	Year ended 30 June 2014	As of 30 June 2014
Ukraine	2,005,505	921,781
Russian Federation	387,746	124,712
<b>Total</b>	<b>2,393,251</b>	<b>1,046,493</b>

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries

No entities were acquired during the year ended 30 June 2015.

In May 2015, the Company disposed of one of its grain elevators located in Kharkiv region. The net assets of the disposed entity as of the date of disposal were equal to USD 400 thousand and the cash consideration received was USD 1,232 thousand.

During the year ended 30 June 2014, the Company acquired a farming entity that possessed 1,010 hectares of leasehold farmland located in Khmelnytskyi region. The consideration paid comprised USD 394 thousand. The result of the acquisition was not significant to the consolidated financial statements of the Company for the year ended 30 June 2014.

During the year ended 30 June 2014, the Company finalized accounting for the business combination of Druzhba-Nova Group. The adjustments to provisional values presented in prior periods' financial statements of the Company have been made retrospectively with corresponding changes in goodwill. These adjustments have resulted mostly from the finalization of valuation of property, plant and equipment. The most significant adjustments have been made to provisional values related to the following accounts: decrease of property, plant and equipment in the amount of USD 4,071 thousand, and recognition of goodwill in the amount of USD 4,308 thousand.

In February 2014, the Company sold 100% of an effective ownership interest in one of its oilseed crushing plants located in the Russian Federation – the Nevinnomyssk oilseed crushing plant CJSC. The net assets of the disposed entity as of the date of disposal were equal to USD 15,566 thousand and the cash consideration received was USD 8,542 thousand. Cash balances disposed of comprised USD 4 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

In November 2013, as a result of the optimization process of its legal structure, the Company sold its effective ownership interest in a number of immaterial companies in the farming and silo services segments. 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 2,490 thousand and the cash consideration received was USD 643 thousand. Cash balances disposed of comprised USD 51 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

## 8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2015	As of 30 June 2014
Cash in banks in USD	110,537	35,721
Cash in banks in UAH	18,077	28,377
Cash in banks in other currencies	500	1,273
Cash on hand	7	29
<b>Total</b>	<b>129,121</b>	<b>65,400</b>
Less restricted and blocked cash on security bank accounts	(5,000)	—
Cash and bank balances included in the group of assets held for sale	—	1
<b>Cash for the purposes of cash flow statement</b>	<b>124,121</b>	<b>65,401</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2015	As of 30 June 2014
Trade accounts receivable	58,060	105,057
Allowance for estimated irrecoverable amounts	(1,925)	(5,261)
<b>Total</b>	<b>56,135</b>	<b>99,796</b>

As of 30 June 2015, accounts receivable from one European customer accounted for approximately 22.2%, and one Ukrainian customer for 3.4% of the total carrying amount of trade accounts receivable (as of 30 June 2014, one European customer for approximately 12.0% and one Ukrainian customer for 3.0%).

The average credit period on sales of goods was 12 days (for the period ended 30 June 2014: 15 days). No interest is charged on the outstanding balances of trade accounts receivable. Most of the trade accounts receivable past due for more than one month are considered to be impaired. Allowances for doubtful debts are recognized against trade accounts receivable that are overdue between 30 and 365 days and are calculated on the basis of the delay in payment by applying a fixed percentage.

Before accepting any new customer, the Group uses an external credit status system to assess the potential customer's credit quality and estimates credit limits by customer. Solvency and payment delays per customers are reviewed each quarter. As of 30 June 2015, the amount of not impaired trade receivables and receivables past due less than one month accounted for USD 53,746 thousand (as of 30 June 2014: USD 97,320 thousand).

As of 30 June 2015, trade accounts receivable past due for more than one year in the amount of USD 1,818 thousand were impaired and represented the largest portion of impaired accounts receivable (2014: USD 4,020 thousand).

## 10. Prepayments to Suppliers and Other Current Assets, net

The balances of prepayments to suppliers and other current assets, net were as follows:

	As of 30 June 2015	As of 30 June 2014
Prepayments to suppliers	38,535	40,082
Other current assets	29,414	28,517
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(7,302)	(11,675)
<b>Total</b>	<b>60,647</b>	<b>56,924</b>

## 11. Taxes Recoverable and Prepaid, net

The balances of taxes recoverable and prepaid, net were as follows:

	As of 30 June 2015	As of 30 June 2014
VAT ("value added tax") recoverable and prepaid	80,211	142,780
Allowance for VAT irrecoverable amount	—	(4,058)
Other taxes recoverable and prepaid	8,035	5,817
<b>Total</b>	<b>88,246</b>	<b>144,539</b>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances, except for amounts, for which the allowance for estimated irrecoverable amounts was created, will be recovered in full within 12 months after the reporting date. For the year ended 30 June 2015, the amount of VAT refunded by the government in cash was USD 177,408 thousand (for the year ended 30 June 2014: USD 219,233 thousand).



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 12. Inventory

The balances of inventories were as follows:

	As of 30 June 2015	As of 30 June 2014
Finished products	61,201	109,115
Raw materials	59,249	135,802
Goods for resale	19,640	29,990
Agricultural products	8,578	10,721
Fuel	2,624	3,333
Packaging materials	805	879
Other inventories	6,659	9,687
<b>Total</b>	<b>158,756</b>	<b>299,527</b>

As of 30 June 2015, finished products mostly consisted of sunflower oil sold in bulk in the amount of USD 50,846 thousand (as of 30 June 2014: USD 79,183 thousand).

As of 30 June 2015 and 2014, raw materials were represented mainly by sunflower seed stock in the amount of USD 50,166 thousand and USD 113,927 thousand, respectively.

As of 30 June 2015, inventories with a carrying amount of USD 110,857 thousand (as of 30 June 2014: USD 182,018 thousand) were pledged by the Group as collateral against short-term loans obtained from banks (Note 20).

## 13. Biological Assets

The balances of crops in fields were as follows:

	As of 30 June 2015		As of 30 June 2014	
	Hectares	Value	Hectares	Value
Corn	159,774	39,038	185,016	82,012
Wheat	72,500	30,864	30,792	25,384
Soybean	67,227	25,814	66,566	31,456
Sunflower seed	61,902	37,308	69,744	34,994
Rapeseed	9,565	6,675	—	—
Forage	4,443	1,872	12,027	1,946
Pea	3,343	726	2,121	116
Barley	131	11	3,115	952
Other	7,355	1,780	3,471	1,633
<b>Total</b>	<b>386,240</b>	<b>144,088</b>	<b>372,852</b>	<b>178,493</b>

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2015 and 30 June 2014:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 30 June 2013</b>	<b>184,733</b>	<b>55,090</b>	<b>239,823</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2013)	153,100	—	153,100
Decrease due to harvest (harvest 2013)	(337,833)	(55,090)	(392,923)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2014)	148,800	—	148,800
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2014)	—	34,126	34,126
Exchange difference	—	(4,433)	(4,433)
<b>As of 30 June 2014</b>	<b>148,800</b>	<b>29,693</b>	<b>178,493</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2014)	78,321	—	78,321
Decrease due to harvest (harvest 2014)	(227,121)	(29,693)	(256,814)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2015)	128,464	—	128,464
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2015)	—	13,124	13,124
Exchange difference	—	2,500	2,500
<b>As of 30 June 2015</b>	<b>128,464</b>	<b>15,624</b>	<b>144,088</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 13. Biological Assets continued

The balances of current cattle were as follows:

	As of 30 June 2015		As of 30 June 2014	
	Number of heads	Value	Number of heads	Value
Cattle	10,139	2,483	12,928	4,343
<b>Total</b>	<b>10,139</b>	<b>2,483</b>	<b>12,928</b>	<b>4,343</b>

As of 30 June 2015, non-current cattle in the amount of USD 6,189 thousand (2014: USD 12,995 thousand) were represented mainly by 9,031 heads of milk cows (2014: 9,785 heads) (Note 18). The change in the balances was mainly represented by a change in the mix of cattle and variation in prices and exchange rates between reporting dates. For the period ended 30 June 2015, the net loss arising from changes in the fair value of biological assets in the amount of USD 6,789 thousand (2014: loss of USD 17,110 thousand) includes a USD 6,093 thousand loss on changes in current and non-current cattle's fair value (2014: loss of USD 1,923 thousand).

Over the 12 month period to 30 June 2015, the Group didn't purchase any biological assets (as of 30 June 2014: USD 323 thousand). Crops in fields, acquired in business combinations were included in the 'Increase due to purchases and subsequent expenditures capitalized in biological assets' in the table above.

Crops in fields and non-current cattle of the Group are measured using the discounted cash flow technique and are within the level 3 of the fair value hierarchy.

Current cattle are measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy. There were no changes in the valuation technique from the previous year. There were no material transfers between any levels during the year.

Description	Fair value as of 30 June 2015	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	144,088	Discounted cash flow	Crop yields	1.85 – 7.26 (3.61) tons per hectare	The higher the crop yield, the higher the fair value
			Crop prices	133 – 353 (224) USD per ton	The higher the crop price, the higher the fair value
			Discount rate	30.20% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	6,189	Discounted cash flow	Milk yield	12.70 – 21.82 (17.26) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.19 – 0.20 (0.20) per liter	The higher the market milk price, the higher the fair value
			Meat price	USD 0.54 – 1.00 (0.77) per kg	The higher the market meat price, the higher the fair value
			Weight of 1 calf	30 – 33 (31.5) kg	The higher the weight, the higher the fair value
			Yield of calves from 100 cows per year	70 – 95 (83) calves	The higher the yield, the higher the fair value
			Discount rate	26.90% (in UAH, long-term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 32,380 thousand and USD 29,463 thousand, respectively.

## 14. Assets Classified as Held for Sale and Discontinued Operations

During the year ended 30 June 2015, the Group disposed of Tsukrove LLC. The net assets of the disposed entity as of the date of disposal were equal to USD 1,215 thousand and the cash consideration was USD 1,244 thousand.

As of 30 June 2015, according to management's plan to dispose all sugar plants and exit the sugar business, the property, plant and equipment of the remaining sugar plant was still classified as assets held for sale and its operations were classified as discontinued for the year ended 30 June 2015.

As of 30 June 2015, the net value of assets classified as held for sale equaled USD 2,482 thousand (30 June 2014: USD 10,550 thousand).

Discontinued operations of the Group include activities of Tsukrove LLC and Palmirskyi Sugar Plant ALC for the year ended 30 June 2015, which have generated net loss in the amount of USD 5,349 thousand (2014: three remaining sugar plants generated USD 5,611 thousand of loss).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2015:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net book value as of 30 June 2014</b>	<b>326,891</b>	<b>59,035</b>	<b>148,825</b>	<b>101,038</b>	<b>7,673</b>	<b>643,462</b>
Land	3,932	2,644	6	770	46	7,398
Buildings and constructions	224,538	25,067	29,672	74,314	3,072	356,663
Production machinery and equipment	87,434	29,431	10,622	15,373	582	143,442
Agricultural equipment and vehicles	897	49	101,904	289	1,378	104,517
Other fixed assets	3,385	251	4,813	727	2,582	11,758
CIP and uninstalled equipment	6,705	1,593	1,808	9,565	13	19,684
<b>Additions</b>	<b>6,872</b>	<b>748</b>	<b>12,724</b>	<b>9,129</b>	<b>426</b>	<b>29,899</b>
CIP and uninstalled equipment	6,872	748	12,724	9,129	426	29,899
<b>Reclassification</b>	<b>(10)</b>	<b>4</b>	<b>1,105</b>	<b>(891)</b>	<b>(208)</b>	<b>–</b>
Land	–	–	70	–	3	73
Buildings and constructions	270	37	712	6	14	1,039
Production machinery and equipment	(237)	(35)	(4,412)	(6)	(514)	(5,204)
Agricultural equipment and vehicles	(23)	41	5,455	2	1,297	6,772
Other fixed assets	152	(39)	(1,778)	–	(1,015)	(2,680)
CIP and uninstalled equipment	(172)	–	1,058	(893)	7	–
<b>Transfers</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Buildings and constructions	1,234	112	1,332	4,730	4	7,412
Production machinery and equipment	3,329	137	877	2,713	–	7,056
Agricultural equipment and vehicles	1,039	–	7,727	276	36	9,078
Other fixed assets	359	70	1,462	145	377	2,413
CIP and uninstalled equipment	(5,961)	(319)	(11,398)	(7,864)	(417)	(25,959)
<b>Disposals (at net book value)</b>	<b>(785)</b>	<b>(3)</b>	<b>(1,391)</b>	<b>(776)</b>	<b>(54)</b>	<b>(3,009)</b>
Land	–	–	–	(298)	–	(298)
Buildings and constructions	(19)	–	(412)	(314)	(16)	(761)
Production machinery and equipment	(208)	–	(19)	(138)	–	(365)
Agricultural equipment and vehicles	(48)	(1)	(880)	(6)	(23)	(958)
Other fixed assets	(22)	–	(28)	(7)	(7)	(64)
CIP and uninstalled equipment	(488)	(2)	(52)	(13)	(8)	(563)
<b>Depreciation expense</b>	<b>(19,261)</b>	<b>(3,023)</b>	<b>(26,510)</b>	<b>(4,628)</b>	<b>(1,225)</b>	<b>(54,647)</b>
Buildings and constructions	(8,670)	(848)	(3,459)	(3,379)	(138)	(16,494)
Production machinery and equipment	(9,581)	(2,111)	(750)	(1,026)	(7)	(13,475)
Agricultural equipment and vehicles	(281)	(18)	(21,623)	(69)	(588)	(22,579)
Other fixed assets	(729)	(46)	(678)	(154)	(492)	(2,099)
<b>Exchange difference</b>	<b>(146)</b>	<b>(5,099)</b>	<b>(29,731)</b>	<b>(44,156)</b>	<b>(1,396)</b>	<b>(80,528)</b>
Land	–	(1,157)	(33)	(286)	–	(1,476)
Buildings and constructions	(1)	(2,620)	(12,725)	(32,445)	(407)	(48,198)
Production machinery and equipment	(7)	(419)	(2,735)	(6,987)	(21)	(10,169)
Agricultural equipment and vehicles	(135)	(36)	(11,399)	(162)	(951)	(12,683)
Other fixed assets	(3)	(97)	(1,388)	(315)	(8)	(1,811)
CIP and uninstalled equipment	–	(770)	(1,451)	(3,961)	(9)	(6,191)
<b>Net book value as of 30 June 2015</b>	<b>313,561</b>	<b>51,662</b>	<b>105,022</b>	<b>59,716</b>	<b>5,216</b>	<b>535,177</b>
Land	3,932	1,487	43	186	49	5,697
Buildings and constructions	217,352	21,748	15,120	42,912	2,529	299,661
Production machinery and equipment	80,730	27,003	3,583	9,929	40	121,285
Agricultural equipment and vehicles	1,449	35	81,184	330	1,149	84,147
Other fixed assets	3,142	139	2,403	396	1,437	7,517
CIP and uninstalled equipment	6,956	1,250	2,689	5,963	12	16,870

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net continued

The following table represents movements in property, plant and equipment for the year ended 30 June 2014:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net book value as of 30 June 2013</b>	<b>363,026</b>	<b>67,109</b>	<b>192,156</b>	<b>125,670</b>	<b>15,350</b>	<b>763,311</b>
Land	3,932	3,911	6	1,138	46	9,033
Buildings and constructions	237,156	28,873	45,457	90,463	4,758	406,707
Production machinery and equipment	103,704	31,958	19,423	19,606	1,630	176,321
Agricultural equipment and vehicles	281	–	112,013	21	1,810	114,125
Other fixed assets	2,293	35	7,456	480	7,085	17,349
CIP and uninstalled equipment	15,660	2,332	7,801	13,962	21	39,776
<b>Additions</b>	<b>2,002</b>	<b>277</b>	<b>28,279</b>	<b>26,223</b>	<b>2,607</b>	<b>59,388</b>
CIP and uninstalled equipment	2,002	277	28,279	26,223	2,607	59,388
<b>Reclassification</b>	<b>5,249</b>	<b>486</b>	<b>(621)</b>	<b>2,066</b>	<b>(7,180)</b>	<b>–</b>
Buildings and constructions	2,428	93	(313)	596	(2,024)	780
Production machinery and equipment	(123)	–	3,794	358	(1,140)	2,889
Agricultural equipment and vehicles	760	–	(3,955)	407	165	(2,623)
Other fixed assets	2,184	393	(147)	705	(4,181)	(1,046)
<b>Transfers</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Buildings and constructions	1,607	8	6,291	22,478	1,021	31,405
Production machinery and equipment	3,419	132	591	4,186	329	8,657
Agricultural equipment and vehicles	201	66	24,936	148	360	25,711
Other fixed assets	294	50	1,679	198	813	3,034
CIP and uninstalled equipment	(5,521)	(256)	(33,497)	(27,010)	(2,523)	(68,807)
<b>Disposals (at net book value)</b>	<b>(12,638)</b>	<b>(11)</b>	<b>(2,820)</b>	<b>(71)</b>	<b>(65)</b>	<b>(15,605)</b>
Buildings and constructions	(3,029)	–	(711)	(44)	–	(3,784)
Production machinery and equipment	(3,695)	(9)	(493)	(17)	(1)	(4,215)
Agricultural equipment and vehicles	(40)	–	(1,394)	–	(35)	(1,469)
Other fixed assets	(440)	(2)	(222)	(10)	(29)	(703)
CIP and uninstalled equipment	(5,434)	–	–	–	–	(5,434)
<b>Depreciation expense and impairment loss recognized in the Statement of Profit or Loss</b>	<b>(30,483)</b>	<b>(3,281)</b>	<b>(33,074)</b>	<b>(8,380)</b>	<b>(1,712)</b>	<b>(76,930)</b>
Buildings and constructions	(13,516)	(997)	(6,888)	(6,154)	(212)	(27,767)
Production machinery and equipment	(15,822)	(2,179)	(3,716)	(1,784)	(92)	(23,593)
Agricultural equipment and vehicles	(300)	(8)	(20,738)	(153)	(487)	(21,686)
Other fixed assets	(845)	(97)	(1,732)	(289)	(921)	(3,884)
<b>Exchange difference</b>	<b>(265)</b>	<b>(5,545)</b>	<b>(35,095)</b>	<b>(44,470)</b>	<b>(1,327)</b>	<b>(86,702)</b>
Land	–	(1,267)	–	(368)	–	(1,635)
Buildings and constructions	(108)	(2,910)	(14,164)	(33,025)	(471)	(50,678)
Production machinery and equipment	(49)	(471)	(8,977)	(6,976)	(144)	(16,617)
Agricultural equipment and vehicles	(5)	(9)	(8,958)	(134)	(435)	(9,541)
Other fixed assets	(101)	(128)	(2,221)	(357)	(185)	(2,992)
CIP and uninstalled equipment	(2)	(760)	(775)	(3,610)	(92)	(5,239)
<b>Net book value as of 30 June 2014</b>	<b>326,891</b>	<b>59,035</b>	<b>148,825</b>	<b>101,038</b>	<b>7,673</b>	<b>643,462</b>
Land	3,932	2,644	6	770	46	7,398
Buildings and constructions	224,538	25,067	29,672	74,314	3,072	356,663
Production machinery and equipment	87,434	29,431	10,622	15,373	582	143,442
Agricultural equipment and vehicles	897	49	101,904	289	1,378	104,517
Other fixed assets	3,385	251	4,813	727	2,582	11,758
CIP and uninstalled equipment	6,705	1,593	1,808	9,565	13	19,684

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net continued

Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2015 and 2014 were as follows:

Group of property, plant and equipment	Cost as of 30 June 2015	Accumulated depreciation as of 30 June 2015	Cost as of 30 June 2014	Accumulated depreciation as of 30 June 2014
Land	5,697	–	7,645	–
Buildings and constructions	358,283	(58,622)	412,204	(55,617)
Production machinery and equipment	174,355	(53,070)	206,330	(62,889)
Agricultural equipment and vehicles	160,875	(76,728)	159,639	(55,122)
Other fixed assets	14,769	(7,252)	23,576	(11,988)
CIP and uninstalled equipment	16,870	–	19,684	–
<b>Total</b>	<b>730,849</b>	<b>(195,672)</b>	<b>829,078</b>	<b>(185,616)</b>

Had the Group's buildings and constructions and production machinery and equipment (bulk and bottled oil segments) been measured on a historical cost basis, their carrying amount would have been as follows:

Group of property, plant and equipment	As of 30 June 2015	As of 30 June 2014
Buildings and constructions	194,933	200,536
Production machinery and equipment	75,182	80,550
<b>Total</b>	<b>270,115</b>	<b>281,086</b>

As of 30 June 2015, property, plant and equipment with a carrying amount of USD 130,652 thousand (as of 30 June 2014: USD 193,962 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20 and 21).

As of 30 June 2015 and 30 June 2014, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles, and production machinery held under finance lease agreements was USD 16,463 thousand and USD 28,319 thousand, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2015:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 30 June 2014</b>	<b>19,336</b>	<b>120,426</b>	<b>5,345</b>	<b>145,107</b>
Additions	2,700	843	689	4,232
Disposals	–	–	(156)	(156)
Exchange difference	–	(49,961)	(1,039)	(51,000)
<b>Cost as of 30 June 2015</b>	<b>22,036</b>	<b>71,308</b>	<b>4,839</b>	<b>98,183</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 30 June 2014</b>	<b>(2,027)</b>	<b>(45,914)</b>	<b>(2,427)</b>	<b>(50,368)</b>
Amortization charge	–	(13,111)	(529)	(13,640)
Disposals	–	–	29	29
Impairment loss recognized in the Statement of Profit or Loss	(6,169)	–	–	(6,169)
Exchange difference	–	24,073	464	24,537
Accumulated amortization and impairment loss as of 30 June 2015	(8,196)	(34,952)	(2,463)	(45,611)
<b>Net book value as of 30 June 2015</b>	<b>13,840</b>	<b>36,356</b>	<b>2,376</b>	<b>52,572</b>

The following table represents movements in intangible assets for the year ended 30 June 2014:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 30 June 2013</b>	<b>19,336</b>	<b>174,712</b>	<b>6,095</b>	<b>200,143</b>
Additions from acquisition of Subsidiaries	–	205	–	205
Additions	–	–	899	899
Disposals	–	(9)	(405)	(414)
Exchange difference	–	(54,482)	(1,244)	(55,726)
<b>Cost as of 30 June 2014</b>	<b>19,336</b>	<b>120,426</b>	<b>5,345</b>	<b>145,107</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 30 June 2013</b>	<b>–</b>	<b>(38,315)</b>	<b>(2,331)</b>	<b>(40,646)</b>
Amortization charge	–	(25,469)	(788)	(26,257)
Disposals	–	1	45	46
Impairment loss recognized in the Statement of Profit or Loss	(2,027)	–	–	(2,027)
Exchange difference	–	17,869	647	18,516
Accumulated amortization and impairment loss as of 30 June 2014	(2,027)	(45,914)	(2,427)	(50,368)
<b>Net book value as of 30 June 2014</b>	<b>17,309</b>	<b>74,512</b>	<b>2,918</b>	<b>94,739</b>

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with values of USD 4,567 thousand, USD 5,002 thousand, USD 4,092 thousand and USD 179 thousand, respectively, in 2015 (USD 4,567 thousand, USD 5,929 thousand, USD 6,634 thousand and USD 179 thousand, respectively, in 2014). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management's view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net continued

The impairment testing of the value of trademarks as of 30 June 2015 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the bottled oil segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:

- The royalty rate used was determined at the weighted average market level of 5.47%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2015, management believed that the market for bottled oil was saturated and for a period of five years no growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 25.9% for UAH denominated cash flow projections.

As a result of testing performed, impairment of the trademarks 'Zolota' and 'Stozhar' in the amount of USD 5,242 thousand and USD 927 thousand, respectively, was recognized as of 30 June 2015 (30 June 2014: 'Zolota' in the amount of USD 2,027 thousand) and was recognized as a loss on impairment of intangible assets within 'Other expenses, net' (Note 31). Impairment was caused primarily by the current economic crisis in Ukraine, which was reflected in a sharp increase in the discount rate and amplified the decrease in the consumption of premium segment bottled oil caused by saturation of the market.

## 17. Goodwill

The following table represents movements in goodwill for the year:

	As of 30 June 2015	As of 30 June 2014
<b>Cost as of beginning of the year</b>	<b>138,575</b>	<b>161,739</b>
Exchange differences	(19,133)	(23,164)
<b>Cost as of end of the year</b>	<b>119,442</b>	<b>138,575</b>

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

		As of 30 June 2015	As of 30 June 2014
		Goodwill carrying value	Goodwill carrying value
Sunflower oil sold in bulk	BSI LLC	44,396	44,396
	Kirovogradoliya PJSC	31,334	31,334
	Ekotrans LLC	9,868	9,868
	Other	7,088	7,088
Export terminals	Transbulkterminal LLC	13,356	23,739
Farming	Druzhba-Nova Group and other agricultural farms	11,253	20,003
Bottled sunflower oil	Prykolotnoe OEP LLC	2,147	2,147
<b>Total</b>		<b>119,442</b>	<b>138,575</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 17. Goodwill continued

The recoverable amounts of sunflower oil sold in bulk, export terminals, and bottled sunflower oil were determined based on a value in use calculation, which uses cash flow projections accordingly to level 3 of the hierarchy based on the most recent financial budgets approved by the management and covering a five-year period. The values assigned to key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. The projected cash flows are based on volumes of sales (tons of oil for oilseed crushing plants and transshipment volumes for export terminals) and respective prices and costs throughout the budget period. As of 30 June 2015, the assumptions for expected sunflower oil prices were USD 810 per one metric ton in 2016-2020 with a corresponding cost of USD 346 per one metric ton of sunflower seeds, which corresponds to a margin of USD 150 for one metric ton of oil. For the year ended 30 June 2014, the price and cost were USD 820 per one metric ton of oil and USD 348 per one metric ton of sunflower seeds in 2015-2019, respectively, with a margin of USD 167 per one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-demand balance for raw material in Ukraine and the Russian Federation rather than on the level of prices. The discount rate used as of 30 June 2015 was 17.5% (30 June 2014: 12.5%). The discount rate reflects the current market assessment of the risks specific to the cash-generating units. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The growth rate used is available from market sources of information for the projected period. The rate was 2% and is the same as the long-term average growth rate for the industry.

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

Management believes that no reasonably possible change in the key assumptions would cause the recoverable amount to fall below the carrying value of a CGU with a material amount of goodwill.

As of 30 June 2015 and 30 June 2014, no impairment of goodwill allocated to the sunflower oil, export terminals and farming segments was identified.

## 18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2015	As of 30 June 2014
Non-current biological assets (Note 13)	6,189	12,995
Prepayments for Subsidiaries	3,105	3,105
Prepayments for property, plant and equipment	1,361	6,720
Other non-current assets	2,713	3,641
<b>Total</b>	<b>13,368</b>	<b>26,461</b>

## 19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2015	As of 30 June 2014
Advances from customers	13,751	10,124
Accrued payroll, payroll related taxes and bonuses	10,382	3,875
Settlements with land lessors	6,758	13,309
Obligation under finance lease payable within one year (Note 22)	5,996	6,250
Taxes payable and provision for tax liabilities	4,724	6,900
Provision for unused vacations and other provisions	4,393	9,828
Accounts payable for property, plant and equipment	924	1,440
Settlements for acquired Subsidiaries	677	1,197
Reimbursement of debt (Note 33)	–	13,499
Other current liabilities (Note 33)	15,775	13,148
<b>Total</b>	<b>63,380</b>	<b>79,570</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2015	As of 30 June 2014
Bank credit lines	295,313	402,169
Interest accrued on short-term borrowings	874	1,054
Interest accrued on long-term borrowings	1,818	2,598
<b>Total</b>	<b>298,005</b>	<b>405,821</b>

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

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

The balances of short-term borrowings as of 30 June 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.75%	USD	August 2014	165,000
Ukrainian subsidiary of European bank	Libor + 4.8%	USD	September 2014	65,000
European bank	Libor + 7.5%	USD	October 2014	64,000
European bank	Libor + 6.25%	USD	April 2015	60,000
Ukrainian subsidiary of European bank	11.0%	USD	February 2015	21,500
Ukrainian subsidiary of European bank	Libor + 8.0%	USD	July 2014	15,000
European bank	Libor + 2.65%	USD	April 2015	11,669
<b>Total bank credit lines</b>				<b>402,169</b>
Interest accrued on short-term borrowings				1,054
Interest accrued on long-term borrowings				2,598
<b>Total</b>				<b>405,821</b>

As of 30 June 2015, the overall maximum credit limit for short-term bank credit lines amounted to USD 392,689 thousand (as of 30 June 2014: USD 797,268 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2015	As of 30 June 2014
Cash and cash equivalents (Note 8)	5,000	—
Inventory (Note 12)	110,857	182,018
Property, plant and equipment (Note 15)	114,037	54,718
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>229,894</b>	<b>236,736</b>

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2015	As of 30 June 2014
Long-term bank borrowings	158,236	324,860
Current portion of long-term borrowings	(69,335)	(77,335)
<b>Total</b>	<b>88,901</b>	<b>247,525</b>

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

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

The balances of long-term borrowings as of 30 June 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	140,000
European bank	Libor + 5.5%	USD	February 2016	66,600
Russian bank	Libor + 8.35%	USD	February 2016	48,000
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	December 2015	37,689
European bank	Libor + 1.65%	USD	March 2020	18,508
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	14,063
<b>Total</b>				<b>324,860</b>

Long-term borrowings as of 30 June 2015 include credit lines from banks with an overall maximum credit limit of USD 158,236 thousand (as of 30 June 2014: USD 324,860 thousand).

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2015	As of 30 June 2014
Property, plant and equipment (Note 15)	16,615	139,244
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>16,615</b>	<b>139,244</b>

As of 30 June 2015, stakes in Subsidiaries were pledged to secure long-term borrowings including controlling stakes in one agricultural company and a 50% stake in a joint venture (as of 30 June 2014: controlling stakes in two export terminals, three sunflower oil plants, one agricultural company and a 50% stake in a joint venture).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 22. Obligations under Finance Lease

The Group entered into finance lease arrangements for part of its agricultural equipment, vehicles and production machinery. Leases are denominated in USD and UAH. The average term of finance leases is 5 years.

The major components of finance lease liabilities were as follows:

	As of 30 June 2015		As of 30 June 2014	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable due to the finance lease:				
Within one year (Note 19)	7,594	5,996	8,569	6,250
Later than one year and not later than five years	7,385	6,277	15,241	12,486
<b>Total</b>	<b>14,979</b>	<b>12,273</b>	<b>23,810</b>	<b>18,736</b>
Less future finance charges	(2,706)	—	(5,074)	—
<b>Present value of lease obligations</b>	<b>12,273</b>	<b>12,273</b>	<b>18,736</b>	<b>18,736</b>

The average effective interest rate contracted for the year ended 30 June 2015 was at the level of 6.94% (for the year ended 30 June 2014: 7.19%).

## 23. Income Tax

The Group is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 22.47% as of 30 June 2015 and 30 June 2014. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2015 and 2014. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Fixed Agricultural Tax (FAT) in accordance with the Tax Code of Ukraine. The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The FAT does not constitute an income tax, and as such, is recognized in the Consolidated Statement of Profit or Loss in other operating income.

The components of income tax expense for the years ended 30 June 2015 and 2014 were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Current income tax charge	(4,577)	(15,663)
Deferred tax income relating to changes in tax rates or the imposition of new taxes	—	2,222
Deferred tax relating to origination and reversal of temporary differences	4,132	2,069
<b>Total income tax recognized in the reporting period related to continuing operations</b>	<b>(445)</b>	<b>(11,372)</b>

The income tax expense is reconciled to the profit/(loss) before income tax per Consolidated Statement of Profit or Loss as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Profit/(Loss) before income tax from continuing operations	101,327	(90,423)
Tax (expense)/benefit at statutory tax rate of 18% (from 1 January 2014) and 19% (from 1 January 2013 to 31 December 2013)	(18,239)	16,697
Deferred tax income related to changes in tax rates or the imposition of new taxes	—	2,222
Effect of income/(loss) that is exempt from taxation (farming)	15,672	(14,321)
Effect of different tax rates of Subsidiaries operating in other jurisdictions	1,783	(12,450)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(6,904)	(2,747)
Other expenditures not allowable for income tax purposes and non-taxable income, net	7,243	(773)
<b>Income tax expense</b>	<b>(445)</b>	<b>(11,372)</b>

Income tax recognized in other comprehensive loss:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Income tax related to components of other comprehensive loss	—	(597)
<b>Total income tax recognized in other comprehensive loss</b>	<b>—</b>	<b>(597)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 23. Income Tax continued

Movements in temporary differences during the year ended 30 June 2015 were as follows:

	30 June 2014	Income tax benefit/ (expense) during the period recognized in profit or loss from continuing operations	Income tax benefit/ (expense) during the period recognized in profit or loss from discontinued operations	Deferred taxes of disposed companies	Currency exchange difference	Deferred taxes reclassified to assets classified as held for sale	30 June 2015
Tax losses carried forward	13,149	(3,718)	(20)	–	(1,687)	–	7,744
Valuation of property, plant and equipment	3,351	6,618	(1,361)	–	(638)	300	9,331
Valuation of accounts receivable	3,546	(916)	(342)	–	(726)	165	1,904
Valuation of inventory	154	66	–	–	(53)	–	167
Valuation of advances and other temporary differences	1,929	267	4	–	(49)	5	2,147
<b>Deferred tax asset</b>	<b>22,129</b>	<b>2,317</b>	<b>(1,719)</b>	<b>–</b>	<b>(3,153)</b>	<b>470</b>	<b>21,293</b>
Valuation of property, plant and equipment	(25,790)	1,744	435	45	243	(296)	(23,758)
Valuation of intangible assets	(1,060)	(57)	–	–	53	–	(1,064)
Valuation of prepayments to suppliers and other temporary differences	(867)	128	49	–	179	(93)	(560)
<b>Deferred tax liability</b>	<b>(27,717)</b>	<b>1,815</b>	<b>484</b>	<b>45</b>	<b>475</b>	<b>(389)</b>	<b>(25,382)</b>
<b>Net deferred tax liabilities</b>	<b>(5,588)</b>	<b>4,132</b>	<b>(1,235)</b>	<b>45</b>	<b>(2,678)</b>	<b>81</b>	<b>(4,089)</b>

Movements in temporary differences during the year ended 30 June 2014 were as follows:

	30 June 2013	Income tax benefit/ (expense) during the period recognized in profit or loss from continuing operations	Income tax benefit/ (expense) during the period recognized in profit or loss from discontinued operations	Income tax benefit/ (expense) during the period recognized in other compre- hensive income	Deferred taxes of disposed companies	Currency exchange difference	Deferred taxes reclassified to assets classified as held for sale	30 June 2014
Tax losses carried forward	7,709	9,181	28	–	(3,258)	(483)	26	13,149
Valuation of accounts receivable	14,251	(10,263)	(306)	–	–	(442)	540	3,546
Valuation of property, plant and equipment	2,781	1,074	1,238	–	(187)	(317)	2,003	3,351
Valuation of inventory	144	13	–	–	–	(3)	–	154
Valuation of advances and other temporary differences	2,568	(586)	4	–	–	(53)	3	1,929
<b>Deferred tax asset</b>	<b>27,453</b>	<b>(581)</b>	<b>964</b>	<b>–</b>	<b>(3,445)</b>	<b>(1,298)</b>	<b>2,572</b>	<b>22,129</b>
Valuation of property, plant and equipment	(29,834)	4,259	421	(597)	–	382	(781)	(25,790)
Valuation of intangible assets	(1,051)	28	–	–	–	(37)	–	(1,060)
Valuation of prepayments to suppliers and other temporary differences	(1,439)	585	10	–	–	(13)	(171)	(867)
<b>Deferred tax liability</b>	<b>(32,324)</b>	<b>4,872</b>	<b>431</b>	<b>(597)</b>	<b>–</b>	<b>332</b>	<b>(952)</b>	<b>(27,717)</b>
<b>Net deferred tax liabilities</b>	<b>(4,871)</b>	<b>4,291</b>	<b>1,395</b>	<b>(597)</b>	<b>(3,445)</b>	<b>(966)</b>	<b>1,620</b>	<b>(5,588)</b>

As of 30 June 2015, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 7,744 thousand (2014: USD 13,149 thousand) recognized with respect to tax losses carried forward by the Subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 42,106 thousand (2014: USD 72,401 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Tax losses can be brought forward for the reasonable period of time.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 23. Income Tax continued

Unrecognized deferred tax assets arising from tax losses carried forward by the Group's Subsidiaries as of 30 June 2015 were USD 9,651 thousand (as of 30 June 2014: USD 2,747 thousand).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in Subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	30 June 2015	30 June 2014
Deferred tax assets	15,524	11,648
Deferred tax liabilities	(19,613)	(17,236)
<b>Net deferred tax liabilities</b>	<b>(4,089)</b>	<b>(5,588)</b>

## 24. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Revenue from sunflower oil sold in bulk, sunflower meal and cake	1,123,694	1,101,720
Revenue from grain sales	1,053,267	1,053,613
Revenue from bottled sunflower oil	90,040	109,954
Revenue from farming	29,010	62,322
Revenue from sugar	25,752	34,924
Revenue from grain silo services	7,668	27,538
Revenue from transshipment services	76	3,180
<b>Total</b>	<b>2,329,507</b>	<b>2,393,251</b>

For the year ended 30 June 2015, revenue from the Group's top five customers accounted for approximately 41.7% of total revenue (for the year ended 30 June 2014, revenue from the top five customers accounted for 33.8% of total revenue).

## 25. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Cost of goods for resale and raw materials used	1,672,016	1,736,940
Amortization and depreciation	65,755	91,648
Payroll and payroll related costs	34,127	67,236
Rental payments	20,786	42,617
Other operating costs	17,800	29,533
<b>Total</b>	<b>1,810,484</b>	<b>1,967,974</b>

## 26. Other Operating Income, net

Other operating income, net was as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Gain on sale of hard currency	57,441	35,293
VAT benefits	10,740	24,234
Contracts wash-out (price difference settlement)	7,445	586
Other operating income	7,288	361
<b>Total</b>	<b>82,914</b>	<b>60,474</b>

According to the Tax Code of Ukraine, companies that generated not less than 75.0% of gross revenues for the previous tax period from sales of its own agricultural products are entitled to retain the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on products sold. Such a gain is recognized as VAT benefits.

The special VAT regime for agricultural producers will be effective through 1 January 2018 under current legislation.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 27. Distribution Costs

Distribution costs were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Carriage and freight	173,836	231,865
Storage and dispatch	11,567	12,181
Customs expenses	5,645	5,271
Certification	3,514	7,632
Sanitation services	583	1,343
Payroll and payroll related costs	234	408
Depreciation	4	151
Other expenses	3,163	4,069
<b>Total</b>	<b>198,546</b>	<b>262,920</b>

## 28. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Payroll and payroll related costs	38,101	40,956
Business trip expenses	6,192	5,190
Audit, legal and other professional fees	5,066	6,109
Repairs and material costs	4,449	5,758
Insurance	3,095	1,866
Amortization and depreciation	2,402	2,509
Taxes other than income tax	2,324	1,514
Bad debt expenses	2,279	6,133
Bank services	1,945	2,399
Rental payments	1,344	2,250
Communication expenses	872	1,639
Other expenses	256	681
<b>Total</b>	<b>68,325</b>	<b>77,004</b>

Audit, legal and other professional fees for the year ended 30 June 2015 include the auditor's remuneration in the amount of USD 432 thousand and consultancy fees in the amount of USD 33 thousand (30 June 2014: USD 527 thousand and USD 47 thousand, respectively).

## 29. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Interest expense on bank loans	64,047	68,970
Other finance costs, net	4,528	3,489
<b>Total</b>	<b>68,575</b>	<b>72,459</b>

## 30. Foreign Exchange Loss, net

Foreign exchange loss, net was related to the following balances:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Revaluation of balances nominated in foreign currencies	(68,732)	(6,158)
VAT recoverable and prepaid	(56,664)	(54,011)
Corporate income tax prepaid	(21,567)	(17,039)
Borrowings nominated in foreign currencies	(5,135)	(13,929)
Cash and cash equivalents nominated in foreign currencies	(4,507)	(4,119)
Obligations under finance leases	(2,059)	(2,123)
Other foreign exchange gain/(loss)	5,722	(1,426)
<b>Total</b>	<b>(152,942)</b>	<b>(98,805)</b>

In the note 'Foreign Exchange (Loss)/Gain, net' to the consolidated financial statements as of 30 June 2014, the foreign exchange loss on revaluation of balances nominated in foreign currencies was previously included in the line 'Other'.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 31. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Loss on impairment of intangible assets (Note 16)	6,169	2,027
Other material expenses	2,217	3,860
Social spending	1,915	3,163
Loss on financial derivatives, net	237	17,733
Gain on disposal of property, plant and equipment	(494)	(882)
(Gain)/Loss on disposal of Subsidiaries (Notes 7, 14)	(861)	8,871
Loss on valuation of assets held for sale	–	8,879
Other expenses, net	1,337	8,126
<b>Total</b>	<b>10,520</b>	<b>51,777</b>

During the year ended 30 June 2014, the Group used non-deliverable currency forwards for protection against unfavorable USD/UAH exchange rate movements. Agreements were mostly signed in the first half of the year. Due to the increasing severity of the economic crisis in the second half of the year, the UAH was devaluated to a greater extent than expected by management. This led to total net losses on non-deliverable currency forwards in the amount of USD 17,733 thousand for the year ended 30 June 2014.

In the note 'Other expenses, net' to the consolidated financial statements as of 30 June 2014, 'Social spending' and 'Other material expenses' previously were included in the line 'Other expenses, net'.

## 32. Investments 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 (the Russian Federation). Taman port provides storage and transshipment services as well as an efficient freight forwarding process. The increase of throughput facilities resulted in increased profitability of grain exports from the Russian Federation.

As of 30 June 2015, the Group entered into a transshipment agreement with Zernovoy Terminalny Complex Taman LLC. According to the agreement, the Group has committed to transship 1,500,000 tons of grain through the facility in FY2016 (as of 30 June 2014: 1,500,000 tons).

The investment in the joint venture is accounted for using the equity method from the date of acquisition. The Group has the following significant interests in joint ventures (all related to the export terminal in Taman port):

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	Proportion of ownership interest and voting rights held by the Group
			As of 30 June 2015	As of 30 June 2014
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%

Financial data in regards to joint ventures, reflecting 100% interest in the underlying joint venture, was as follows:

	As of 30 June 2015	As of 30 June 2014
Current assets	7,850	16,864
Non-current assets	89,292	142,702
Current liabilities	(18,844)	(24,600)
Non-current liabilities	(40,080)	(85,872)
<b>Net assets of joint ventures</b>	<b>38,218</b>	<b>49,094</b>

The above amount of assets and liabilities include the following:

	As of 30 June 2015	As of 30 June 2014
Cash and cash equivalents	412	709
Property, plant and equipment, net	87,456	132,313
Current financial liabilities (excluding trade and other payables and provisions)	(12,542)	(10,779)
Non-current financial liabilities (excluding trade and other payables and provisions)	(36,330)	(81,225)

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 32. Investments in Joint Ventures continued

Summarized statement of profit or loss and other comprehensive income of joint ventures was as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Revenue	30,314	37,288
Cost of sales	(19,762)	(20,142)
General and administrative expenses	(3,152)	(4,718)
<b>Profit from operating activities</b>	<b>7,400</b>	<b>12,428</b>
Other income/(expenses), net	5,924	(2,828)
<b>Profit before income tax</b>	<b>13,324</b>	<b>9,600</b>
Income tax expenses	(3,150)	(1,798)
<b>Profit for the period</b>	<b>10,174</b>	<b>7,802</b>
<b>Other comprehensive (loss)/income for the period</b>		
Exchange differences on translating foreign operations	(51,626)	296
<b>Total comprehensive (loss)/income for the period</b>	<b>(41,452)</b>	<b>8,098</b>

The above information for the period includes the following:

	Year ended 30 June 2015	Year ended 30 June 2014
Depreciation and amortization	4,082	8,996
Interest expenses	4,698	8,332

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	Year ended 30 June 2015	Year ended 30 June 2014
Net assets of the joint venture	38,218	49,094
Proportion of the Group's ownership interest in the joint venture	50.0%	50.0%
Goodwill	37,928	73,528
Carrying amount of the Group's interest in the joint venture	57,037	98,075

## 33. Transactions with Related Parties

Related parties are the Beneficial Owner and companies under 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 as of 30 June 2015	Total category as per consolidated statement of financial position as of 30 June 2015	Related party balances as of 30 June 2014	Total category as per consolidated statement of financial position as of 30 June 2014
Prepayments to suppliers and other current assets, net (Note 10)	14,581	60,647	14,450	56,924
Other non-current assets (Note 18)	4,909	13,368	4,998	26,461
Trade accounts payable	722	27,384	6,642	33,369
Advances from customers and other current liabilities (Note 19)	15,898	63,380	16,430	79,570
Other non-current liabilities	–	1,879	8,863	13,726

As of 30 June 2015 and 30 June 2014, the Group did not create an allowance for trade accounts receivable, prepayments to suppliers and other current assets from related parties.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 33. Transactions with Related Parties continued

As of 30 June 2015, advances from customers and other current liabilities included USD 6,000 thousand of bonuses payable to the management.

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

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

Advances from customers and other current liabilities as of 30 June 2014 included an amount of USD 13,499 thousand of a loan provided by Namsen Limited to Inter-Agro Group. This loan has been repaid in full during the year ended 30 June 2015 (Note 19).

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

Transactions with related parties were as follows:

	Amount of operations with related parties, for the year ended 30 June 2015	Total category per consoli- dated statement of profit or loss for the year ended 30 June 2015	Amount of operations with related parties, for the year ended 30 June 2014	Total category per consolidated statement of profit or loss for the year ended 30 June 2014
Cost of sales (Note 25)	(241)	(1,810,484)	(282)	(1,967,974)
Other operating income, net (Note 26)	1,812	82,914	–	60,474
General, administrative expenses and distribution costs (Notes 27, 28)	(30,390)	(266,871)	(24,651)	(339,924)
Finance costs, net (Note 29)	6	(68,575)	322	(72,459)
Other (expenses)/income, net (Note 31)	(111)	(10,520)	30	(51,777)

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

For the year ended 30 June 2015, distribution expenses included USD 15,003 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the 12 months ended 30 June 2014: USD 19,074 thousand), Other expenses, net included USD 235 thousand of penalties for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC. All other transactions occurred with related parties under common control.

As of 30 June 2015, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors, and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the year ended 30 June 2015 amounted to USD 382 thousand (30 June 2014: 8 directors, USD 250 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 14 people, amounted to USD 8,564 thousand for the 12 months ended 30 June 2015 (30 June 2014: 14 people, USD 2,242 thousand), including USD 6,000 thousand of variable bonus as per approved remuneration scheme.

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies

### Operating Environment

In 2014, Ukraine was in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Political unrest and separatist movements in Eastern Ukraine evolved into armed conflict and full-scale military activities in certain parts of Luhansk and Donetsk regions, effectively resulting in the loss of control over these territories by the Government of Ukraine. These events led to a significant deterioration in the relationship between Ukraine and the Russian Federation.

The Group does not have assets in Crimea, Donetsk or Luhansk regions.

The armed military conflict and inability to implement substantial and effective economic reforms have led to a significant fall in the gross domestic product, decline in international trade, deterioration in the state's finances and significant devaluation of the Ukrainian hryvnia against major foreign currencies. The ratings of Ukrainian sovereign debt have been downgraded by all international rating agencies with a negative outlook for the future. All these factors have had a negative effect on Ukrainian companies and banks, hampering their ability to obtain funding from domestic and international financial markets. In addition, Ukraine has a large external debt refinancing requirement in the next few years, while its foreign reserves have reached a critically low level.

The National Bank of Ukraine (NBU) introduced a range of measures aimed at limiting the outflow of foreign currencies from the country, inter alia, the mandatory sale of 75% of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on the usage of foreign currencies for settlement purposes, limitations on remittances abroad, and limitations on individuals for foreign currency purchases and bank withdrawals. In addition, the Government of Ukraine has been taking efforts to attract significant external financing, primarily from the International Monetary Fund, as well as negotiating terms and conditions with external creditors as to the curtailing and restructuring of terms of repayment of the principal amount of external debt.

Stabilization of the economic and political situation depends, to a large extent, upon the success of the Ukrainian Government and the NBU's efforts, yet further economic and political developments, as well as the impact of these factors on the Group, its customers and contractors are currently difficult to predict.

### Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 30 June 2015 were USD 18,920 thousand (2014: USD 29,836 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance these post-retirement benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions. For the year ended 30 June 2015, retirement and other pension obligation expenses of the Group amounted to USD 483 thousand (2014: USD 728 thousand). As of 30 June 2015 and 30 June 2014, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies continued

### Capital Commitments

As of 30 June 2015, the Group had commitments under contracts with a group of suppliers for a total amount of USD 856 thousand for the purchase of equipment for an oil plant (30 June 2014: USD 3,743 thousand for the supply of equipment and services required for the construction of a new silo).

### Contractual Commitments on Sales

As of 30 June 2015, the Group had entered into commercial contracts for the export of 452,000 tons of grain and 470,181 tons of sunflower oil and meal, corresponding to an amount of USD 96,073 thousand and USD 204,201 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2014, the Group had entered into commercial contracts for the export of 241,850 tons of grain and 442,763 tons of sunflower oil and meal, corresponding to an amount of USD 68,827 thousand and USD 245,868 thousand, respectively, at prices as of 30 June 2014.

### Operating Leases

As of 30 June 2015 and 2014, the Group had outstanding commitments under non-cancellable operating lease agreements with the following maturities:

Lease term	Future minimum lease payment as of 30 June 2015	Future minimum lease payment as of 30 June 2014
Less than 1 year	28,100	33,350
From 1 to 5 years	86,344	93,858
More than 5 years	114,263	29,461
<b>Total</b>	<b>228,707</b>	<b>156,669</b>

Operating lease payments represent mainly rentals payable by the Group for office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

### Taxation and Legal Issues

The Group is involved in litigation in connection with a case of contaminated Ukrainian oil that occurred in April 2008. The Group estimates that it could be required to pay USD 3,700 thousand if the ruling is in favor of the counterparty. Management believes that no significant settlement will arise out of the lawsuit and no respective provision is required in the Group's financial statements as of the reporting date.

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 30 June 2015, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the seller's obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 30 June 2015, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for a total amount of USD 76,922 thousand (30 June 2014: USD 127,640 thousand), from which USD 44,561 thousand related to VAT recoverability (30 June 2014: USD 65,347 thousand) and USD 32,361 thousand related to corporate income tax (30 June 2014: USD 62,293 thousand).

As of 30 June 2015, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 43,159 thousand (30 June 2014: USD 41,825 thousand) of the aforementioned amount. Of this amount, USD 31,168 thousand related to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2014: USD 19,470 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies continued

### Taxation and Legal Issues continued

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

Management believes that the Company has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

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

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

## 35. Financial Instruments

### Capital Risk Management

During the years ended 30 June 2015 and 2014, there were no material changes to the objectives, policies and processes for capital risk, credit risk, liquidity risk, currency risk, interest rate risk and other market risk management. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 20 and 21 and obligations under finance leases (Note 22), cash and cash equivalents and equity attributable to Kernel Holding S.A. shareholders, comprising issued capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

### Gearing Ratio

Every quarter, management reviews the capital structure of the Group, taking into consideration seasonality in the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group's management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2015	As of 30 June 2014
Debt liabilities <sup>1</sup> (Notes 20, 21, 22)	468,514	749,417
Less cash and cash equivalents (Note 8)	(129,121)	(65,400)
Net debt	339,393	684,017
Equity <sup>2</sup>	889,554	1,029,661
<b>Net debt liabilities to capital</b>	<b>38%</b>	<b>66%</b>

<sup>1</sup> Debt includes short-term and long-term borrowings and obligations under finance leases.

<sup>2</sup> Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings and translation reserve.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Gearing Ratio continued

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

Risk management policies have been established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of trade receivables and cash represent the maximum credit exposure.

The Group's most significant customers are an international customer, which accounted for USD 12,471 thousand, and a local customer, which accounted for USD 1,890 thousand out of total trade accounts receivable as of 30 June 2015 (as of 30 June 2014 one international customer accounted for USD 11,645 thousand and one local customer for USD 2,861 thousand).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk. Approximately 41.7% of the Group's revenue is attributable to sales transactions with five major customers (as of 30 June 2014: 33.8%).

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty recommendations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit and bank guarantees.

### Guarantees

The Group's policy is to provide financial guarantees only to wholly owned (controlled) Subsidiaries. As of 30 June 2015 as well as at 30 June 2014, no guarantees were outstanding in favor of third parties.

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The average credit period on purchases of goods is seven days.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Liquidity Risk continued

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2015. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years
Short-term borrowings (Note 20)	298,005	(304,049)	(304,049)	—	—
Long-term borrowings (Note 21)	158,236	(177,340)	(80,838)	(43,410)	(53,092)
Obligations under finance leases (Note 22)	12,273	(14,979)	(7,594)	(4,835)	(2,550)
<b>Total</b>	<b>468,514</b>	<b>(496,368)</b>	<b>(392,481)</b>	<b>(48,245)</b>	<b>(55,642)</b>

Financial liabilities, which were not included above, are repayable within one year.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2014. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Short-term borrowings (Note 20)	405,821	(410,678)	(410,678)	—	—	—
Long-term borrowings (Note 21)	324,860	(369,423)	(101,316)	(171,585)	(93,414)	(3,108)
Obligations under finance leases (Note 22)	18,736	(23,810)	(8,569)	(7,735)	(7,498)	(8)
<b>Total</b>	<b>749,417</b>	<b>(803,911)</b>	<b>(520,563)</b>	<b>(179,320)</b>	<b>(100,912)</b>	<b>(3,116)</b>

Financial liabilities, which were not included above, are repayable within one year.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group's policy is to synchronize future cash flow from sales and payments under financial liabilities and to limit open inventory positions.

### Currency Risk

The major sources of financing of the Group, prices of sales contracts with customers, and prices of significant contracts for the purchase of goods and services from suppliers are denominated in USD.

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having distinct functional currencies.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Currency Risk continued

The Group's exposure to foreign currency risk as of 30 June 2015 and 2014 was as follows:

	30 June 2015		30 June 2014	
	UAH	USD	UAH	USD
Cash	14,281	1,055	27,740	6
Trade accounts receivable, net	6,836	—	7,030	—
Other non-current assets	413	—	—	1,056
Trade accounts payable	(17,354)	—	(6,736)	(276)
Reimbursement of debt	—	—	—	(13,499)
Short-term borrowings (Note 20)	—	—	—	—
Ukrainian subsidiary of American bank	—	(99)	—	(172)
Long-term borrowings (Note 21)	—	—	—	—
Ukrainian subsidiary of American bank	—	(7,813)	—	(14,063)
Obligation under financial lease	—	(4,078)	—	(6,261)
<b>Net exposure</b>	<b>4,176</b>	<b>(10,935)</b>	<b>28,034</b>	<b>(33,209)</b>

A 10% change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sensitivity of changes in the exchange rate of Ukrainian hryvnia (UAH) against US dollar (USD) is as follows:

Profit or loss effect for the year ended 30 June 2015:

10% strengthening of UAH ..... 1,412  
10% depreciation of UAH..... (1,633)

Profit or loss effect for the year ended 30 June 2014:

10% strengthening of UAH ..... 5,822  
10% depreciation of UAH..... (6,493)

The Ukrainian hryvnia devalued against major foreign currencies. Foreign exchange losses reflected significant Ukrainian hryvnia devaluation against the US dollar: by 44% for the year ended 30 June 2015 and by 33% for the year ended 30 June 2014. The Group recognized a net foreign exchange loss in the amount of USD 152,942 thousand for the year ended 30 June 2015 and USD 98,805 thousand for the year ended 30 June 2014. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange loss mostly consisted of loss incurred from operations resulted from normal operating activity during the year ended 30 June 2015.

The National Bank of Ukraine introduced a range of measures aimed at limiting the outflow of customer deposits from the banking system, improving the liquidity of banks, and supporting the exchange rate of the Ukrainian hryvnia. As a result of this restriction, the Group was obliged to sell most of the foreign currency it obtained from export sales (75-100%) on the Ukrainian interbank foreign exchange market. For the year ended 30 June 2015, the Group received other operating income from the difference between the market and official USD/UAH exchange rate in the amount USD 57,441 thousand (30 June 2014: USD 35,293 thousand).

Management of the Company optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 2,329,507 thousand, sales in USD comprised USD 2,014,839 thousand and in EUR comprised USD 169,206 thousand for the year ended 30 June 2015. Export sales represented 94% of the total sales volume.

### Interest Rate Risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Interest Rate Risk continued

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2015	Carrying amount as of 30 June 2014
Fixed rate instruments (financial liabilities)	37,273	40,261
Variable rate instruments (financial liabilities)	431,241	709,156
<b>Total</b>	<b>468,514</b>	<b>749,417</b>

The Group does not use any derivatives to manage interest rate risk exposure.

The sensitivity analysis below has been determined based on exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year ended 30 June 2015 would decrease/increase by USD 4,312 thousand (2014: decrease/increase by USD 7,092 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### Other Market Price Risk

The Group enters into commodity contracts only for the delivery of physical goods and does not use any material hedging tools with respect to price hedging.

## 36. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties in an arm's length transaction, rather than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary for arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts receivable, and trade accounts payable due to the short-term nature of the financial instruments.

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values:

Financial liabilities	30 June 2015		30 June 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Short and Long term borrowings	453,549	456,356	727,029	733,093
<b>Total</b>	<b>453,549</b>	<b>456,356</b>	<b>727,029</b>	<b>733,093</b>

For the year ended 30 June 2015, the fair value of bank borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 6.32% (2014: 6.43%), and is within level 2 of the fair value hierarchy.

There were no changes in the valuation technique since the previous year.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2015 (in thousands of US dollars, unless otherwise stated)

## 37. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (79,683,410 for the period ended 30 June 2015 and 30 June 2014), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 79,779,975 ordinary shares is taken into account (30 June 2014: 79,856,603).

## 38. Non-cash Movements

Non-cash movements for the years ended 30 June 2015 and 30 June 2014 were as follows:

	For the year ended 30 June 2015	For the year ended 30 June 2014
Non-cash settlement of trade accounts receivable and other current liabilities	—	6,544

## 39. Subsequent Events

Kernel renewed sunflower oil and grain pre-export credit facilities with syndicates of European banks. Two one-year secured revolving facilities with limits of USD 350 and 230 million are used by the Group to fund the working capital needs of its production business in Ukraine.

In September 2015, Kernel announced the signing of a tolling agreement to crush 200,000 tons of sunflower seed at a third-party plant located in Ukraine.

In September 2015, Fitch Rating Inc. affirmed the long-term foreign currency rating of Kernel Holding S.A. at 'CCC'. The business and financial profile of Kernel would allow its ratings to return to the 'B' category, which was noted in the Fitch press-release. Fitch upgraded Kernel's National Long-term rating to 'A-(ukr)', assigning the national rating a 'Stable' outlook.

In October 2015, Cascade Investment Fund notified that it had acquired shares in Kernel Holding S.A., as a result of which it had crossed the threshold of 5% of the overall number of votes at the general shareholders' meeting of the Company. As of 13 October 15, Cascade Investment Fund holds 3,984,345 shares in the Company, representing 5.0% of the share capital and entitling it to 3,984,345 votes at the Company's general shareholders' meeting, equal to 5.0% of the total number of votes.

# Corporate Information

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## Registered number

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## Stock information

Exchange..... Warsaw Stock Exchange  
Stock quote currency..... PLN  
Shares issued as of 30 June 2015..... 79,683,410  
Bloomberg..... KER PW  
Reuters ticker..... KERN.WA  
ISIN code..... LU0327357389

## Investor calendar

Q1 FY2016 operations update.....22 October 2015  
Q1 FY2016 financial report.....25 November 2015  
Annual general meeting of shareholders.....10 December 2015  
Q2 FY2016 operations update.....20 January 2016  
H1 FY2016 financial report.....26 February 2016  
Q3 FY2016 operations update.....20 April 2016  
Q3 FY2016 financial report.....26 May 2016  
Q4 FY2016 operations update.....20 July 2016  
FY2016 financial report .....24 October 2016

## Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

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