

H1

FY2015

KERNEL



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

for 6 months ended 31 December 2014

Management Discussion and Analysis

for 3 and 6 months ended 31 December 2014

Key highlights:

- Revenue totaled USD 652.5 million in Q2 FY2015, which was 10% lower y-o-y, as agriculture commodity prices declined while sales volumes increased for all segments.
- EBITDA increased 2.5x y-o-y to USD 142.4 million in Q2 FY2015, marking a record quarterly EBITDA for the company, primarily due to a turnaround in the farming division and strong margins in the sunflower oil in bulk segment.
- The sunflower oil sold in bulk segment's contribution to EBITDA amounted to USD 56.7 million in Q2 FY2015, up 16% y-o-y as volumes grew by 6% y-o-y while the EBITDA margin improved to 20%, the highest level in the last four years. The bottled oil segment continued to deliver a premium on profitability to sales in bulk, but its EBITDA contribution decreased 31% to USD 8.9 million in Q2 FY2015 due to unusually high profitability posted a year ago.
- The grain and export terminal segments delivered consistent growth in volumes, driven by growth in our own farming production and a strong crop in Ukraine and Russia. Healthy margins in both segments resulted in an EBITDA contribution of USD 15.2 million from grain segment in Q2 FY2015 (up 4.0x y-o-y) and USD 10.6 million from export terminals (up 13% y-o-y). At the same time, the silo service segment's EBITDA declined 2.2x from an abnormal high last year to a healthy USD 13.4 million in Q2 FY2015, as drier autumn weather reduced demand for grain drying services.
- The farming segment's EBITDA improved to USD 43.6 million in Q2 FY2015 compared to negative USD 42.2 million a year ago. A major shift in production technology improved crop yields by 16-28% y-o-y, while a combination of drier weather during harvesting and Ukrainian hryvnya devaluation decreased production costs per hectare.
- H1 FY2015 revenues were up 8% y-o-y to USD 1,231.7 million; EBITDA increased 3.7x y-o-y to a historical high of USD 222.8 million in H1 FY2015.
- Net profit attributable to the shareholders of Kernel Holding S.A. stood at USD 54.8 million in Q2 FY2015 (compared to a net loss of USD 9.1 million a year ago), reflecting a foreign exchange loss of USD 56.2 million, which was primarily caused by the revaluation of prepaid taxes following 18% Ukrainian hryvnya and 30% Russian ruble devaluation during the quarter.
- Net debt decreased 28% y-o-y to USD 735.2 million as of 31 December 2014 due to a combination of positive cash flow generated during the last twelve months and lower working capital requirements caused by decreases in commodity prices. The net debt to 12-month trailing EBITDA ratio decreased to a healthy 1.9x as of 31 December 2014, while net indebtedness adjusted for readily marketable inventories decreased to only 0.7x of 12-month trailing EBITDA.

USD million except ratios and EPS

	Q2 FY2015	Q2 FY2014	y-o-y	H1 FY2015	H1 FY2014	y-o-y
P&L highlights						
Revenue	652.5	725.5	(10%)	1,231.7	1,138.4	8%
EBITDA ⁽¹⁾	142.4	57.6	2.5x	222.8	60.6	3.7x
Net profit/(loss) attributable to equity holders of Kernel Holding S.A.	54.8	(9.1)	n/m	78.3	(42.5)	n/m
EBITDA margin	21.8%	7.9%	13.9pp	18.1%	5.3%	12.8pp
Net margin	8.4%	(1.3%)	9.7pp	6.4%	(3.7%)	10.1pp
EPS ⁽²⁾ , USD	0.69	(0.11)	n/m	0.98	(0.53)	n/m

Cash flow highlights

Operating profit before working capital changes	130.8	62.3	2.1x	205.2	74.6	2.7x
Change in working capital	(193.7)	(331.7)	(42%)	(192.7)	(347.9)	(45%)
Cash generated from/(used in) operations	(62.9)	(269.4)	(77%)	12.4	(273.2)	n/m
Net cash used in operating activities	(80.8)	(292.0)	(72%)	(34.8)	(327.9)	(89%)
Net cash used in investing activities	(1.2)	(28.8)	(96%)	(12.8)	(45.9)	(72%)

Credit metrics

Net interest-bearing debt	735.2	1,017.7	(28%)
Readily marketable inventories	456.9	615.0	(26%)
Adjusted net debt ⁽³⁾	278.3	402.7	(31%)
Shareholders' equity	981.9	1,293.0	(24%)
Net debt/EBITDA ⁽⁴⁾	1.9x	5.3x	(3.4x)
Adjusted net debt/EBITDA ⁽³⁾	0.7x	2.1x	(1.4x)
EBITDA/Interest ⁽⁵⁾	5.0x	2.9x	2.1x

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

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

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

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

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

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

Segment Results and Discussion

for 3 and 6 months ended 31 December 2014

Segment results summary

	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	Q2 FY2015	Q2 FY2014	y-o-y	Q2 FY2015	Q2 FY2014	y-o-y	Q2 FY2015	Q2 FY2014	Q2 FY2015	Q2 FY2014	y-o-y
Sunflower oil											
Sunflower oil sold in bulk	284.8	300.7	(5%)	56.7	48.7	16%	20%	16%	278.1	261.7	6%
Bottled sunflower oil	38.7	44.6	(13%)	8.9	12.9	(31%)	23%	29%	34.2 ⁽¹⁾	30.4 ⁽¹⁾	13%
Grain and infrastructure											
Grain	312.6	328.6	(5%)	15.2	3.8	4.0x	5%	1%	1,403.0	1,335.3	5%
Export terminals	15.6	14.6	7%	10.6	9.4	13%	68%	65%	1,437.5 ⁽²⁾	1,268.5 ⁽²⁾	13%
Silo services	24.9	50.7	(51%)	13.4	29.7	(55%)	54%	59%			
Farming											
Farming	144.7	165.0	(12%)	43.6	(42.2)	n/m	30%	(26%)			
Sugar and discontinued operations ⁽⁴⁾	3.5	10.1	(65%)	0.1	0.1	30%	4%	1%			
Unallocated corporate expenses				(6.2)	(4.9)	28%					
Revenue reconciliation	(172.4)	(188.8)	(9%)								
Total	652.5	725.5	(10%)	142.4	57.6	2.5x	22%	8%			

	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	H1 FY2015	H1 FY2014	y-o-y	H1 FY2015	H1 FY2014	y-o-y	H1 FY2015	H1 FY2014	H1 FY2015	H1 FY2014	y-o-y
Sunflower oil											
Sunflower oil sold in bulk	517.3	417.2	24%	97.6	49.5	2.0x	19%	12%	480.7	357.5	34%
Bottled sunflower oil	64.9	77.9	(17%)	12.7	16.6	(24%)	20%	21%	57.0 ⁽¹⁾	52.8 ⁽¹⁾	8%
Grain and infrastructure											
Grain	599.6	557.6	8%	32.9	13.2	2.5x	5%	2%	2,623.8	2,220.0	18%
Export terminals	26.3	21.8	21%	17.5	13.1	33%	66%	60%	2,650.1 ⁽³⁾	2,046.7 ⁽³⁾	29%
Silo services	34.1	60.5	(44%)	17.9	34.3	(48%)	52%	57%	2,478.0	2,447.1	1%
Farming											
Farming	200.0	234.9	(15%)	54.3	(48.6)	n/m	27%	(21%)			
Sugar and discontinued operations ⁽⁴⁾	23.7	14.8	60%	3.1	(0.1)	n/m	13%	(1%)			
Unallocated corporate expenses				(13.0)	(17.5)	(26%)					
Revenue reconciliation	(234.3)	(246.3)	(5%)								
Total	1,231.7	1,138.4	8%	222.8	60.6	3.7x	18%	5%			

⁽¹⁾ Million liters.

⁽²⁾ Including 403,603 tons transshipped through the Taman port in Q2 FY2015 and 389,787 tons in Q2 FY2014, which represents 50% of the total throughput volume of the Taman facility (Kernel Holding S.A. owns 50% of the Taman grain transshipment facility).

⁽³⁾ Including 946,653 tons transshipped through the Taman port in H1 FY2015 and 748,996 tons in H1 FY2014, which represents 50% of the total throughput volume of the Taman facility (Kernel Holding S.A. owns 50% of the Taman grain transshipment facility).

⁽⁴⁾ Discontinued operations from sugar and assets held for sale.

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

Sunflower oil sold in bulk

- A decrease in competition among Ukrainian crushers improved the sunflower oil in bulk segment's EBITDA margin to 20% in Q2 FY2015, the highest level in the last four years (vs. 16% a year ago).
- Strong margins combined with solid sales volumes (up 6% y-o-y) resulted in EBITDA of USD 56.7 million in Q2 FY2015, up 16% y-o-y. At the same time, revenue decreased 5% y-o-y to USD 284.8 million in Q2 FY2015 as a consequence of lower world prices for edible oils.
- H1 FY2015 revenue increased by 24% y-o-y to USD 517.3 million on strong 34% y-o-y sales volume growth, while EBITDA doubled y-o-y to USD 97.6 million due to a combination of robust results in both quarters.

Bottled sunflower oil

- Bottled oil sales increased 13% y-o-y to 34.2 million liters in Q2 FY2015, while the segment's revenues decreased 13% y-o-y as a result of bottled sunflower oil prices following the decline in world prices for sunflower oil.
- The segment's EBITDA decreased 31% y-o-y to USD 8.9 million as a result of abnormally high margins a year ago. The EBITDA margin amounted to strong 23% in Q2 FY2015, with a healthy premium to sales in bulk.
- H1 FY2015 revenue was down 17% y-o-y to USD 64.9 million (volumes were up 8% y-o-y but prices were down), with EBITDA declining 24% y-o-y to USD 12.7 million in H1 FY2015 due to a high base from the previous year.

Segment Results and Discussion

for 3 and 6 months ended 31 December 2014

Grain

- Grain export volumes increased to a new record of 1.4 million tons in Q2 FY2015, up 5% y-o-y, with growth being driven by a higher crop from our own farming division and strong growth in exports from Russia.
- The grain segment's EBITDA margin was at a healthy level of 5% in Q2 FY2015, in line with the average levels seen in FY2014 and Q1 FY2015.
- As a result, the segment's EBITDA increased to USD 15.2 million in Q2 FY2015, up 4.0x y-o-y from a low base of USD 3.8 million in Q2 FY2014. At the same time, the segment's revenue fell 5% y-o-y to USD 312.6 million in Q2 FY2015 as a result of international grain prices being down y-o-y.
- H1 FY2015 revenues were up 8% y-o-y to USD 599.6 million (a combination of 18% y-o-y volume growth and lower prices), while EBITDA increased 2.5x y-o-y to USD 32.9 million in H1 FY2015 as margins were healthy in H1 FY2015.

Export terminals

- The export terminals' throughput increased 13% y-o-y to 1.4 million tons in Q2 FY2015, a new quarterly record. While both Ukrainian and Russian operations performed well, the growth mainly came from higher transshipment in Ukraine where the country's strong grain harvest was supported by high supply from our own farming division.
- The segment's EBITDA margin was strong at USD 10.3 per ton in Q2 FY2015 compared to USD 10.7 per ton a year ago, with the segment's total EBITDA growing 13% y-o-y to USD 10.6 million in Q2 FY2015 (reflecting only Ukrainian operations, as income from the grain transshipment joint venture in the Russian Federation is accounted below operating profit). The segment's revenues were up 7% y-o-y to USD 15.6 million in Q2 FY2015.
- H1 FY2015 revenues, up 21% y-o-y to USD 26.3 million, were driven by volumes. H1 FY2015 EBITDA consequently increased 33% y-o-y to USD 17.5 million.

Silo services

- The silo service segment's intake volumes were similar to the previous year (up 1% y-o-y to 2.5 million tons) in H1 FY2015, as a higher in-house harvest was compensated by lower demand from third-party farmers due to dry weather.

FY2015 harvest results

	Acreage, thousand hectares			Net crop yield, tons/hectare			Net tonnage, thousand tons	
	FY2015	FY2014	y-o-y	FY2015	FY2014	y-o-y	FY2015	FY2014
Corn	183.8	161.6	14%	7.1	5.5	28%	1,297.6	891.2
Wheat	30.7	33.6	(9%)	5.4	4.3	24%	165.1	146.0
Sunflower	69.5	102.8	(32%)	2.5	2.1	16%	170.8	217.9
Soybean	66.5	61.2	9%	1.8	1.4	27%	121.3	88.0
Other ⁽¹⁾	32.1	29.6	8%					
Total	382.6	388.7	(2%)					
incl. grains	223.0	201.1	11%	6.7	5.3	28%	1,488.5	1,056.1
incl. oilseed crops	136.1	169.2	(20%)	2.2	1.9	14%	292.1	319.2

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

Note: 1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean. Differences are possible due to rounding.

- At the same time, below average rainfall during autumn crops harvesting decreased demand for grain drying services to below average this year (compared to above average crop moisture levels last year). As a result, the segment's revenues decreased 2x y-o-y to USD 24.9 million in Q2 FY2015, with EBITDA down 55% y-o-y to USD 13.4 million. Given that our own farming division contributes approximately half of the silo segment's total throughput, lower earnings from silo services were compensated by lower costs in the farming division.

Farming

- The total grain and oilseed harvest increased 29% y-o-y to 1.8 million tons in FY2015 as a result of 16-28% growth in crop yields for major crops, following a major change in our production technology and management system. At the same time, production costs per hectare decreased due to devaluation of the Ukrainian hryvnya and dryer weather conditions during harvesting.
- Q2 FY2015 sales amounted to USD 144.7 million, down 12% y-o-y due to lower prices.
- The segment's EBITDA increased to USD 43.6 million in Q2 FY2015, compared to negative USD 42.2 million a year ago. The improvement in profitability reflects better crop yields, lower production costs per hectare, VAT refunds on grain exports for agricultural producers during the quarter under review, and a lower IAS 41 fair value charge (net gain of USD 3.2 million in Q2 FY2015 vs. a net loss of USD 11.7 million a year ago). At the same time, international grain prices were lower y-o-y.
- H1 FY2015 revenues decreased 15% y-o-y to USD 200.0 million, while EBITDA increased to USD 54.3 million in H1 FY2015 compared to negative USD 48.6 million a year ago.

Sugar

- The company has sold almost all of its remaining stock of sugar, which contributed USD 3.5 million to revenue and USD 0.1 million to EBITDA in Q2 FY2015. H1 FY2015 revenue was USD 23.7 million and EBITDA was USD 3.1 million.

Financial Highlights

for 3 and 6 months ended 31 December 2014

Income statement highlights

- Revenues decreased 10% y-o-y to USD 652.5 million in Q2 FY2015 versus USD 725.5 million in Q2 FY2014, with lower international sunflower oil and grain prices being the key factor behind the decline, while volumes increased across all segments.
- The net change in fair value of biological assets and agricultural produce (IAS 41 effect) was USD 3.2 million in Q2 FY2015 (compared to negative USD 11.7 million in Q2 FY2014). The amounts comprised of expensing a portion of the fair value component booked in the previous financial year (primarily in the fourth quarter), as well as positive revaluation of winter crops in fields as of 31 December and agricultural produce in stock.
- Gross profit increased 72% y-o-y to USD 171.7 million in Q2 FY2015 compared to USD 99.8 million a year ago, reflecting improved profitability across major business lines.
- Other operating income amounted to USD 27.9 million in Q2 FY2015, up 8% y-o-y from USD 25.8 million a year ago. The key component of other operating income was the difference between the market and official UAH/USD exchange rate. While the Company's cash flows are based on market exchange rates, the cost of goods sold is translated into US dollars at a lower official exchange rate, which inflates the accounting value of the COGS component, with the difference booked in other operating income.
- Distribution costs decreased 22% y-o-y to USD 59.5 million in Q2 FY2015 as railway tariffs in Ukraine decreased as a result of Ukrainian hryvnya depreciation. As a percentage of revenues, distribution costs amounted to 9.1% in Q2 FY2015 compared to 10.5% a year ago.
- General and administrative expenses decreased 9% y-o-y to USD 16.2 million in Q2 FY2015, reflecting Ukrainian hryvnya depreciation.
- Profit from operating activities increased 3.9x y-o-y to USD 123.8 million in Q2 FY2015 compared to USD 31.4 million a year ago as a result of improved profitability in most business segments, as well as a lower depreciation charge caused by Ukrainian hryvnya devaluation.
- Net finance costs decreased 4% y-o-y to USD 19.2 million in Q2 FY2015 because of lower working capital requirements caused by decreased international commodity prices.
- Foreign exchange losses amounted to USD 56.2 million in Q2 FY2015 (vs. a profit of USD 0.6 million in Q2 FY2014) as a result of the revaluation of prepaid taxes denominated in the local currency and intra-group receivables following 18% devaluation of the Ukrainian hryvnya and 30% devaluation of the Russian ruble during Q2 FY2015.
- Other expenses amounted to USD 4.7 million in Q2 FY2015 compared to a USD 23.0 million charge in Q2 FY2014.
- The share of net profit from joint ventures amounted to USD 2.1 million in Q2 FY2015 compared to USD 3.0 million a year ago.
- Income tax charges declined to USD 1.1 million in Q2 FY2015 compared to USD 7.2 million, mainly as a result of Ukrainian hryvnya devaluation.
- As a result of aforementioned points, net income attributable to the shareholders of Kernel Holding S.A. amounted to USD 54.8 million in Q2 FY2015 compared to a USD 9.1 million loss in Q2 FY2014.

Cash flow highlights

- Operating cash flow before working capital was USD 130.8 million in Q2 FY2015 compared to USD 62.3 million a year ago, with the increase driven by higher profits in the farming and sunflower oil sold in bulk segments.
- Working capital seasonally increased by USD 193.7 million in Q2 FY2015 (vs. USD 331.7 million in Q2 FY2014) as the Company's inventories are normally higher at the end of December, which corresponds to the first reporting date after the completion of the autumn harvest. The increase was lower in Q2 FY2015 compared to the previous year due to a combination of lower agriculture prices and farmers' willingness to postpone sales as a hedge against currency devaluation.
- Net cash used in investing activities decreased to USD 1.2 million in Q2 FY2015 compared to USD 28.8 million a year ago, as Company decreased its capital expenditures program for FY2015 and did not make any acquisitions during the reporting period.
- All the above points resulted in net proceeds from financing activities of USD 106.4 million in Q2 FY2015 (vs. USD 283.4 million a year ago).

Credit metrics highlights

- Net debt decreased 28% y-o-y to USD 735.2 million as of 31 December 2014 versus USD 1,017.7 million as of 31 December 2013, reflecting strong cash flow generation during the last twelve months and the release of working capital caused by lower sunflower oil prices and y-o-y lower inventory levels. Most of the net indebtedness as of 31 December 2014 was covered by readily marketable inventories such as corn, wheat, sunflower oil and seed, with a total book value of USD 456.9 million.
- The net debt to 12-month trailing EBITDA ratio stood at a healthy 1.9x as of 31 December 2014, compared to 5.3x a year ago as a result of deleveraging and earnings base growth. Net debt adjusted for readily marketable inventories decreased to 0.7x as of 31 December 2014, compared to 2.1x a year ago.

Credit metrics

USD million except ratios	31 December 2014	31 December 2013
Gross interest-bearing debt	812.8	1,057.9
Cash	77.7	40.1
Net interest-bearing debt	735.2	1,017.7
Readily marketable inventories	456.9	615.0
Adjusted net financial debt ⁽¹⁾	278.3	402.7
Shareholders' equity ⁽²⁾	981.9	1,293.0
Net debt / EBITDA ⁽³⁾	1.9x	5.3x
Adjusted net debt / EBITDA ⁽⁴⁾	0.7x	2.1x
EBITDA / Interest ⁽⁵⁾	5.0x	2.9x

⁽¹⁾ Adjusted net financial debt is the sum of short-term interest-bearing debt, the 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.

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

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

⁽⁴⁾ Adjusted net debt / EBITDA is calculated based on 12-month trailing EBITDA.

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

Note: Differences are possible due to rounding.

Principal Risks and Uncertainties

for 3 and 6 months ended 31 December 2014

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

Size of Ukraine's sunflower seed and grain harvest

Unfavorable weather, growing conditions or other factors could lead to a low harvest in sunflower seed growing regions in Ukraine, where most of the Company's oilseed crushing facilities are located. A lower harvest of sunflower seed in Ukraine would result in higher competition for raw materials among oilseed crushers, which could have a detrimental effect on the Company's capacity utilization and margin in its sunflower oil business.

A decrease in the overall grain harvest in Ukraine and the Russian Federation could also reduce the volumes available for export, which might lead to lower grain export sales by the Company and lower utilization of grain silo storage facilities and port infrastructure.

VAT refunds

As an exporter, the Company is eligible to get refunds for VAT paid on inputs used for exported goods. However, VAT refunds are delayed and an increase in this period of delay could result in higher working capital requirements and higher exposure to local currency risk.

Access to short-term financing

Political and macroeconomic risks entailed in Ukraine might reduce the availability of short-term pre-export financing required for the Group's operations in Ukraine.

Fluctuations in the exchange rate of the Ukrainian hryvnya and Russian ruble to the US dollar

Appreciation of the Ukrainian hryvnya is likely to lead to growth in costs linked to the local currency, such as certain G&A expenses, in addition to transportation, land lease and labor costs. Devaluation of the Ukrainian hryvnya or Russian ruble causes foreign exchange losses from revaluation of the Company's assets, which are held or accounted for in local currency, in particular taxes recoverable and prepaid, as well as decrease in USD value of fixed assets of farming and silo services segments with corresponding negative impact on equity.

Agricultural commodity price volatility

The Company procures, produces, processes, and sells mostly agricultural commodities, the prices of which naturally can fluctuate significantly in short-term time spans. The Company's earnings to an extent are dependent on the prices of agricultural commodities (with sunflower oil being the most significant) and their fluctuations, where significant movements in commodity prices within a short period of time during certain periods of the year can cause a decrease or increase in the Company's earnings.

Changes in export restrictions, barriers, taxation, and VAT regime

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

Prolonged period of low global soft commodity prices

- Should low prices for agricultural commodities prevail for a long-time, this might lead to lower investment by Ukrainian and Russian farmers in grain and oilseed production, which could lead to a structural decrease in crop size and volumes available for export and processing. Additionally, low prices for agricultural commodities negatively affect the profitability of the Company's farming division, if input costs do not adjust accordingly.

Country risk

- A downgrade in Ukraine's sovereign rating or other changes in country risk perception might lead to an increase in the cost of financing.

Other risks identified by the management of the Company include:

- Increased competition from current or new operators in its business lines;
- Failure by a counterparty to deliver contracted grain or oilseed volumes or execute payment;
- 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;
- The risk of legal action and orders by tax authorities related to VAT refunds or corporate income tax payments; the introduction of VAT promissory notes; the risk of a detrimental impact or treatment by tax authorities from the law on transfer pricing;
- The risk of key personnel resigning;
- Failure to manage the integration of newly acquired operations;
- 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 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 that significant capital expenditure and other commitments Kernel Holding S.A. has made in connection with acquisitions may limit its operational flexibility and add to its financing requirements;
- The risk of disruptions to Kernel Holding S.A.'s manufacturing operations;
- The risk of product liability claims;
- The risk of potential liabilities from investigations, litigation, and fines regarding antitrust matters;
- The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and in joint ventures; and
- The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage.

Significant Events

for 6 months ended 31 December 2014

On 13 August 2014, Kernel Holding S.A. reported it renewed two pre-export working capital credit facilities with syndicates of European banks. The first facility had a committed limit of USD 180 million, which was further expanded to USD 230 million at the end of August; this facility is used for pre-export financing of grain exports from Ukraine. The second facility has a committed limit of USD 50 million for pre-export financing of grain and sunflower oil from the Russian Federation. Both credit lines are one year secured revolving facilities typically used to finance the company's working capital for export operations.

On 28 August 2014, Kernel Holding S.A. reported that it also renewed its sunflower oil pre-export credit facility and security package with a syndicate of European banks. This is a one-year secured revolving facility with a limit of USD 320 million, which is used by the company to fund the procurement of sunflower seeds for its sunflower oil production business in Ukraine.

On 10 December 2014, Kernel Holding S.A. convened its Annual General Meeting of Shareholders, which adopted the following resolutions with immediate effect:

- To approve the management report of the board of directors of the Company and the report of the independent auditor of the Company for the financial year ended 30 June 2014.
- To approve in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2014, with a resulting consolidated net loss attributable to equity holders of the Company of ninety eight million three hundred six thousand US dollars (USD 98,306,000-).
- To approve in their entirety the Parent Company's annual accounts (non-consolidated) for the financial year ended on 30 June 2014.
- To approve the proposal of the board of directors to (i) carry forward the net loss from the Parent Company's annual accounts (non-consolidated) of seventy million thirty-two thousand nine hundred fifty-five US dollars and thirty-three cents (USD 70,032,955.33-) and (ii) after allocation to the legal reserve of the Company, declare a dividend of twenty-five cents per ordinary share (USD 0.25-) for the financial year ended on 30 June 2014. The general meeting delegated the task to the board of directors to set up record and payment dates for the dividend distribution.
- To grant discharge to the directors of the Company for their management duties and the exercise of their mandates in the course of the financial year ended on 30 June 2014.
- To renew the mandates of directors Mr. Andrzej Danilczuk, Mr. Ton Schurink, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mrs. Viktoriia Lukianenko, Mr. Yuriy Kovalchuk and Mr. Kostiantyn Lytvynskyi for a one-year term ending on the date of the general meeting of shareholders to be held in 2015.
- To approve the independent directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2015, for a total gross annual amount of two hundred fifteen thousand US dollars (USD 215,000-).
- To approve the executive directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2015, for a total gross annual amount of two hundred fifty thousand US dollars (USD 250,000-) including two hundred thousand US dollars (USD 200,000-) to be paid to the chairman of the board of directors.

- To grant discharge to the independent auditor of the Company, Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 for the financial year ended on 30 June 2014.
- To reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company for a one-year term mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2015.

The board of directors of Kernel Holding S.A. approved on 23 December 2014 a management incentive plan (the "Management Incentive Plan") providing Management Team Members and Eligible Employees (as defined in the Management Incentive Plan) an option to purchase in aggregate up to 3,750,000 (three million seven hundred fifty thousand) new shares of Kernel Holding S.A. or up to 4.71% of the issued and outstanding stock of Kernel Holding S.A. as of the adoption date of the plan at an exercise price per share equal to the average market price for one share for the 12-month period ending 31 December 2014.

2,000,000 (two million) options shall be vested and will become exercisable in the following proportion:

- one fifth of the shares under option will become exercisable on 8 December 2015;
- one fifth of the shares under option will become exercisable on 8 December 2016;
- one fifth of the shares under option will become exercisable on 8 December 2017;
- one fifth of the shares under option will become exercisable on 8 December 2018;
- one fifth of the shares under option will become exercisable on 8 December 2019.

1,750,000 (one million seven hundred fifty thousand) options shall be vested and will become exercisable in the following proportion:

- 50% of the shares under option will become exercisable on 7 June 2017;
- 50% of the shares under option will become exercisable on 8 December 2019.

At the reporting date, the option plan was approved by the board of directors but not yet authorized by the general meeting of shareholders.

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

Management Statement

for 6 months ended 31 December 2014

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') and its subsidiaries (hereinafter together - the 'Group') for the six months ended 31 December 2014, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial statements' (hereinafter, 'IAS 34') and give a true and fair view of the financial position, cash flows, changes in equity and profit or loss and other comprehensive income, and that the directors' report on the operations of the Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Deloitte Audit S.a.r.l. has been appointed in accordance with applicable laws and performed the review as an independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the six months ended 31 December 2014, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

26 February 2015

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Statement of Management Responsibilities

for 6 months ended 31 December 2014

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

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') presented in this Interim Report and established in conformity with IAS 34 give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2014;
- the interim accounts of the Company presented in this Interim Report and established in conformity with Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2014;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

26 February 2015

On behalf of the Board

Andriy Verevskyy

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Kernel Holding S.A. as of 31 December 2014, and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows for the six-month period then ended, and the notes to the condensed consolidated interim financial statements as of 31 December 2014 (“the condensed consolidated interim financial information”). The Board of Directors is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

Emphasis of Matter

We draw your attention to Note 24 “Commitments and Contingencies” to the condensed consolidated interim financial information, 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.

Other matter

The accompanying condensed consolidated interim financial information for the three-month ended 31 December 2014 and 2013, were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

For Deloitte Audit, *Cabinet de révision agréé*



Sophie Mitchell, *Réviseur d'entreprises agréé*
Partner

26 February 2015

Condensed Consolidated Interim Financial Statements

Table of Contents

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

Selected Financial Data

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

	USD thousand		PLN thousand		EUR thousand	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
I. Revenue	1,231,694	1,138,393	4,018,155	3,574,326	957,888	847,761
II. Profit from operating activities	184,162	8,592	600,792	26,977	143,223	6,398
III. Profit/(Loss) before income tax	73,493	(42,126)	239,756	(132,267)	57,156	(31,371)
IV. Profit/(Loss) for the period from continuing operations	71,303	(46,811)	232,612	(146,977)	55,452	(34,860)
V. Net cash used in operating activities	(34,802)	(327,856)	(113,535)	(1,029,402)	(27,066)	(244,154)
VI. Net cash used in investing activities	(12,824)	(45,884)	(41,836)	(144,067)	(9,973)	(34,170)
VII. Net cash generated by financing activities	59,919	341,544	195,474	1,072,380	46,599	254,348
VIII. Total net cash flow	12,293	(32,196)	40,103	(101,089)	9,560	(23,976)
IX. Total assets	1,934,026	2,573,830	6,783,016	7,752,377	1,591,317	1,869,373
X. Current liabilities	754,864	910,226	2,647,459	2,741,601	621,102	661,097
XI. Non-current liabilities	198,832	359,135	697,344	1,081,715	163,599	260,840
XII. Issued capital	2,104	2,104	7,379	6,337	1,731	1,528
XIII. Total equity	980,330	1,304,469	3,438,213	3,929,061	806,616	947,436
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)	0.98	(0.53)	3.20	(1.68)	0.76	(0.40)
XVI. Diluted number of shares	79,683,410	79,932,998	79,683,410	79,932,998	79,683,410	79,932,998
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	0.98	(0.53)	3.20	(1.67)	0.76	(0.40)
XVIII. Book value per share (in USD/PLN/EUR)	12.32	16.23	43.22	48.87	10.14	11.79
XIX. Diluted book value per share (in USD/PLN/EUR)	12.32	16.18	43.22	48.72	10.14	11.75

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2014 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 December 2014	As of 30 June 2014	As of 31 December 2013
Assets				
Current assets				
Cash and cash equivalents	6	77,694	65,400	40,133
Trade accounts receivable, net	7	64,186	99,796	159,684
Prepayments to suppliers and other current assets, net	23	88,221	56,924	113,000
Corporate income tax prepaid	21	14,488	11,689	19,645
Taxes recoverable and prepaid, net	8	156,475	144,539	232,239
Inventory	9	556,967	299,527	742,404
Biological assets	10	21,299	182,836	20,773
Assets classified as held for sale	11	4,057	11,818	33,213
Total current assets		983,387	872,529	1,361,091
Non-current assets				
Property, plant and equipment, net	12	587,495	643,462	736,561
Intangible assets, net		72,841	94,739	144,869
Goodwill		127,631	138,575	161,739
Investments in joint ventures	13	100,526	98,075	98,432
Deferred tax assets		9,522	11,648	13,058
Corporate income tax prepaid	21	24,731	33,533	33,534
Available-for-sale financial assets	14	8,059	—	—
Other non-current assets	23	19,834	26,461	24,546
Total non-current assets		950,639	1,046,493	1,212,739
Total assets		1,934,026	1,919,022	2,573,830
Liabilities and equity				
Current liabilities				
Trade accounts payable	23	37,438	33,369	53,390
Advances from customers and other current liabilities	23	74,552	79,570	122,162
Short-term borrowings	15	537,755	405,821	629,637
Current portion of long-term borrowings	16	103,771	77,335	89,583
Liabilities directly associated with assets classified as held for sale	11	1,348	1,268	15,454
Total current liabilities		754,864	597,363	910,226
Non-current liabilities				
Long-term borrowings	16	156,532	247,525	316,776
Obligations under finance leases		8,726	12,486	15,090
Deferred tax liabilities		17,293	17,236	23,123
Other non-current liabilities	23	16,281	13,726	4,146
Total non-current liabilities		198,832	290,973	359,135
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital	2	2,104	2,104	2,104
Share premium reserve		463,879	463,879	463,879
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve		3,325	3,176	3,028
Revaluation reserve		39,456	39,456	40,053
Translation reserve		(465,032)	(367,691)	(160,590)
Retained earnings		898,222	848,793	904,576
Total equity attributable to Kernel Holding S.A. equity holders		981,898	1,029,661	1,292,994
Non-controlling interest		(1,568)	1,025	11,475
Total equity		980,330	1,030,686	1,304,469
Total liabilities and equity		1,934,026	1,919,022	2,573,830
Book value				
Book value		981,898	1,029,661	1,292,994
Number of shares	2	79,683,410	79,683,410	79,683,410
Book value per share (in USD)		12.32	12.92	16.23
Diluted number of shares		79,683,410	79,856,603	79,932,998
Diluted book value per share (in USD)		12.32	12.89	16.18

On behalf of the Board
Andriy Verevskyi
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for 6 months ended 31 December 2014 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2014	3 months ended 31 December 2014	6 months ended 31 December 2013	3 months ended 31 December 2013
Revenue	17	1,231,694	652,532	1,138,393	725,490
Net change in fair value of biological assets and agricultural produce	18	1,533	3,180	(21,106)	(11,721)
Cost of sales	19, 23	(950,015)	(484,033)	(991,750)	(614,006)
Gross profit		283,212	171,679	125,537	99,763
Other operating income, net		36,566	27,870	41,609	25,763
Operating expenses					
Distribution costs	23	(104,403)	(59,541)	(118,441)	(76,354)
General and administrative expenses	23	(31,213)	(16,215)	(40,113)	(17,806)
Profit from operating activities		184,162	123,793	8,592	31,366
Finance costs, net	23	(37,661)	(19,170)	(33,441)	(20,052)
Foreign exchange (loss)/gain, net	20	(73,375)	(56,173)	1,774	576
Other expenses, net	22, 23	(5,917)	(4,659)	(23,981)	(22,973)
Share of gain of joint ventures	13	6,284	2,059	4,930	2,968
Profit/(Loss) before income tax		73,493	45,850	(42,126)	(8,115)
Income tax expenses	21	(2,190)	(1,134)	(4,685)	(7,233)
Profit/(Loss) for the period from continuing operations		71,303	44,716	(46,811)	(15,348)
Discontinued operations					
(Loss)/Profit for the period from discontinued operations		(4,862)	(581)	(1,025)	1,836
Profit/(Loss) for the period		66,441	44,135	(47,836)	(13,512)
Profit/(Loss) for the period attributable to:					
Equity holders of Kernel Holding S.A.		78,271	54,849	(42,523)	(9,097)
Non-controlling interest		(11,830)	(10,714)	(5,313)	(4,415)
Earnings per share					
From continuing and discontinued operations					
Weighted average number of shares		79,683,410	79,683,410	79,683,410	79,683,410
Profit/(Loss) per ordinary share (in USD)		0.98	0.69	(0.53)	(0.11)
Diluted number of shares		79,683,410	79,683,410	79,932,998	79,956,075
Diluted profit/(loss) per ordinary share (in USD)		0.98	0.69	(0.53)	(0.11)
From continuing operations					
Weighted average number of shares		79,683,410	79,683,410	79,683,410	79,683,410
Profit/(Loss) per ordinary share (in USD)		1.04	0.70	(0.52)	(0.14)
Diluted number of shares		79,683,410	79,683,410	79,932,998	79,956,075
Diluted profit/(loss) per ordinary share (in USD)		1.04	0.70	(0.52)	(0.14)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for 6 months ended 31 December 2014 (in thousands of US dollars, unless otherwise stated)

	6 months ended 31 December 2014	3 months ended 31 December 2014	6 months ended 31 December 2013	3 months ended 31 December 2013
Profit/(Loss) for the period	66,441	44,135	(47,836)	(13,512)
Other comprehensive (loss)/income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(96,361)	(62,456)	16	745
Other comprehensive (loss)/income, net	(96,361)	(62,456)	16	745
Total comprehensive loss for the period	(29,920)	(18,321)	(47,820)	(12,767)
Total comprehensive loss attributable to:				
Equity holders of Kernel Holding S.A.	(19,070)	(9,817)	(42,491)	(8,468)
Non-controlling interest	(10,850)	(8,504)	(5,329)	(4,299)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for 6 months ended 31 December 2014 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders									
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 30 June 2013	2,104	463,879	39,944	3,028	40,053	(160,622)	947,099	1,335,485	16,784	1,352,269
Loss for the period	—	—	—	—	—	—	(42,523)	(42,523)	(5,313)	(47,836)
Other comprehensive income/(loss)	—	—	—	—	—	32	—	32	(16)	16
Total comprehensive income/(loss) for the period	—	—	—	—	—	32	(42,523)	(42,491)	(5,329)	(47,820)
Effect of changes of non-controlling interest	—	—	—	—	—	—	—	—	20	20
Balance as of 31 December 2013	2,104	463,879	39,944	3,028	40,053	(160,590)	904,576	1,292,994	11,475	1,304,469
Loss for the period	—	—	—	—	—	—	(55,783)	(55,783)	(3,787)	(59,570)
Other comprehensive loss	—	—	—	—	(597)	(207,101)	—	(207,698)	(6,643)	(214,341)
Total comprehensive loss for the period	—	—	—	—	(597)	(207,101)	(55,783)	(263,481)	(10,430)	(273,911)
Effect of changes of non-controlling interest	—	—	—	—	—	—	—	—	(20)	(20)
Recognition of share-based payments	—	—	—	148	—	—	—	148	—	148
Balance as of 30 June 2014	2,104	463,879	39,944	3,176	39,456	(367,691)	848,793	1,029,661	1,025	1,030,686
Profit/(Loss) for the period	—	—	—	—	—	—	78,271	78,271	(11,830)	66,441
Other comprehensive (loss)/income	—	—	—	—	—	(97,341)	—	(97,341)	980	(96,361)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(97,341)	78,271	(19,070)	(10,850)	(29,920)
Distribution of dividends	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Effect of changes of non-controlling interest	—	—	—	—	—	—	(8,921)	(8,921)	8,257	(664)
Recognition of share-based payments	—	—	—	149	—	—	—	149	—	149
Balance as of 31 December 2014	2,104	463,879	39,944	3,325	39,456	(465,032)	898,222	981,898	(1,568)	980,330

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

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

	Notes	6 months ended 31 December 2014	6 months ended 31 December 2013
Operating activities:			
Profit/(Loss) before income tax		69,744	(44,982)
Adjustments for:			
Amortization and depreciation		38,682	51,971
Finance costs, net		37,661	33,504
Movement in allowance for doubtful receivables		725	2,108
Other accruals		479	—
Loss on disposal of property, plant and equipment		430	5,536
Net foreign exchange loss/(gain)		62,010	(115)
Write-offs and impairment loss		3,282	8,578
Net change in fair value of biological assets and agricultural produce	18	(1,533)	21,106
Share of gain of joint ventures	13	(6,284)	(4,930)
(Gain)/Loss on sales of equity investments	5, 11	(29)	1,847
Operating profit before working capital changes		205,167	74,623
Changes in working capital:			
Change in trade accounts receivable		34,545	(8,037)
Change in prepayments and other current assets		(46,045)	(6,767)
Change in restricted cash balance		—	6,193
Change in taxes recoverable and prepaid		(65,116)	(26,047)
Change in biological assets		132,536	206,170
Change in inventories		(244,479)	(473,937)
Change in trade accounts payable		5,627	9,311
Change in advances from customers and other current liabilities		(9,815)	(54,754)
Cash generated from/(used in) operations		12,420	(273,245)
Finance costs paid		(36,690)	(32,951)
Income tax paid		(10,532)	(21,660)
Net cash used in operating activities		(34,802)	(327,856)
Investing activities:			
Purchase of property, plant and equipment		(14,421)	(24,577)
Proceeds from disposal of property, plant and equipment		612	5,589
Purchase of intangible and other non-current assets		(257)	(1,207)
Acquisition of Subsidiaries		—	(26,281)
Disposal of Subsidiaries		1,242	592
Net cash used in investing activities		(12,824)	(45,884)
Financing activities:			
Proceeds from borrowings		244,831	577,105
Repayment of borrowings		(183,653)	(235,747)
Acquisition of non-controlling interest		(664)	—
Net cash generated by financing activities		60,514	341,358
Effect of exchange rate changes on the balance of cash held in foreign currencies		(595)	186
Net increase/(decrease) in cash and cash equivalents		12,293	(32,196)
Cash and cash equivalents, at the beginning of the period		65,401	72,697
Cash and cash equivalents, at the end of the period		77,694	40,501

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

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

1. Corporate Information

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

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

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

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

As of 31 December 2014, 30 June 2014 and 31 December 2013, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of		
			31 December 2014	30 June 2014	31 December 2013
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%
Tweelingen Ukraine LLC		Ukraine	100.0%	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade, LLC		Ukraine	100.0%	100.0%	100.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurskiy OEP LLC	Production plants. Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%
Vovchansky OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnjansky OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%	100.0%
Stavropol oil CJSC		Russian Federation	100.0%	100.0%	100.0%
Nevinnomyssk OEP CJSC		Russian Federation	0.0% ⁽¹⁾	0.0% ⁽¹⁾	100.0%
Ust-Labinsk Florentina OEP LLC		Russian Federation	100.0%	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal, handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%
Unigrain-Agro (Globyno) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seeds, barley and soybean.	Ukraine	0.0% ⁽²⁾	0.0% ⁽²⁾	100.0%
Unigrain-Agro (Semenivka) LLC		Ukraine	100.0%	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%
Agrofirma Kuybyshevo LLC		Ukraine	100.0%	65.6%	65.6%
Palmira LLC		Ukraine	100.0%	93.0%	93.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	83.3%	83.3%

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 26 February 2015.

⁽¹⁾ Disposed in February 2014.

⁽²⁾ Merged with Unigrain-Agro (Semenivka) LLC on 14 January 2014.

Notes to the Condensed Consolidated Interim Financial Statements

for 6 months ended 31 December (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' or the 'Company'). The issued capital of the Company as of 31 December 2014 and 2013 consisted of 79,683,410 ordinary electronic shares without indication of a nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

	As of 31 December 2014		As of 31 December 2013	
	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%	30,906,059	38.79%
Free float	48,436,258	60.79%	48,777,351	61.21%
Total	79,683,410	100.00%	79,683,410	100.00%

As of 31 December 2014 and 2013, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

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 a nominal value. On 27 June 2008, additional 5,400,000 ordinary shares of the Group were admitted to trading on the main market of the WSE. On 3 June 2010, Kernel issued 4,450,000 new shares. In 2011, Kernel issued 6,492,410 new shares, 1,092,410 of which were subscribed by stock option beneficiaries under the management incentive plan at an issue price of PLN 24.

An annual general meeting of shareholders held on 10 December 2014 approved a dividend of USD 0.25 per share. The general meeting delegated to the board of directors to set up record and payment dates to distribute the dividends.

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 125 thousand as of 31 December 2014, unchanged from 31 December 2013, 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. As of 31 December 2014, a total of 3,207,820 options were issued, of which 2,957,820 are vested as of 31 December 2014 (out of which 657,820 have a strike price of PLN 24 per share, and the remaining have a strike price of PLN 75 per share). Such options granted under the Company's management incentive scheme carry no rights to dividends and no voting rights. As of 31 December 2014, the strike price in the option with fair value of service was higher than the market price, and therefore dilution of profit per share was not calculated for these options.

As of 23 December 2014, the board of directors approved another management incentive plan, providing to management team members and eligible employees an option to purchase in aggregate up to 3,750,000 new shares of Kernel Holding S.A. with a vesting period of up to five years (strike price is equal to the average market price in 2014). At the reporting date, the option plan was approved by the board of directors but not yet authorized by the general meeting of shareholders.

3. Basis of Presentation of Financial Statements

These Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2014 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and do not include all of the information and disclosures required in the annual consolidated financial statements. The accounting policies and methods of computation adopted in the preparation of the Condensed Consolidated Interim Financial Statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2014.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2014. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

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

3. Basis of Presentation of Financial Statements (continued)

Functional and presentation currency

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

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at 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 the 'Translation reserve'.

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

Currency	Closing rate as of 31 December 2014	Average rate for the 6 months ended 31 December 2014	Closing rate as of 31 December 2013	Average rate for the 6 months ended 31 December 2013
USD/UAH	15.7686	13.5054	7.9930	7.9930
USD/EUR	0.8228	0.7777	0.7263	0.7447
USD/RUB	56.2584	41.8076	32.7292	32.6655
USD/PLN	3.5072	3.2623	3.0120	3.1398

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

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

Operating segments

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

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

The operating segments' activities are as follows:

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

3. Basis of Presentation of Financial Statements (continued)

Seasonality of operations

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

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

4. Key Data by Operating Segment

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

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

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

4. Key Data by Operating Segment (continued)

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

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	77,925	417,173	2,129	45,080	557,620	23,633	15,403	—	—	(570)	1,138,393
Intersegment sales	—	—	19,652	189,823	—	36,840	—	—	(246,315)	—	—
Total revenue	77,925	417,173	21,781	234,903	557,620	60,473	15,403	—	(246,315)	(570)	1,138,393
Net change in fair value of biological assets and agricultural produce	—	—	—	(21,106)	—	—	—	—	—	—	(21,106)
Other operating income, net	1,501	11,254	575	17,775	10,431	73	1,762	—	—	(1,762)	41,609
Profit/(Loss) from operating activities	15,114	38,605	11,433	(81,285)	13,211	29,588	926	(17,936)	—	(1,064)	8,592
Finance costs, net											(33,441)
Foreign exchange gain, net											1,774
Other expenses, net											(23,981)
Share of gain of joint ventures											4,930
Income tax expense											(4,685)
Profit for the period from continuing operations											(46,811)
Total assets	90,341	1,185,035	206,371	553,143	285,817	187,747	31,043	1,120	—	—	2,540,617
Capital expenditures	370	2,686	219	15,215	—	15,615	—	565	—	—	34,670
Amortization and depreciation	1,501	10,893	1,695	32,681	12	4,745	—	444	—	—	51,971
Liabilities	4,379	32,116	3,480	85,047	23,452	23,473	10,732	1,071,228	—	—	1,253,907

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

For the purpose of segment reporting, revenue from the sale of 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.

As of 31 December 2013, the Group operated in two principal geographical areas – Ukraine and the Russian Federation. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location are detailed below.

	Revenue from external customers	Non-current assets
	6 months ended 31 December 2013	As of 31 December 2013
Ukraine	907,849	1,086,157
Russian Federation	230,544	126,582
Total	1,138,393	1,212,739

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

5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the six month periods ended 31 December 2014 and 31 December 2013.

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

During the year ended 30 June 2014, the Group finalized accounting for the business combination of Druzhba-Nova Group. The adjustments to provisional values presented in prior periods' financial statements of the Group 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 November 2013, as a result of the optimization process of its legal structure, the Group 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 Condensed Consolidated Interim Statement of Cash Flows.

Notes to the Condensed Consolidated Interim Financial Statements

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

6. Cash and Cash Equivalents

As of 31 December 2014, the main balances of cash and cash equivalents were cash in banks in US dollars in the amount of USD 74,031 thousand (30 June 2014: USD 35,721 thousand) and cash in banks in Ukrainian hryvnya in the amount of USD 3,056 thousand (30 June 2014: USD 28,377 thousand).

As of 31 December 2014 and 30 June 2014, there was no restricted cash.

7. Trade Accounts Receivable, net

The decrease in trade accounts receivable from USD 99,796 thousand as of 30 June 2014 to USD 64,186 thousand as of 31 December 2014 was caused by a decrease in the prices of commodity grains, devaluation of UAH-denominated accounts and increase in efficiency in operating activity administration closer to the reporting date.

8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid increased from USD 144,539 thousand as of 30 June 2014 to USD 156,475 thousand as of 31 December 2014 mostly due to an increase in VAT recoverable and prepaid as a result of ordinary operating activity.

9. Inventory

The increase in the inventory balances was primarily caused by purchases of grain for trading and sunflower seeds for oil production and corresponds to normal business seasonal fluctuations in inventories.

As of 31 December 2014, 30 June 2014 and 31 December 2013, the inventory balances in the amounts of USD 455,204 thousand, USD 182,018 thousand and USD 485,730 thousand, respectively, were pledged as security for short-term borrowings.

10. Biological Assets

The balances of current biological assets as of 31 December 2014 consisted of 82,166 hectares of winter crops in the amount of USD 17,711 thousand (30 June 2014: 372,852 hectares of crops in the amount of USD 178,493 thousand) and 11,083 heads of current livestock in the amount of USD 3,588 thousand (30 June 2014: 12,928 heads in the amount of USD 4,343 thousand).

The following table represents the changes in the carrying amounts of biological assets (crops in fields) during the six months ended 31 December 2014 and 30 June 2014:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 31 December 2013	5,909	3,674	9,583
Increase due to purchases and subsequent expenditures capitalized in biological assets (2014 harvest)	142,891	—	142,891
Gain arising from changes in fair value attributable to physical changes and to changes of the market price	—	30,452	30,452
Exchange difference	—	(4,433)	(4,433)
As of 30 June 2014	148,800	29,693	178,493
Decrease due to harvest (2014 harvest)	(148,800)	(29,693)	(178,493)
Increase due to purchases and subsequent expenditures capitalized in biological assets (2015 harvest)	12,445	—	12,445
Gain arising from changes in fair value attributable to physical changes and to changes of the market price	—	5,753	5,753
Exchange difference	—	(487)	(487)
As of 31 December 2014	12,445	5,266	17,711

Notes to the Condensed Consolidated Interim Financial Statements

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

11. Assets Classified as Held for Sale

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

As of 31 December 2014, according to management's plan to dispose all sugar plants and exit the sugar business, the assets of the remaining sugar plant Palmira Sugar LLC were still classified as assets held for sale and their operations were classified as discontinued.

As of 31 December 2014, net assets of assets classified as held for sale equaled USD 2,709 thousand (30 June 2014: USD 10,550 thousand).

12. Property, Plant and Equipment, net

During the six months ended 31 December 2014, the Group acquired property, plant and equipment in the amount of USD 17,550 thousand (31 December 2013: USD 34,670 thousand). These purchases were related mainly to the construction of silos and purchases of agricultural vehicles and equipment for the farming segment. Additionally, the net book value decreased as a result of a standard depreciation charge.

The decrease in property, plant and equipment in the amount of USD 42,713 thousand incurred because of the translation difference caused by significant devaluation of the Ukrainian hryvnia during the six months ended 31 December 2014 (31 December 2013: USD 4,313 thousand).

13. Investments in Joint Ventures

For the six months ended 31 December 2014, the share of gain of joint venture (Taman) equalled USD 6,284 thousand (for the six months ended 31 December 2013: USD 4,930 thousand). The total Group's share of total comprehensive income comprised USD 2,451 thousand (for the six months ended 31 December 2013: USD 4,406 thousand). The difference between the share of gain of joint venture and share of total comprehensive income was represented mainly by a change in translation reserve.

The aforementioned mentioned result includes depreciation and amortization expenses in the amount of USD 1,201 thousand (for the six months ended 31 December 2013: USD 1,548 thousand) and interest expenses in the amount of USD 1,426 thousand (for the six months ended 31 December 2013: USD 2,464 thousand).

14. Available-for-Sale Financial Assets

In May 2014, the government approved a resolution setting the parameters of new special government bond issues intended to compensate for VAT refunds due to businesses outstanding as of 31 December 2013 and not paid until the bonds' issuance. The bonds were issued with a maturity of five years, semi-annual coupon of 9.5% and semi-annual 10% amortization.

In July 2014, the Group received VAT bonds, the carrying amount of which as of 31 December 2014 amounted to USD 11,283 thousand. Management plans to sell the financial assets when suitable conditions will appear on the market.

The total outstanding balance of VAT bonds as of 31 December 2014 included a current portion in the amount of USD 3,224 thousand, which is presented within the Prepayments to suppliers and other current assets, net in the Condensed Consolidated Interim Statement of Financial Position.

Notes to the Condensed Consolidated Interim Financial Statements

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

15. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 December 2014	As of 30 June 2014	As of 31 December 2013
Bank credit lines	533,712	402,169	626,007
Interest accrued on short-term borrowings	1,954	1,054	1,229
Interest accrued on long-term borrowings	2,089	2,598	2,401
Total	537,755	405,821	629,637

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

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

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
Total bank credit lines				402,169
Interest accrued on short-term borrowings				1,054
Interest accrued on long-term borrowings				2,598
Total				405,821

Notes to the Condensed Consolidated Interim Financial Statements

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

15. Short-term Borrowings (continued)

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.75%	USD	August 2014	337,000
European bank	Libor + 3.75%	USD	June 2014	129,100
Ukrainian subsidiary of European bank	Libor + 4.8%	USD	September 2014	65,000
Ukrainian subsidiary of European bank	6.0%	USD	June 2014	35,065
European bank	Libor + 3.0%	USD	June 2014	30,000
Ukrainian subsidiary of European bank	Libor + 8.0%	USD	July 2014	29,600
European bank	3.75%	USD	October 2014	242
Total bank credit lines				626,007
Interest accrued on short-term borrowings				1,229
Interest accrued on long-term borrowings				2,401
Total				629,637

As of 31 December 2014, the overall maximum credit limit for short-term bank credit lines amounted to USD 777,231 thousand (as of 30 June 2014: USD 797,268 thousand and as of 31 December 2013: USD 945,063 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2014	As of 30 June 2014	As of 31 December 2013
Inventory	455,204	182,018	485,730
Property, plant and equipment	69,379	54,718	60,552
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	Not quantifiable
Total	524,583	236,736	546,282

As of 31 December 2014, the following controlling stakes of Subsidiaries were pledged: 21 agricultural companies and one sunflower oil plant (as of 30 June 2014: 20 agricultural companies and one sunflower oil plant; as of 31 December 2013: 36 agricultural companies).

Notes to the Condensed Consolidated Interim Financial Statements

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

16. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 December 2014	As of 30 June 2014	As of 31 December 2013
Long-term bank borrowings	260,303	324,860	406,359
Current portion of long-term borrowings	(103,771)	(77,335)	(89,583)
Total	156,532	247,525	316,776

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

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

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
Total				324,860

The balances of long-term borrowings as of 31 December 2013 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	77,400
European bank	Libor + 6.25%	USD	January 2015	70,000
Russian bank	Libor + 8.35%	USD	August 2016	48,000
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	November 2017	37,689
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	January 2017	20,312
European bank	Libor + 2.65%	USD	April 2015	12,958
Total				406,359

Long-term borrowings as of 31 December 2014 included credit lines from banks with an overall maximum credit limit of USD 262,991 thousand (as of 30 June 2014: USD 324,860 thousand; and as of 31 December 2013: USD 418,360 thousand).

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2014	As of 30 June 2014	As of 31 December 2013
Property, plant and equipment	102,907	139,244	177,277
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	not quantifiable
Total	102,907	139,244	177,277

As of 31 December 2014, stakes in Subsidiaries were pledged including controlling stakes in two export terminals, three sunflower oil plants, 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; as of 31 December 2013: controlling stakes in two export terminals, two sunflower oil plants, two agricultural company and a 50% stake in a joint venture).

Notes to the Condensed Consolidated Interim Financial Statements

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

17. Revenue

Revenue was as follows:

	6 months ended 31 December 2014	6 months ended 31 December 2013
Revenue from grain sales	599,598	557,620
Revenue from sunflower oil sold in bulk, sunflower meal and cake	530,122	428,811
Revenue from bottled sunflower oil	52,067	66,287
Revenue from sugar	23,744	14,833
Revenue from farming	19,683	45,080
Revenue from grain silo services	6,422	23,633
Revenue from transshipment services	58	2,129
Total	1,231,694	1,138,393

18. Net Change in Fair Value of Biological Assets and Agricultural Produce

IAS 41 requires the measurement of biological assets on initial recognition and as of the reporting date and agricultural produce as of the date of harvest at their fair value less costs to sell. Changes in the fair value of biological assets reflect the difference in value from period to period, normally on an aggregated basis. This effect is presented in the Condensed Consolidated Interim Statement of Profit or Loss in the Net Change in Fair Value of Biological Assets and Agricultural Produce.

Net change in fair value for the six month period ended 31 December 2014 consisted of a loss of USD 1,173 thousand stemming from revaluation of agricultural produce and reversal of the fair value component booked as of 30 June 2014, USD 5,753 thousand gain on revaluing winter crops in the fields (Note 10), and a USD 3,047 thousand loss on revaluing current cattle (primarily milk cows).

The increase in net gain was related to better-than-expected crop yields and lower production costs in the six month period ended 31 December 2014, as well as higher acreage under winter crops as of 31 December 2014 compared to a year ago.

19. Cost of Sales

Cost of sales was as follows:

	6 months ended 31 December 2014	6 months ended 31 December 2013
Cost of goods for resale and raw materials used	866,695	839,152
Amortization and depreciation	36,887	50,727
Payroll and payroll related costs	22,837	46,489
Rental payments	16,489	41,495
Other operating costs	7,107	13,887
Total	950,015	991,750

20. Foreign Exchange Loss/(Gain), net

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

	6 months ended 31 December 2014	6 months ended 31 December 2013
VAT recoverable and prepaid	38,010	—
Revaluation of balances of accounts receivable and payable nominated in foreign currencies	24,272	118
Corporate income tax prepaid	12,308	—
Borrowings nominated in foreign currencies	1,694	(727)
Cash and cash equivalents nominated in foreign currencies	1,221	—
Obligations under financial leases	833	(149)
Other	(4,963)	(1,016)
Total	73,375	(1,774)

21. Income Tax

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

As of 31 December 2014, the Group prepaid USD 39,219 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (as of 30 June 2014: USD 45,222 thousand). The decrease was mostly connected to the devaluation of the Ukrainian hryvnya, related foreign exchange losses recognized (see Note 20) and ordinary operating activities.

Notes to the Condensed Consolidated Interim Financial Statements

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

22. Other Expenses, net

The decrease in the Other expenses, net during the six months ended 31 December 2014 in comparison to the six months ended 31 December 2013 is explained by losses relating to remeasurement of Nevinnomyssk oilseed crushing plant CJSC and disposal of a number of immaterial companies in the farming and silo services segments.

23. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances	Total category as per consolidated statement of financial position	Related party balances	Total category as per consolidated statement of financial position
	As of 31 December 2014		As of 30 June 2014	
Prepayments to suppliers and other current assets, net	18,513	88,221	14,450	56,924
Other non-current assets	4,795	19,834	4,998	26,461
Trade accounts payable	7,061	37,438	6,642	33,369
Advances from customers and other current liabilities	1,323	74,552	16,430	79,570
Other non-current liabilities	13,784	16,281	8,863	13,726

As of 31 December 2014 and 30 June 2014, the Group did not create an allowance for trade accounts receivable, prepayments made and other non-current assets from related parties.

No expense has been recognized for the six months ended 31 December 2014 and 2013 for bad or doubtful debts in respect of the amounts owed from related parties.

Trade accounts payable as of 31 December 2014 included an amount of USD 7,043 thousand due to Namsen Limited.

As of 30 June 2014, outstanding balances included advances from customers and other current liabilities in the amount of USD 13,499 thousand provided by Namsen Limited to Inter-Agro Group and trade accounts payable in the amount of USD 6,544 due to Namsen Limited.

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

Transactions with related parties were as follows:

	Amount of operations with related parties	Total category per consolidated income statement	Amount of operations with related parties	Total category per consolidated income statement
	6 months ended 31 December 2014		6 months ended 31 December 2013	
Cost of sales	(233)	(950,015)	(106)	(991,750)
General, administrative and distribution expenses	(14,747)	(135,616)	(13,459)	(158,554)
Finance costs, net	52	(37,661)	222	(33,441)
Other expenses, net	114	(5,917)	32	(23,981)

For the six months ended 31 December 2014, distribution costs included USD 13,324 thousand of services for the transportation of goods related to Zernovoy Terminalny Complex Taman LLC (for the six months ended 31 December 2013: USD 13,274 thousand).

All other transactions occurred with related parties under common control.

As of 31 December 2014, the board of directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors, and four directors employed by Subsidiaries. Remuneration of the board of directors (8 Directors) for the six months ended 31 December 2014 amounted to USD 149 thousand (for the six months ended 31 December 2013: 8 directors, USD 133 thousand). The non-executive directors also are refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable travelling expenses.

Five directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 14 people, amounted to USD 1,364 thousand for the six months ended 31 December 2014 (for the six months ended 31 December 2013: 14 people, USD 1,167 thousand).

The members of the board of directors and management team members are not granted any pensions or retirement or similar benefits by the Group. The management of the Group has been provided with options to purchase the shares of the Holding.

Notes to the Condensed Consolidated Interim Financial Statements

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

24. Commitments and Contingencies

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 Groups financial statements as of the reporting date.

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 December 2014, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after 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. The 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.

Taxation and legal issues

As of 31 December 2014, 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 94,273 thousand (31 December 2013: USD 157,947 thousand), from which USD 58,816 related to VAT recoverability (31 December 2013: USD 122,997 thousand) and USD 35,457 thousand related to corporate income tax (31 December 2013: 34,950 thousand).

As of 31 December 2014, companies of the Group were engaged in ongoing litigation with the tax authorities concerning tax issues for USD 57,703 thousand (31 December 2013: USD 137,210 thousand) included in the aforementioned amount. Of this amount, USD 27,121 thousand relates 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 (31 December 2013: USD 129,780 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Ukraine's tax environment is characterized by complexity in taxing and arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. 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. Given its current economic and political issues, the Government is considering implementing certain reforms in the tax system of Ukraine. Currently, it is not clear what specific measures will be undertaken within these reforms, nor what overall impact they will have on the tax environment in general and on the tax standing of the Group in particular. Management believes that the Group has been in compliance with all of the requirements of the effective tax legislation.

Starting from 1 September 2013, Ukrainian legislation implemented new transfer pricing rules. These rules introduce additional reporting and documentation requirements to transactions with related parties. In accordance with the new rules, the tax authorities obtain additional tools with the help of which they may claim that prices or profitability in transactions with related parties differ from arm's length transactions. The management assesses controllable operations in accordance with legislation and prepares required documentation on transfer pricing.

Operating environment

In 2014, Ukraine was faced with political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Ukraine also suffered from separatist movements and the collapse of law enforcement in Luhansk and Donetsk regions.

The Ukrainian hryvnia devalued against major foreign currencies. 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.

Significant external financing is required to support economic stabilization and the political situation depends, to a large extent, upon success of the Ukrainian government's efforts; yet further economic and political developments are currently difficult to predict and an adverse effect on the Ukrainian economy may continue.

The Group does not have assets in Crimea, Donetsk and Luhansk regions.

Contractual commitments on sales

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

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

25. Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for the year ended 30 June 2014.

Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values as of 31 December 2014 and 2013. The estimation of the fair value of borrowings was made using level 2 inputs according to IFRS 13, in accordance with valuation pricing models based on discounted cash flow analysis and observable interest rates available on the market within the six months ended 31 December 2014 and 2013.

Notes to the Condensed Consolidated Interim Financial Statements

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

26. Subsequent Events

The Government has implemented certain reforms in the tax system of Ukraine with the adoption of the Law 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine', which has been effective from 1 January 2015 except for certain provisions that will take effect at a later date.

According to the law, the minimal tax base for value added tax (VAT) input on goods and services purchased was introduced and special VAT accounts for every taxpayer were opened at the State Treasury of Ukraine for VAT purposes. The purpose of these special VAT accounts is to guarantee fulfillment of VAT liabilities by the taxpayers. Taxable income will be calculated solely based on accounting data by adjusting profit (loss) before tax by the amount of respective differences resulting from different treatment according to UAS and the Tax Code of Ukraine. Management believes that the Group has been in compliance with all of the requirements of effective tax legislation.

In January-February 2015, the Ukrainian hryvnia continued to devalue against the US dollar. In particular, the National Bank of Ukraine has brought the official rate of the US dollar to the high twenties as of this report's preparation compared to USD/UAH 15.77 as of 31 December 2014.