

# KERNEL

Kernel Holding S.A.

**Annual Report**  
**30 June 2016**



# Contents

## 01-49

### Strategic Report

03	Key Highlights
04	Operating Highlights
06	Chairman's Statement
08	Kernel at a Glance
10	Our Business Model
11	Our Strategy
12	Financial Performance in FY2016
16	Sunflower Oil
21	Grain and Infrastructure
26	Farming
31	Risks and Uncertainties
35	Sustainability

## 50-58

### Corporate Governance

50	Corporate Governance
58	Board of Directors

## 59-117

### Financial Statements

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



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

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

# Key Highlights

USD million except ratios and EPS

	FY2016	FY2015 <sup>1</sup>	y-o-y
<b>Income statement highlights</b>			
Revenue	1,988.5	2,329.5	(14.6%)
EBITDA <sup>2</sup>	346.4	396.6	(12.7%)
Net profit/(loss) attributable to equity holders of Kernel Holding S.A.	225.2	106.9	2.1x
EBITDA margin	17.4%	17.0%	0.4pp
Net margin	11.3%	4.6%	6.7pp
EPS, USD	2.83	1.34	2.1x
<b>Cash flow highlights</b>			
Operating profit before working capital canges	330.5	338.7	(2.4%)
Changes in working capital	(136.3)	147.4	n/m
Cash generated from operations	194.1	486.1	(60.1%)
Net cash generated by operating activities	133.7	404.7	(67.0%)
Net cash used in investing activities	(60.7)	(24.3)	2.5x
<b>Credit metrics</b>			
Net interest-bearing debt	282.8	339.4	(16.7%)
Readily marketable inventories	183.7	140.1	31.2%
Adjusted net debt <sup>3</sup>	99.1	199.3	(50.3%)
Shareholders' equity	995.3	889.6	11.9%
Net debt/EBITDA	0.8x	0.9x	(0.1x)
Adjusted net debt <sup>2</sup> /EBITDA	0.3x	0.5x	(0.2x)
EBITDA/Interest	6.1x	5.8x	0.3x
<b>Non-financial highlights</b>			
Full-time employees at 30 June	14,075	15,229	(7.6%)
Injury frequency rate, accidents per million worked hours	0.53	0.66	(19.7%)
Social spending, USD million	1.7	1.9	(13.1%)
Direct greenhouse gas emissions, thousand tons of CO <sub>2</sub> equivalent	206.9	248.0	(16.6%)
Total energy consumption, thousand gigajoules	5,132.1	6,026.0	(14.8%)

Note: Financial year ends 30 June.

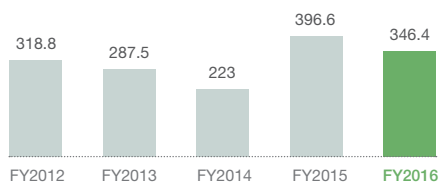
<sup>1</sup> Hereinafter, FY2015 figures exclude adjustments for discontinued operations, outlined in Note 14 of the Financial Statements

<sup>2</sup> Hereinafter, EBITDA is calculated as the sum of the profit from operating activities plus amortization and depreciation.

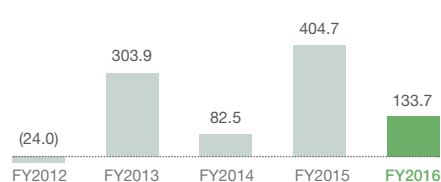
<sup>3</sup> Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories at cost.

Source: Kernel.

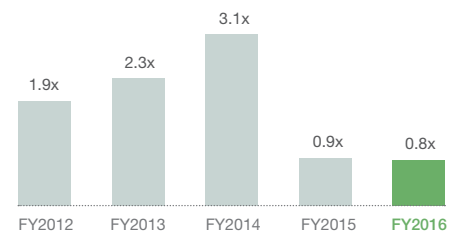
**EBITDA**  
(USD million)



**Net cash from operations**  
(USD million)



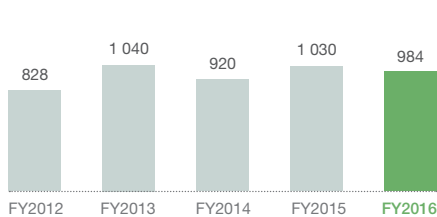
**Net debt/EBITDA**



Source: Kernel.

# Operating Highlights

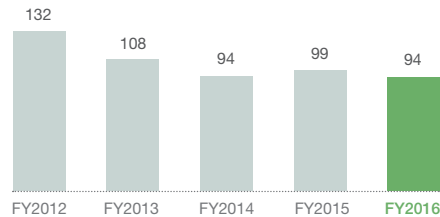
## Sunflower oil sold in bulk (thousand tons)



### FY2016 performance

While we crushed a record 2.7 million tons of sunflower in FY2016, in line with our initial plan, bulk oil sales declined by 5% y-o-y as some bulk oil sales were contracted to Q1 FY2017.

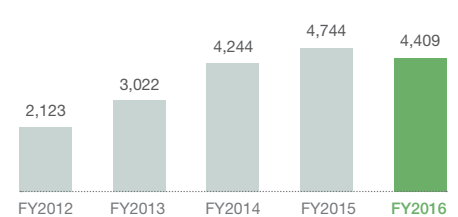
## Sunflower oil sold bottled (million liters)



### FY2016 performance

Our domestic sales of sunflower oil continued to face a dramatic decrease in purchasing power in Ukraine, as local currency depreciates further. A 5% y-o-y decrease in sales was partly compensated with increased export sales, thus opening new markets for this segment. Export markets accounted for 51% of total bottled oil sales in FY2016.

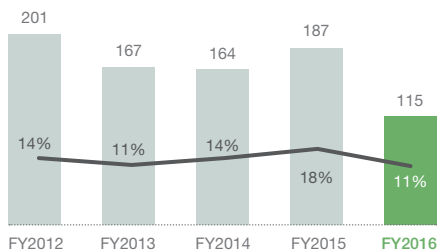
## Grain sales (thousand tons)



### FY2016 performance

Grain sales stood at 7% lower y-o-y, as farmers were slow sellers in the first half of the season. The grain sales reached a record volume in Q3, delivering a stunning 1.4 million tons (6% up y-o-y) following the reinstatement of VAT refunds on grain exports, which increased the farm gate prices.

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

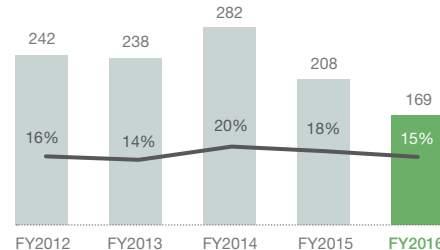


The sunflower oil sold in the bulk segment's EBITDA divided by tonnage of sunflower oil sold in bulk or as a percentage of revenues.

### FY2016 performance

The crushing margins experienced a market-wide contraction stemming from an imbalance between supply and demand of sunflower seeds, as new crushing facilities have been commissioned. Hence, our EBITDA margin declined to 11% from 18% a year ago.

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

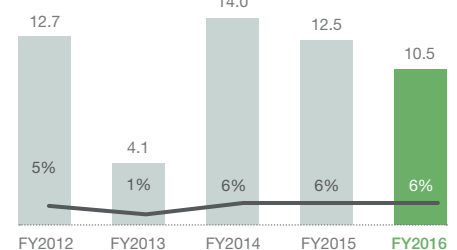


The bottled sunflower oil segment's EBITDA divided by volumes of bottled sunflower oil sold measured in thousand liters or as a percentage of revenues.

### FY2016 performance

Further devaluation of the Ukrainian hryvnia and the depreciation of purchasing power of local customers have reduced demand for bottled oil in domestic markets, prompting export sales, which accounted for 51% in FY2016, thus sustaining our EBITDA to the previous year results.

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



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

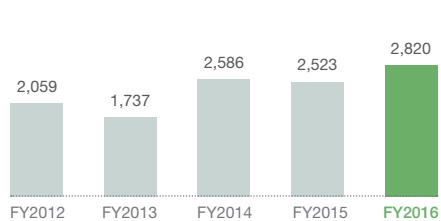
### FY2016 performance

Even though Ukraine's grain supply marginally declined from the previous year, we managed to ensure the profitability of our merchandising activities, holding our EBITDA margin at a firm 6% in FY2016.



# Operating Highlights *continued*

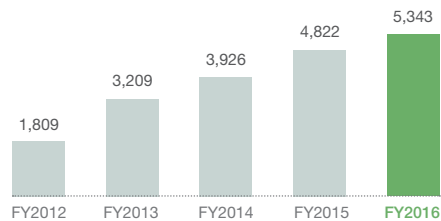
## Grain received in inland silos (thousand tons)



### FY2016 performance

Grain received in inland silos showed a strong 14% y-o-y increase to 2.8 million stemming from larger in-house crop production and our effort to attract more third-party farmers to our silos.

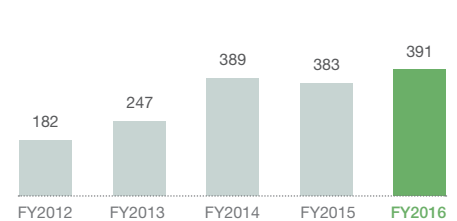
## Export terminal throughput (thousand tons)



### FY2016 performance

The volume of grains transshipped through our ports has reached a record of 5.3 million tons, up 11% y-o-y, caused primarily through efficient utilization and debottlenecking of our storage and intake facilities at our terminals.

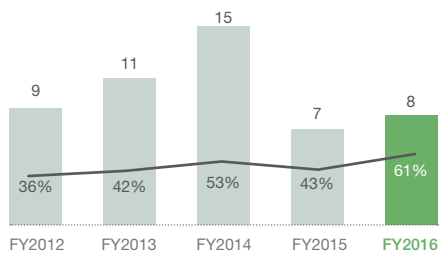
## Acreage harvested (thousand hectares)



### FY2016 performance

Our harvested area remained relatively unchanged, up a mere 1%, as our crop mix and production approach remained intact.

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

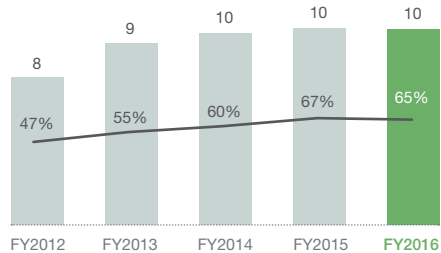


The silo services segment's EBITDA divided by throughput for the full financial year or as a percentage of revenues. Services provided intra-group were accounted for on an arm's-length basis.

### FY2016 performance

A 14% increase in EBITDA per ton was driven by further devaluation of the Ukrainian hryvnia and lower natural gas prices.

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

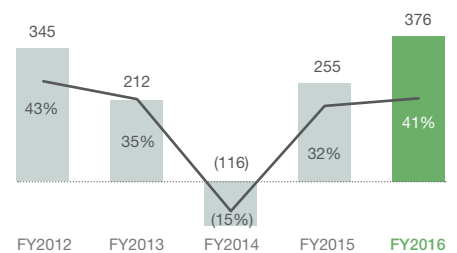


EBITDA derived from providing transshipment services by our export terminals in Ukraine divided by their throughput volumes for the full financial year. Services provided intra-group were accounted for on an arm's-length basis. Excludes Taman volumes and earnings, which are reported under the equity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

### FY2016 performance

Continued depreciation of the national currency and record level of volumes transshipped has allowed us to retain our EBITDA of USD 10 per ton of grain transshipped.

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



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

### FY2016 performance

Strong crop yields and reinstatement of VAT on grain exports, which increased farm gate prices along with decreased production costs, driven by lower labor and energy cost were the primary reasons for the cost-driven improvement in EBITDA.

# Chairman's Statement



**Andriy Verevsky**  
Chairman of the board of directors



## Dear Shareholders and Colleagues,

It is my pleasure to report the annual results for the year ended 30 June 2016, another strong year for Kernel.

We posted a record net profit of USD 225 million; we crushed a record volume of sunflower seeds; we handled a record volume of soft commodities through our export terminals; we achieved another year of record earnings in our farming division; we generated strong free cash flows, further deleveraging the balance sheet with net debt/EBITDA of 0.8x as of 30 June 2016, another new record for us.

FY2016 was not free of headwinds, however. In the sunflower oil business, we experienced a challenging season as a material imbalance in supply and demand for sunflower seeds substantially squeezed our crushing margins. In line with our initial expectations, the launch of new capacities in the market increased demand for sunflower seeds. Secondly, farmers have been particularly slow in regard to selling their sunflower seed this year. As a result, the oilseed supply was limited during the peak of the procurement season, further weakening the margin. Lastly, the tolling agreement partially diluted the profitability. Still, we were capable to crush a record volume of sunflower seeds owing to the expansion of our asset base through the acquisition of a 560,000 ton crushing plant and signing the tolling agreement for an additional 260,000 ton. The bottled oil segment reallocated a substantial part of weak domestic demand to international markets. Overall, our sunflower oil business contributed EBITDA of USD 129 million this year, 39% less than a year ago.

Our grain and infrastructure business performed well during the year, both in volumes and earnings as comparably strong crops in Ukraine and Russia supported healthy activity. Grain export terminals handled a record volume of 5.3 tons, delivering almost an 11% growth in volumes with stable margins. At the same time, grain export volumes and profitability were marginally lower in FY2016. The silo segment benefited from the increased in-house crop as it delivered growth in volume, retaining a robust profitability. Overall, our grain and infrastructure business' EBITDA contribution was USD 107 million in FY2016, down 6% y-o-y.

Our farming division demonstrated another year of stellar performance, which substantially offset the setback in the sunflower oil division. Our continued commitment to modern production technology, quality of inputs and productivity gains assures sustainable large-scale and low cost operations. As a result, our crop yields increased and reached record levels for major crops despite generally unsupportive weather. On the revenue side, the farming segment profited from the reinstatement of VAT refunds on grain exports, as domestic farm gate prices improved. On the cost side, the business benefited from currency devaluation as land lease, staff and transportation costs declined in dollar terms. Additionally, the low moisture content of harvested crops translated into notable savings in silo costs, thus reducing the overall cost of production. Record financial performance in the farming business was achieved during the period of prolonged weakness of international soft commodity prices. This is a good indicator of our global cost competitiveness in the pro-

# Chairman's Statement

duction of a wide range of grains and oilseeds. Overall, our farming business' EBITDA contribution was at USD 146 million in FY2016, up 49% y-o-y. For the first time in Kernel's history, the farming business became the largest contributor to consolidated EBITDA, accounting for a share of nearly 40%.

Overall, the operational targets which we set a year ago have been accomplished across each business line except for the underperformance of the sunflower oil business. Based on FY2016, the Board intends to recommend the shareholders to approve the dividend of USD 0.25 per share.

As we are already in FY2017, I would like to outline a few major points for the new season.

In the sunflower oil business, we are pleased to see Ukrainian farmers delivering a record sunflower seed harvest this autumn, which translates into at least 1.0-1.5 million tons of incremental sunflower seed supplies on the market compared to the previous year. As one of the largest sunflower seed growers in Ukraine, we clearly see strong profitability of sunflower seed production in Ukraine compared to other major crops as the squeezed crushing margins translated into extra profits for farmers. In our view, this should remain a strong economic incentive to Ukrainian farmers in their effort to expand sunflower seed production, thus bringing the market forces of supply and demand into mid-term equilibrium. Nevertheless, we do not expect a rebound in crushing margins in FY2017 as the additional capacity commissioned during the last season should absorb the incremental supply. Generally, we expect crushing margins to settle to levels seen a year ago while we expect to crush around 3.0 million tons of sunflower seed in FY2017, up from 2.7 million tons last season.

In the grain and infrastructure business, we plan to export 5.6 million tons of grain and oilseeds to the international market. Our positive expectations stem from a record harvest expected in both Ukraine and Russia, a record production in our farming division. We expect nearly full utilization of our transshipment facilities with strong margins comparable to the previous year while silo in-take volumes and profitability are anticipated at similar levels year-on-year.

In the farming division, we expect another outstanding year of operational performance. All crops are expected to deliver higher yields setting an industry standard for operational excel-

lence; this is a goal which we set a few years ago when the farming division materially underperformed our local peers. This is a great result, considering that the weather conditions were not ideal, especially in the western part of Ukraine, leaving headroom for future productivity gains. In line with our hedging policies, a significant majority of the crop has been pre-sold. With this information at hand, we can reasonably estimate that the farming division should generate nearly the same level of EBITDA in FY2017 as we posted in FY2016.

The strong performance of the past two financial years is the result of the strategy we adopted back in 2014 during the most difficult period for Ukraine. The primary objective was capital accumulation to strengthen the balance sheet to adjust and prepare our business for uncertainties and possible external shocks down the road. We gave up growth and development in exchange for a higher level of financial stability. We managed to streamline our asset base as we divested a number of idle or non-performing assets, thus unlocking substantial frozen capital on the balance sheet, reinforcing our cost leadership in the sector and improving returns. We also overhauled our farming division.

The successful execution of the 2014 strategy is a clear testament of the flexibility and adaptability of our business model to market needs, proving the imbedded resilience to outside setbacks. I'm proud of and thankful to my colleagues for the hard work needed to execute the plan, making Kernel ever better and stronger.

In conclusion, I would like to discuss our mid-term plan to develop and bring our business to a new sustainable level. Our strategic imperatives remain intact: financial stability and integrity.

The primary goal of our strategy is to consolidate the oilseed crushing industry. We believe that the recent decline in crushing margins is a strong catalyst for industry consolidation. With a 23% market share in Ukraine, Kernel has a significant industry presence and is well-positioned to be a driver of this process. On the way to this goal, we acquired an oilseed crushing plant in the Kirovograd region of Ukraine in February 2016 with a crushing capacity of 560,000 tons of sunflower seed per year (the former Creative crushing facility).

In the grain and infrastructure business line, we aim to double grain exports from the Black Sea region by 2019. Within the next few months, we plan to start the construction of our greenfield deep-water grain transshipment facility site in the port of Chornomorsk (former Illichevsk) in Ukraine, which is anticipated to be commissioned in 2018. This should enable us to remove bottlenecks in our transshipment capabilities and add 4 million tons per year of incremental capacity. The new facility is a key element of increasing the export volumes from the region and should contribute to growth in the export terminals and grain segments.

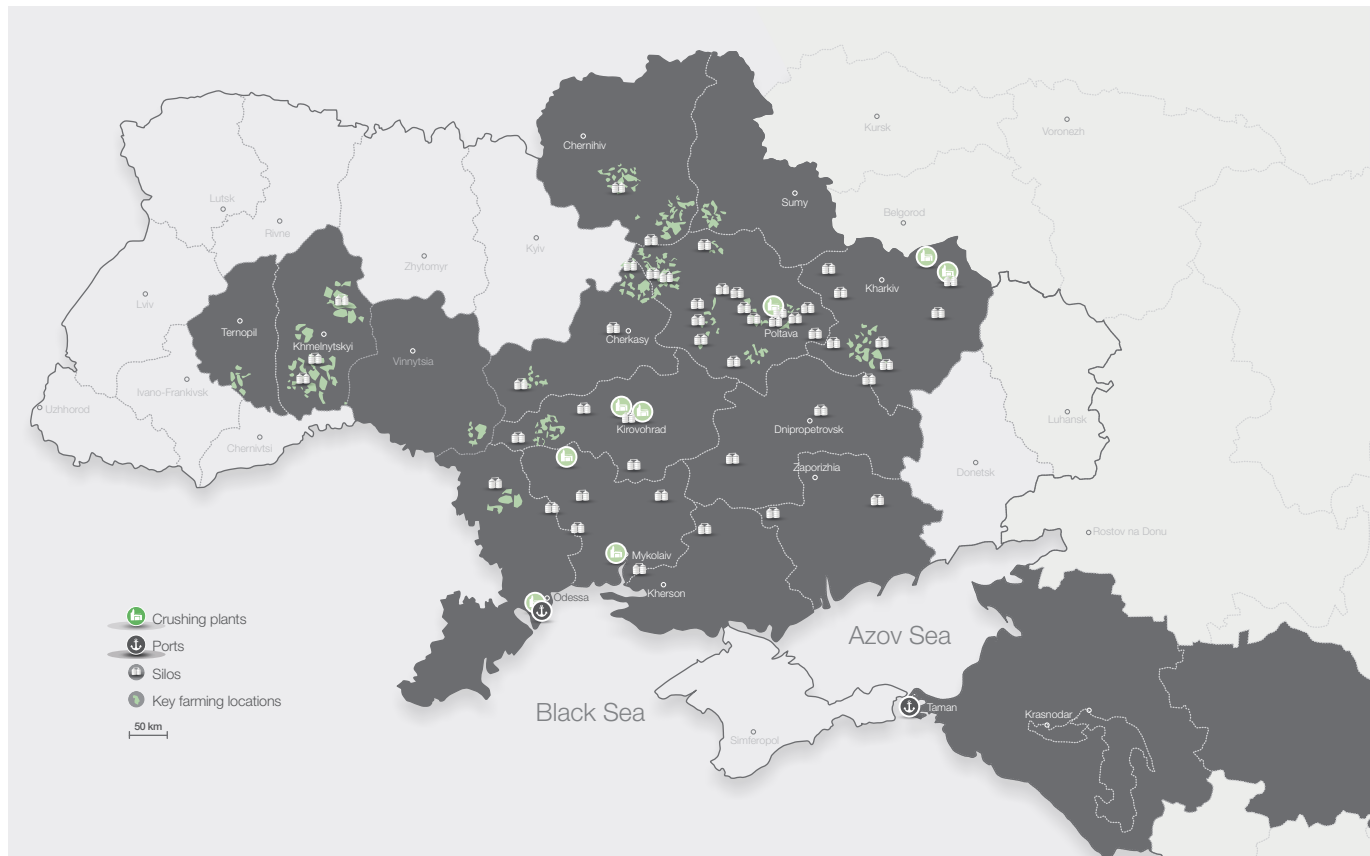
Finally, we strive to achieve sustainable low-cost crop production. We launched our '#DigitalAgri-Business' project in 2016 with the aim to further strengthen our leading position in large-scale efficient crop production. The project also seeks to obtain higher productivity from our farming business line through the implementation of an intelligent IT crop production management system capable of integrating and analyzing 'big data' and providing solutions for timely planning, execution and monitoring of field operations. We also plan to expand our farming business in Ukraine, assuring balanced development of each of the business lines.

We are fully committed and motivated to execute our strategic plan. We have the right mix to succeed: a solid balance sheet, a leadership market position in each business line and a strong management team.



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

# Kernel at a Glance



## Segment results summary

	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	FY2016	FY2015	y-o-y	FY2016	FY2015	y-o-y	FY2016	FY2015	FY2016	FY2015	y-o-y
<b>Sunflower oil</b>											
Sunflower oil sold in bulk	1,032.1	1,099.7	(6.1%)	113.0	192.6	(41.3%)	11.0%	17.5%	983.9	1,030.2	(4.5%)
Bottled sunflower oil	102.6	114.1	(10.0%)	15.8	20.5	(22.9%)	15.4%	18.0%	93.7 <sup>1</sup>	98.9 <sup>1</sup>	(5.3%)
<b>Grain and infrastructure</b>											
Grain	821.7	1,053.3	(22.0%)	46.3	59.4	(22.1%)	5.6%	5.6%	4,409.5	4,743.8	(7.0%)
Export terminals	57.3	55.3	3.7%	37.5	36.8	1.9%	65.4%	66.6%	5,343.3 <sup>2</sup>	4,821.7 <sup>2</sup>	10.8%
Silo services	38.2	42.4	(9.9%)	23.4	18.3	27.7%	61.2%	43.2%	2,819.8	2,523.1	11.8%
<b>Farming</b>											
Farming	358.1	310.4	15.4%	146.0	97.9	49.0%	40.8%	31.6%	1,818.3	1,798.5	1.1%
Sugar and discontinued operations <sup>3</sup>	(0.5)	25.8	n/m	1.7	4.0	(57.6%)					
Unallocated corporate expenses				(37.2)	(32.9)						
Revenue reconciliation	(421.1)	(371.3)	13.4%								
<b>Total</b>	<b>1,988.5</b>	<b>2,329.5</b>	<b>(14.6%)</b>	<b>346.4</b>	<b>396.6</b>	<b>(12.7%)</b>	<b>17.4%</b>	<b>17.0%</b>			

Note: Differences are possible due to rounding.

1 Million liters.

2 Including 1,619.7 thousand tons transshipped through Taman port in FY2016 and 1,173.8 thousand tons FY2015.

Earnings from the joint venture are accounted for below EBITDA.

3 Discontinued operations from sugar and assets held for sale.

Source: Kernel.



# Kernel at a Glance continued



### Sunflower oil

#### What do we do?

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

#### What assets do we have?

Our nine (incl. one in Kropyvnytskyi under a tolling agreement) oilseed crushing plants are located across sunflower seed belt in the Black Sea region and have a total capacity of 3.5 million tons. We also own three major brands under which we sell in the domestic market in Ukraine.

#### What is this business' contribution?

Our sunflower oil business contributed EBITDA of USD 128.8 million in FY2016, 34% of the total<sup>2</sup>.

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

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

#### What makes us competitive?

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

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

2,455 full-time employees.

For more info on our sunflower oil business, see pages 16-20.



### Grain and infrastructure

We provide grain drying, cleaning, and storage services at our silos, merchandise almost 4.5 million tons of grain and oilseed, and transship over 5.3 million tons of soft commodities through our deep-water ports located on the Black Sea.

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

The grain and infrastructure business contributed EBITDA of USD 107.1 million in FY2016, 28% of the total<sup>2</sup>.

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

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

3,250 full-time employees.

For more info on our grain and infrastructure business, see pages 21-25.



### Farming

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

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

The farming segment contributed EBITDA of USD 146.0 million in FY2016, 38% of the total<sup>2</sup>.

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

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

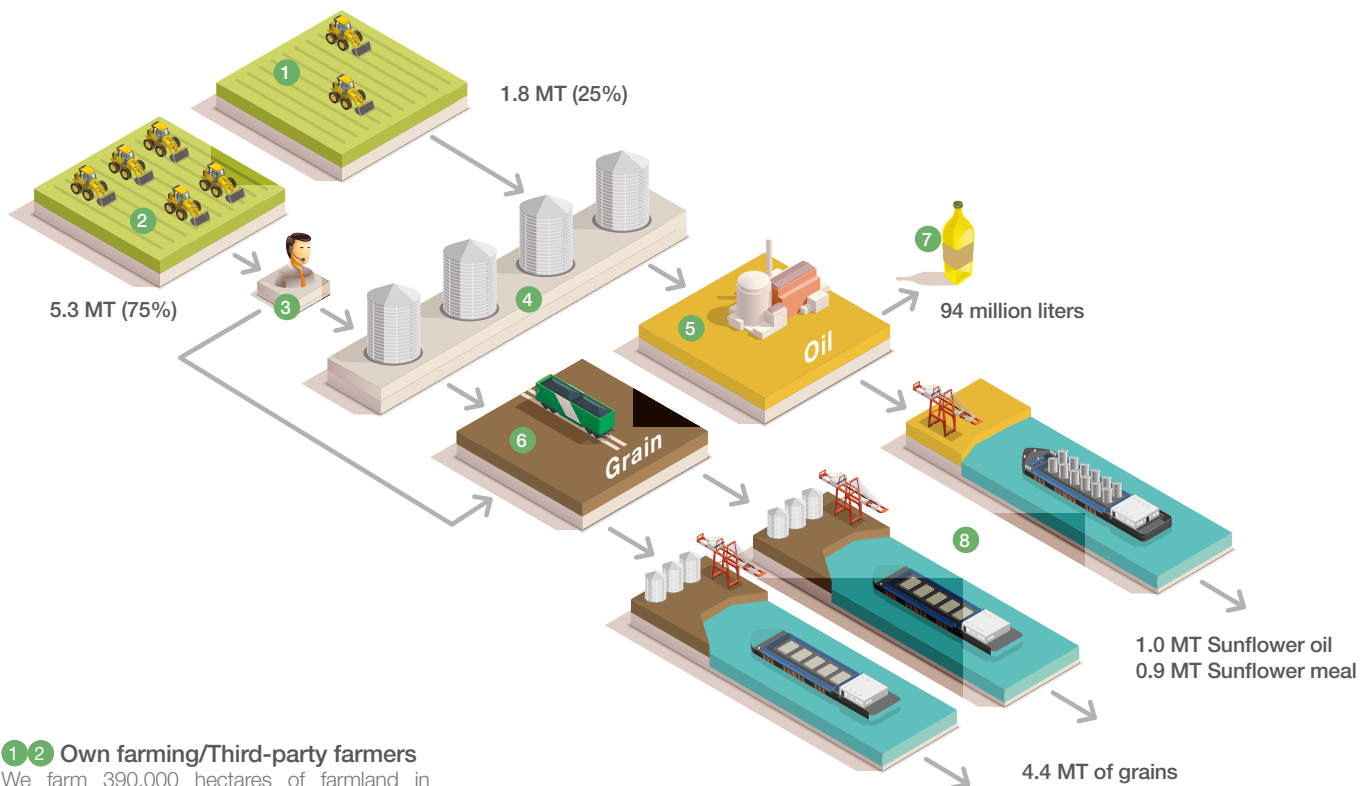
7,767 full-time employees.

For more info on our farming business, see pages 26-30.

<sup>1</sup> Based on USDA data for marketing year 2015/16.

<sup>2</sup> Share of total EBITDA prior to head office costs which are unallocated between segments and net of discontinued operations from sugar and assets held for sale.

# Our Business Model



## 1 2 Own farming/Third-party farmers

We farm 390,000 hectares of farmland in Ukraine, producing a variety of crops, including corn (35% of acreage), sunflower seed and soybean (40% of acreage combined), as well as wheat and forage crops. Annually, our farms produce up to 1.8 million tons of grains and oilseeds that go through our other business divisions: this secures up to 30% of our total grain export and 6-9% of sunflower seed crush volumes. The remaining volumes are supplied by third-party farmers.

## 3 Procurement

Our origination network is one of the largest and most efficient in the region: we annually procure in around 2.5 million tons of sunflower seeds and near 3 million tons of grains from about 5,000 farmers. Our daily contact with farmers and our reputation as a trustworthy counterparty ensures our position as the buyer of choice for small and large crop producers.

## 4 Silo storage

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

## 5 Oilseed processing

Our nine (incl. one in Kropyvnytskyi under a tolling agreement) oilseed crushing plants have a processing capacity of 3.5 million tons of sunflower seed per year. Processing one ton of sunflower seed yields an average of 440 kg of sunflower oil, 390 kg of sunflower meal, and 160 kg of husks. Approximately 80% of our sunflower oil production is exported to a variety of global markets, with India, China, the Middle East and the EU being primary destinations. Sunflower meal is exported mostly to the EU, where it is used as a protein component in livestock fodder. Husks are burnt to produce green energy.

## 6 Grain export

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

FY2016: EBITDA

**\$346.4m**

## 7 Bottled sunflower oil

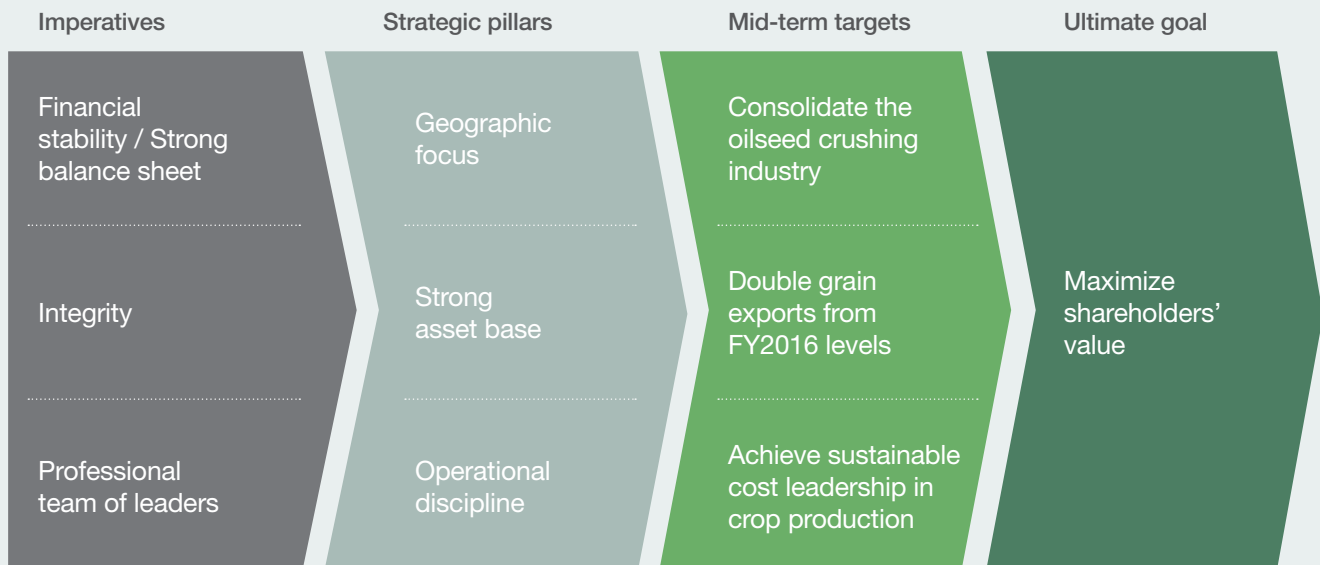
Approximately 10% of the gross bulk sunflower oil produced at our crushing plants is further refined, bottled and sold in Ukraine and abroad under three brands and private labels. Export markets account for more than half of our bottled oil sales.

## 8 Export terminals

We operate two deepwater grain export terminals on the Black Sea with annual transshipment capacity of 6 million tons. One of the terminals is 50/50 owned through a joint venture.

# Our Strategy

We aim to profitably double export volumes, providing unique complex solutions to our clients: customers and suppliers, by balanced development of our business segments as a result of efficient use of our asset base, investment in technology and innovation, strategic acquisitions, continuous development of our employees and strengthening of operations.



## Mid-term targets in detail:



### Sunflower oil

To consolidate the oilseed crushing industry in the Black Sea region through acquisition of up to 1.5 million tons of additional crushing capacity in Ukraine.



### Grain and infrastructure

To double our grain exports by 2019 through greenfield construction of a 4-million-ton deep-water transshipment facility in Ukraine and optimizing the silo network for expansion of our trading and farming operations.



### Farming

To achieve sustainable low-cost crop production through investment in technology and acquisition of the leasehold rights for an additional 150 thousand ha of farmland in Ukraine.

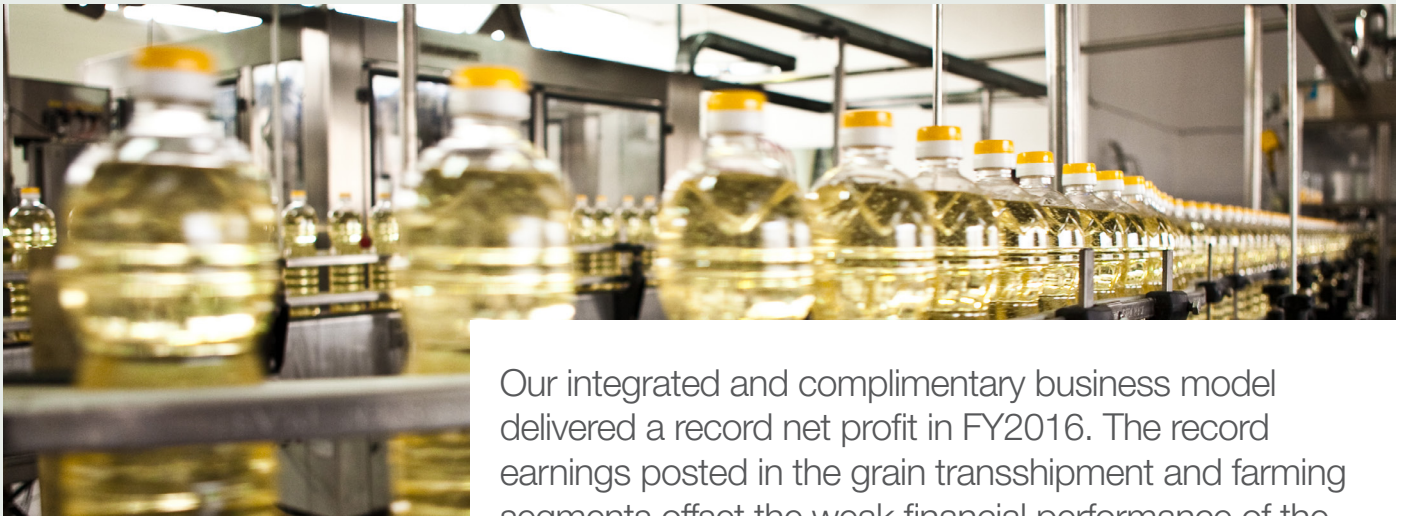
## FY2016 strategy deliverables

We increased our crushing capacity in FY2016 through acquisition of a state-of-the-art 560,000-ton crushing facility in Kropivnitskiy and entered into tolling agreement for additional 260,000 tons of sunflower seeds. We streamlined our asset base by divesting 2 idle crushing plants located in Russia with installed capacity of 200,000 tons.

In grain and infrastructure, we achieved a record 11% growth in volumes of grains transshipped in FY2016, as we debottlenecked our Transbulkterminal facility and increased the storage capacity at Taman.

Our farming division has delivered another year of great profitability, substantially offsetting the drawbacks of our sunflower oil business. We launched a 'DigitalAgriBusiness' project, with an objective to enhance our leadership position as large-scale sustainable and efficient crop producer. We fully exited from sugar business by divesting the remaining idle assets.

# Financial Performance in FY2016



Our integrated and complimentary business model delivered a record net profit in FY2016. The record earnings posted in the grain transshipment and farming segments offset the weak financial performance of the sunflower oil division caused by imbalances in supply and demand for oilseeds.

## Revenues

**\$1,988.5m**  
-15% y-o-y

## EBITDA

**\$346.4m**  
-13% y-o-y

## Segment performance

For sunflower oil, grain and infrastructure, and farming segment performance, see pages 16-20, 21-25 and 26-30, respectively.

FY2016 was a great year for the farming division. It substantially outperformed our most optimistic expectations. Grain and infrastructure were generally in line both in volumes and margins with our initial views while the sunflower oil segment delivered a mixed performance as a result of structural changes in domestic oilseed demand.

Our crushing business, generally in line with our initial pessimistic views, experienced a market-wide margin contraction, decreasing to 11% from 18% a year ago, stemming from imbalances in supply and demand of sunflower seeds and farmers' unwillingness to sell actively the oilseed stock. The market experienced demand shock as two new crushing plants were commissioned and a few previously dormant plants were returned to operation in FY2016. As a result, demand for sunflower seeds rose an estimated 2.5 million tons while supply only marginally increased y-o-y. The declining profitability of crushers fueled the profitability of sunflower seed growers, being a natural economic incentive for farmers to increase plantings under the oil-bearing crop. This should eventually reverse of the negative crushing sector cycle once the sunflower seed supply gap narrows. Crushing volumes rose 6% y-o-y while the crushing margin was under pressure in FY2016.

The grain and infrastructure business handled a record 5.3 million tons of grains, up 11% from a year ago. That was a result of the de-bottleneck-

ing of our Transbuck and Taman deepwater terminals on the Black Sea. However, our grain sales volumes fell 7% y-o-y which, combined with lower demand for inland silo drying services, caused by unusually dry weather, made the overall contribution from grain and infrastructure comparable to the previous year.

In FY2016, our farming division contributed 38% of the Group EBITDA, thus having another year of stellar performance, as we continued to implement changes of our production technology to deliver growth in crop yields. For the second consecutive year, our crop production costs per hectare continue to decline as energy costs and the Ukrainian hryvnia depreciated further. Additionally, reinstatement of VAT refunds on grain exports increased farm gate prices.

FY2017 outlook: we aim to increase utilization of our crushing capacities, as we anticipate the narrowing of the market-wide imbalance between demand and supply of oilseeds stemming from a record sunflower seed harvest of 13.5 million tons, up 16% from the previous year. Grain and infrastructure volumes are expected to increase in line with gross production in Ukraine, thus delivering comparable profitability. Our farming business's earnings contributions should remain similar to the previous year's, with a slight increase in production costs, caused by inflation of the Ukrainian hryvnia driven expenses.



# Financial Performance in FY2016 continued

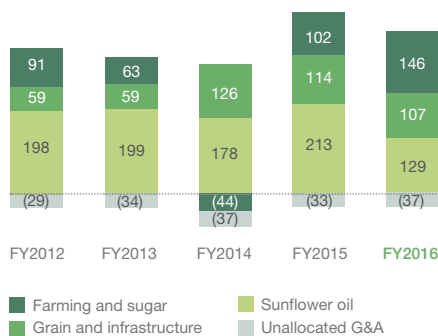
## Income statement highlights

Our EBITDA for the year ended 30 June 2016 amounted to USD 346.4 million, a 13% y-o-y decline, as a result of mixed earnings from our grain and infrastructure, record profits in our farming, and challenging performance in our sunflower oil division.

In FY2016, the Ukrainian crushing business experienced an EBITDA margin contraction, driven by two major factors: increased crushing capacity and farmers' unwillingness to sell oilseed stock. The former resulted in higher demand for sunflower seeds escalating competition for the oil-bearing crop, while the latter caused a weak supply of sunflower seed from October to January, which led to a margin squeeze through higher procurement prices during that period. Therefore, the EBITDA contribution by our sunflower oil division fell 40% y-o-y, to USD 128.8 million. At the same time, our crushing volumes in FY2016 have reached a new record 2.7 million tons of sunflower seed, up 6% y-o-y.

Grain and infrastructure EBITDA stood at USD 107.1 million, down 6% y-o-y. Our grain exports EBITDA margin stood firm at 6% in FY2016, amounting to USD 46.3 million, down 22% y-o-y as a result of slower selling activity by farmers from October to January and weaker profitability in the Russian Federation.

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



Note: Differences are possible due to rounding.  
Source: Kernel

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

## Key market highlights:

- Material contraction of crushing margins stemming from imbalance in supply and demand of sunflower seeds as new crushing plants were commissioned during the season.
- Both Ukraine and the Russian Federation had a record year of grain exports: Ukraine delivered 42 million tons of grain and oilseeds, up 2 million tons y-o-y, while the Russian Federation sold 35 million tons to international markets.
- The continued prevalence of grain production over consumption kept international soft commodity prices under pressure.

## Income statement highlights

USD million	FY2016	FY2015	y-o-y
<b>Revenue</b>	<b>1,988.5</b>	<b>2,329.5</b>	<b>(14.6%)</b>
Net IAS 41 gain/(loss)	20.1	(6.8)	n/m
Cost of sales	(1,548.5)	(1,805.6)	(14.2%)
<b>Gross profit</b>	<b>460.2</b>	<b>517.1</b>	<b>(11.0%)</b>
Other operating income	44.6	82.4	(45.9%)
Distribution costs	(158.3)	(197.1)	(19.7%)
G&A expenses	(59.3)	(66.9)	(11.4%)
<b>Operating profit</b>	<b>287.2</b>	<b>335.6</b>	<b>(14.4%)</b>
Finance costs, net	(57.1)	(64.8)	(11.9%)
Foreign exchange gain/(loss)	30.4	(143.4)	n/m
Other expenses	(16.6)	(9.6)	1.7x
Share of gain in joint venture	3.9	5.1	(23.6%)
<b>Profit/(Loss) before income tax</b>	<b>247.8</b>	<b>122.8</b>	<b>101.7%</b>
Income tax expenses	(3.9)	(1.2)	3.4x
Loss from discontinued operations	(17.0)	(26.2)	(34.9%)
<b>Net profit/(loss) attributable to equity holders of Kernel Holding S.A.</b>	<b>225.2</b>	<b>106.9</b>	<b>2.1x</b>
Non-controlling interest	1.7	(11.4)	n/m
<b>EBITDA</b>	<b>346.4</b>	<b>396.6</b>	<b>(12.7%)</b>

Source: Kernel.

Export terminals posted a record transshipment volume of 5.3 million tons, while the EBITDA contribution was USD 37.5 million, virtually unchanged from a year ago, as some of the decline in transshipment fees was compensated by a decrease in fixed costs and administrative expenses caused by the depreciation of the Ukrainian hryvnia. The silo services' EBITDA increased 28% to USD 23.4 million in FY2016, as costs deflated, driven by lower natural gas prices and the devaluation of the national currency.

Farming continued to set records with an EBITDA contribution up 49% to USD 146.0 million, as the result of further efficiencies in crop cultivation, technology advancements and lower production costs caused by the Ukrainian hryvnia's depreciation, which boosted profitability. Additionally, reinstatement of VAT refunds on grain exports increased farm gate prices.

For a detailed explanation of operating and financial performance of sunflower oil operations, please refer to pages 16-20 of the report, for grain and infrastructure – pages 21-25, and for farming – pages 26-30.

# Financial Performance in FY2016 continued

## Revenues

Our revenues stood at USD 1,988.5 million in FY2016, down 15%, primarily as a result of lower global prices for agricultural commodities, which were reflected in our revenues and cost of purchased commodities, and of a decline of volumes of grain and sunflower oil sold, as we shifted some sales to Q1 FY2017.

## IAS 41 effect

The net change in the fair value of biological assets and agricultural produce amounted to positive USD 20.1 million in FY2016 compared to negative USD 6.8 million in FY2015. This component included a positive gain from revaluing crops in fields to fair value less costs to sell as of 30 June 2016 and expensing of the respective gain booked a year earlier, as well as a change in the fair value of live animals. The positive amount of FY2016 reflects anticipation of larger y-o-y harvest.

## Gross profit

Gross profit came to USD 460.2 million in FY2016, down 11% from USD 517.1 million a year ago. The decline of gross profit is primarily attributable to the lower contribution of sunflower oil division as the mismatch in the supply and demand of sunflower seeds resulted substantial reduction of crushing margins as well as to the mixed performance of our grain segment.

## Other operating income

Our other operating income amounted to USD 44.6 million in FY2016 compared to USD 82.4 million a year earlier. Most of the income (USD 23.4 million in FY2016 vs. USD 10.7 million in FY2015) was attributable to VAT benefits for our farming companies which were entitled to retain the difference between input VAT paid on items purchased (or crops grown) and VAT charged on products sold up to 1 January 2016.

Other operating income also included USD 9.1 million of gains on our futures contracts (related to hedging of our farming harvest) and a gain of USD 5.6 million on operations in US dollars reflecting the decrease in differences between the market and official exchange rates for US dollars in Ukraine. For a detailed breakdown, please refer to Note 26 to the financial statements on page 104.

## Distribution costs

Distribution costs have decreased in FY2016 to USD 158.3 million, down 20% y-o-y. This significant decline was fueled by two major reasons: further depreciation of the Ukrainian hryvnia against hard currencies (by 15% y-o-y), thus reducing the US value of our railway tariffs, and different delivery terms. As a result, our distribution cost came at 8% of revenues in FY2016, flat y-o-y.

## General and administrative expenses

General and administrative expenses totaled to USD 59.3 million in FY2016, an 11% decline from USD 66.9 million a year ago, driven by our constant focus on cost control and a further 15% y-o-y depreciation of the Ukrainian hryvnia. As a percentage of revenues, G&A stood at 3%, flat y-o-y.

## Operating profit

As a result of the above-mentioned changes in the segments' EBITDA and a USD 7.7 million y-o-y decrease in depreciation and amortization caused by the depreciation of the Ukrainian hryvnia, profit from operations was USD 287.2 million, down 14% from USD 335.6 million a year ago. Despite the decline in absolute terms, the operating margin remained stable at 14%.

## Finance costs

As a result of deleveraging our business, the finance cost for the FY2016 declined by 11% y-o-y to USD 57.1 million.

## Foreign exchange gain

The net foreign exchange gain stood at USD 30.4 million in FY2016, compared to a loss of USD 143.4 million a year ago, mostly reflected in a non-cash gain recognized after the revaluation of our intragroup balances denominated in Ukrainian hryvnia.

All of the Group's subsidiaries use the US dollar as their functional currency, except for farming, export terminals and silo services which use the Ukrainian hryvnia and the Russian ruble. As a normal course of business, the Group's subsidiaries may issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Group's enterprises, if they had different functional currencies.

Therefore, major portion of foreign exchange gain in FY2016, resulted from revaluation intercompany balances amounting to USD 40.6 million versus a loss of USD 43.0 million, offset by revaluation of prepaid taxes' balances stemming to forex loss of USD 20.0 million in FY2016 and USD 78.2 million in previous year.

## Other expenses

Other expenses stood at USD 16.6 million in FY2016, a 1.7x increase versus USD 9.6 million a year ago caused by a USD 6.6 million of an one time revaluation loss of our fixed assets and impairment of our trademarks and goodwill of USD 3.6 million, as well as a loss on the disposal of subsidiaries of USD 3.6 million which were divested in FY2016.

## Income tax

Income tax expenses amounted to USD 3.9 million in FY2016, a 3.4x increase from USD 1.2 million a year ago as we utilized tax deductible forex losses caused by an earlier devaluation of the Ukrainian currency.

## Net profit

As a result, net profit attributable to the shareholders of Kernel Holdings S.A. almost doubled in FY2016 to USD 225.2 million from USD 106.9 million a year ago.

## Dividends

In accordance to our dividend policy, we paid the dividend of USD 0.25 per share on 29 April 2016 for FY2015. Furthermore, the board of directors recommends the general meeting of shareholders to approve the dividend of USD 0.25 per share for FY2016 to be paid during the financial year ending 30 June 2017.

# Financial Performance in FY2016 continued

## Cash flow highlights

### Net cash provided by operating activities

Operating profit before working capital changes was USD 330.5 million in FY2016, relatively unchanged, in comparison to USD 338.7 a year earlier.

During FY2016, our changes in working capital stood at negative USD 136.3 million, versus positive USD 147.4 million a year ago, stemming from a combination of abnormally low inventories at the end of FY2015, a higher amount of grains procured by the Group, and a higher bulk oil stock as at 30 June 2016, accumulated to fulfill the contracts in Q1 FY2017.

After accounting for financial expenses and income taxes paid, which together stood at USD 60.4 million, down 26% y-o-y, net cash provided by operating activities reached USD 133.7 million in FY2016, down from USD 404.7 million in the previous year, stemming from negative working capital adjustment as discussed above.

### Net cash used in investing activities

Net cash used in investing activities stood at USD 60.7 million in FY2016, up 1.1x from its maintenance level of USD 24.3 million a year ago, as a result of acquisitions and divestments completed during the year ended 30 June 2016:

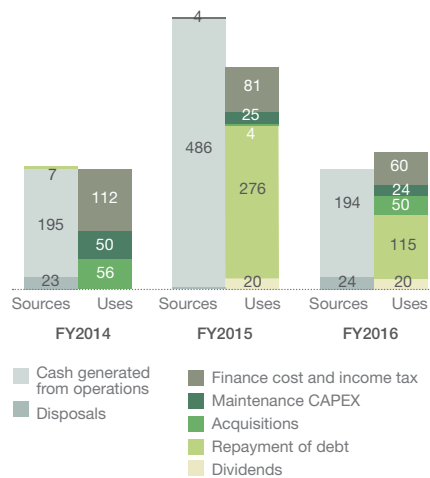
- In March 2016, we acquired a 100% share in a world class 560,000-ton multi-seed crushing facility in Kropyvnytskyi (formerly Kirovohrad). As of 30 June 2016, the consideration paid comprised USD 50 million and the amount due and payable was USD 25 million calculated as the present value of amounts payable in arrears within the next five years (refer to Note 7 of the Financial Statements).
- In April 2016, the Group disposed of two of its oilseed crushing plants in the Russian Federation with total crushing capacity of 200,000 tons of sunflower seed per year, for cash consideration of USD 12 million.
- During the year ended 30 June 2016, the Group disposed of two of its grain silos, located in Mykolaiv and Zaporizhzhya, as well as a small farming entity, with no material leasehold farmland as of the date of disposal, for a cash consideration of USD 2 million.

## Credit metric highlights

The table below presents total outstanding short-term and long-term interest-bearing debt as of 30 June 2015 and 30 June 2016.

Our net debt decreased to USD 282.8 million as of 30 June 2016 versus USD 339.4 million a year ago, as the Group continued to use operating cash flow to strengthen its balance sheet additionally, more than 60% of our net debt position as of 30 June 2016 was covered by readily marketable inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics and widely available markets and international pricing mechanism. As of 30 June 2016, the net debt to EBITDA ratio stood firm at 0.8x.

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



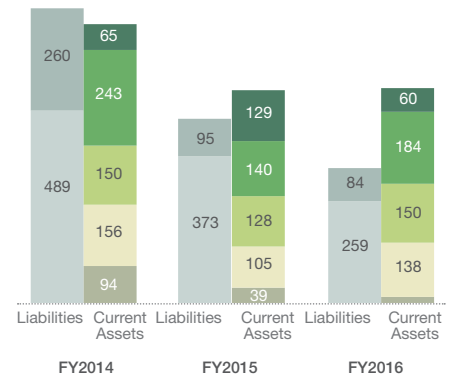
Note: Organic and maintenance capital expenditure excludes acquisitions and disposals.  
Note: Differences are possible due to rounding.  
Source: Kernel.

### Liquidity position and credit metrics

USD million except ratios	FY2016	FY2015	y-o-y
Gross interest-bearing debt	343.1	468.5	(26.6%)
Cash	60.4	129.1	(53.2%)
<b>Net interest-bearing debt</b>	<b>282.8</b>	<b>339.4</b>	<b>(16.5%)</b>
Readily marketable inventories	183.7	140.1	30.6%
<b>Adjusted net financial debt</b>	<b>99.1</b>	<b>199.3</b>	<b>(50.3%)</b>
Shareholders' equity	995.3	889.6	11.9%
Net debt / EBITDA	0.8x	0.9x	
Adjusted net debt / EBITDA	0.3x	0.5x	
EBITDA / Interest	6.1x	5.8x	

Source: Kernel.

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



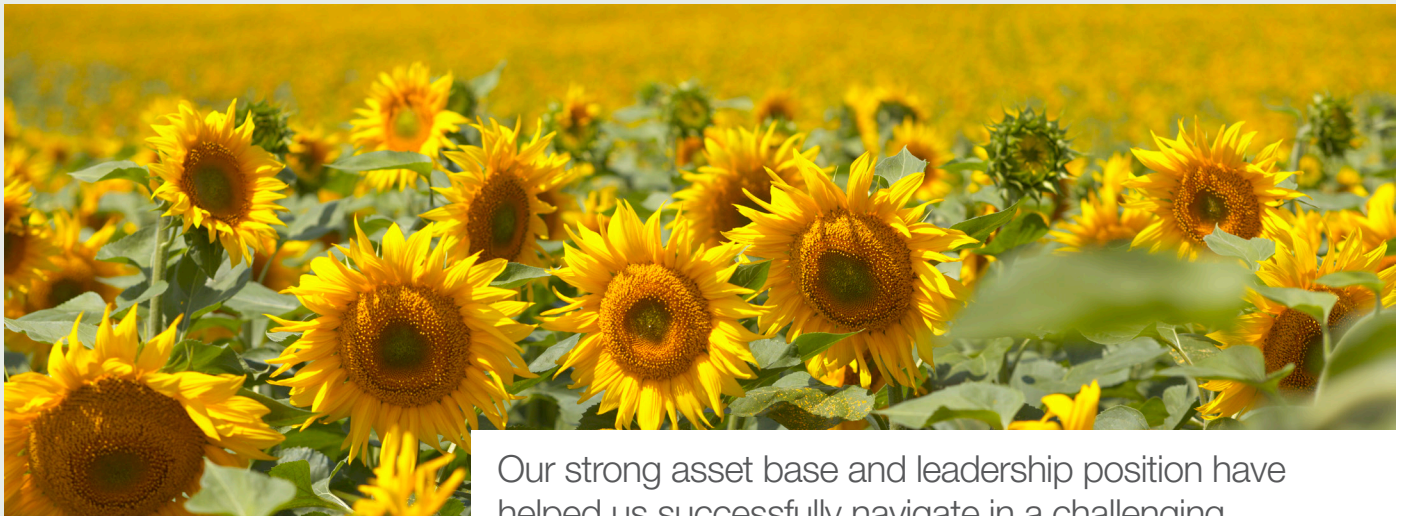
Short-term interest-bearing debt  
Long-term interest-bearing debt  
Cash & cash equivalents  
Readily marketable inventories  
Biological assets at cost  
VAT and income tax prepaid  
Net other working capital

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

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

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

# Sunflower Oil



Our strong asset base and leadership position have helped us successfully navigate in a challenging environment.

## Revenues

**\$1,134.7m**  
-7% y-o-y

## EBITDA

(before head office expenses allocation)

**\$128.8m**  
-40% y-o-y

### Our business model

Kernel continued to hold onto its leadership position, selling over 1 million tons of sunflower oil and maintaining its 7% market share globally. Moreover, as a stand-alone sunflower seed processor, we account for over 14% of global produce in sunflower oil in 2015/16, crushing 2.7 million tons of sunflower seeds originated in Ukraine, a 10% increase y-o-y. Our margin-driven business model eliminates price volatility risk as we effectively lock-in the margins at the moment of raw material procurement. We buy sunflower seed from farmers and sell the corresponding volumes of sunflower oil and meal through forward contracts in a similar time frame. Therefore, the volatility of the crushing margin is a function of supply and demand for sunflower seeds in a particular season rather than a function of the price volatility in global edible oils marketplace. With ever-growing demand, the success of our business is based on scale, operating efficiency and prudent risk management.

The sunflower oil division's EBITDA amounted to USD 128.8 million FY2016, down 40% y-o-y. Despite a decrease in profitability, associated with farmers' unwillingness to sell their crops and intensified competition in FY2016 for raw materials, we continued to widen our origination network, increased crushing capacities and achieved solid utilization.

In March 2016, we completed an acquisition of a modern 560,000-ton multi-seed crushing facility in Kropyvnytskyi (formerly Kirovograd) fitting perfectly into our existing origination and marketing platform, which was operational under a tolling agreement and, in combination with the standing asset base, has helped us achieve a record level of sunflower seeds crushed.

Our retail bottled oil segment sales of sunflower oil, following the overall segment trend, experienced a margin squeeze, resulting in USD 15.8 million EBITDA in FY2016, down 23% y-o-y.

### FY2017 outlook and strategy

Being the most profitable crop, in FY2017 Ukrainian farmers increased sunflower sowing acreage by 15% y-o-y. Therefore, in combination with favorable weather conditions during the pollination and ripening periods, a record harvest of around 13 million tons of sunflower seeds is expected. In preparation for the upcoming marketing year, our Black Sea Industries, a crushing plant located in Chornomorsk (formerly Illichevsk), underwent improvements in its storage and pre-crush facilities, which together with the renegotiated tolling agreement, adding approximately 275,000 tons of crushing capacities, raised the total installed capacity to a record 3.5 million tons of sunflower seeds, up 30% y-o-y.



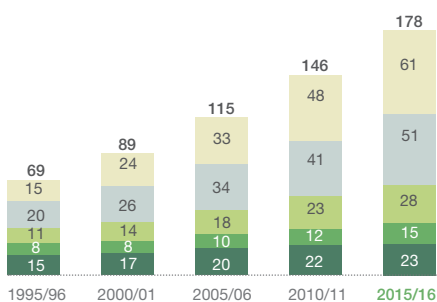
# Sunflower Oil continued

## Our markets

### Global edible oils market trends

The world's production of edible oils has been faltering over the past two years, achieving slightly over 1% y-o-y growth in 2015/16, far below the average 15-year growth rate of 5%<sup>(1)</sup>. El Niño, being the one of the primary reasons for the tighter supply of edible oils in 2015/16, slowed the decline in prices as well as narrowed the volatility to the Black Sea's FOB of USD 830 – 730 per ton. The combination of a record decline in ending stocks, higher domestic consumption and El Niño-caused supply shock led to the flattening of global exports of edible oils, with a mere 1% y-o-y increase.

### Global consumption of vegetable oil (million tons)



Palm  
 Soybean  
 Rapeseed  
 Sunflower seed  
 Other

Note: Differences are possible due to rounding.  
Source: USDA, September 2016.

However, Ukraine has remained the largest sunflower exporter in the world, with its share of international exports standing at 55% in 2015/16, followed by the Russian Federation and Argentina, based on USDA data.

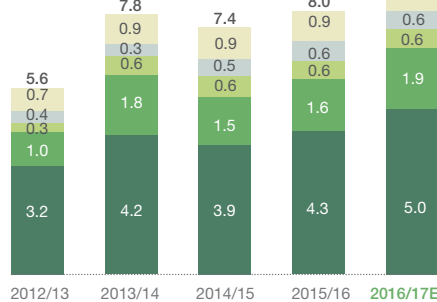
### Sunflower seed processing in Ukraine

Being an export-oriented business, sunflower seed prices tend to correlate with international edible oil prices. In 2014/2015, the sunflower seed harvest, harmed by a severe drought in the central and southern regions, amounted to 10.1 million tons, versus 11.2 million tons in 2015/16, with virtually unchanged sowing acreage and favorable weather conditions, stemming primarily from a recovery of yields to their average levels.

## Key trends:

- In FY2016, the competitive landscape for sunflower seed intensified, driven largely by recent increases in new crushing capacities undermining profitability of crushers and fueling the profitability of farmers.
- Farmers' unwillingness to sell their new harvest due to various reasons but mainly because of volatility of the currency market and intensified competition for sunflower seeds led to a shift in bargaining power and subsequently squeezed crushing margins in FY2016.

### Global sunflower exports (million tons)



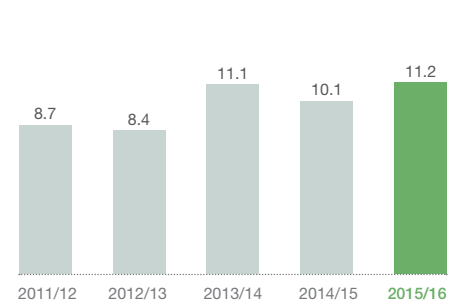
Ukraine  
 Russia  
 Turkey  
 Argentina  
 Other

Note: Differences are possible due to rounding. Source: USDA, September 2016.

98% of the sunflower seed harvest was crushed domestically to produce 4.7 million tons of sunflower oil in 2015/16, of which 4.2 million tons were exported.

While the supply of sunflower seed recovered to a normalized level in 2015/16, the crushing capacities in Ukraine were underutilized. During the year, several oilseed crushing plants were commissioned, bringing the overall sunflower seed processing capacity in Ukraine to around 15 million tons. As a result, the Ukrainian crushing business has experienced an EBITDA margin contraction in 2015/16, driven by two major factors: higher crushing capacities and farmers' unwillingness to sell their sunflower seed stock.

### Sunflower seed harvest in Ukraine (million tons)



Source: State Statistics Service of Ukraine.

The former resulted in an higher demand for sunflower seeds, escalating competition, while the latter caused an undersupply of sunflower seed in October through January, which led to a margin squeeze due to higher procurement prices during those months.

Basically, the combination of mismatch in supply and demand for sunflower seeds, anticipation of further devaluation of the national currency, and dry weather conditions have shifted the bargaining power into the hands of Ukrainian farmers in 2016/15, resulting in a notable contraction of the crushing margin.

### Outlook

Boosted profitability of sunflower seed production translated into a strong driver to reverse the cycle, incentivizing farmers to increase production of the oilseed. In 2016/17, Ukrainian farmers planted a record high acreage under sunflower seeds (up 15% y-o-y), which is expected to yield a record sunflower seed harvest of around 13 million tons.

1 15-year period from 2000/01 – 2015/16

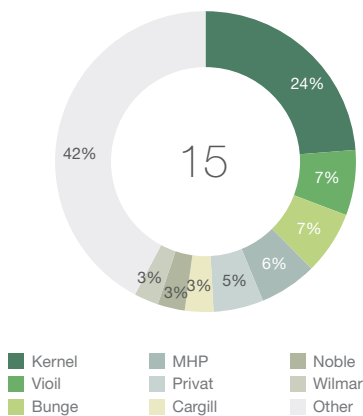
# Sunflower Oil continued

## Our business model

### Market leader in oilseed crushing

We operate our nine plants (including one in Kropyvnytskyi under a tolling agreement) to yield a total annual crushing capacity of 3.5 million tons of sunflower seed, making Kernel the largest oilseed crusher in the Black Sea region. In April 2016, we divested two Russian crushing facilities and acquired a new one in Ukraine. With our plants in Ukraine located across the sunflower seed belt in proximity to sunflower seed production, Kernel benefits from scale, improving cost leadership and healthy utilization.

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

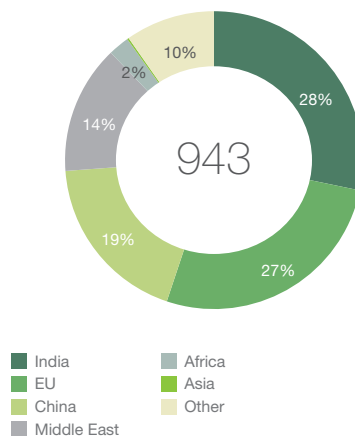


Note: Differences are possible due to rounding.  
Source: Kernel.

### Prudent risk management

Our business is margin-driven: we sell sunflower oil and meal through forward contracts in a similar timeframe as we buy sunflower seed from farmers, essentially locking in the margin at the time of procurement. Our origination team purchases sunflower seed from farmers in close proximity of plants, either at the farm gate or at the wide network of our silos. At the same time, our international sales team enters into forward contracts to sell sunflower oil, thus fixing volumes and prices.

**Sunflower oil sold in bulk exports by destination (thousand tons)**



Source: Kernel.

As a result, our 'balanced book' policy is essential to minimize the impact of the high volatility of international commodity prices. We mitigate counterparty risks by selling to the first-class global traders under strictly monitored limits or only either against letters of credit or bank guarantees provided by top international banks or to the short-number of world-class global traders.

### Exports, as a dominant sales component

Typically, 90-93% of our sunflower oil production is exported in bulk to the international market while the remainder is refined, bottled and sold in Ukraine. Our major markets for sunflower oil include India, China, the Middle East and North Africa. Approximately 80% of our sunflower oil is exported to emerging market nations, the population of which, according to the World Bank, are expected to grow by 10% over the next ten years.

More than 90 thousand liters of sunflower oil is bottled in Ukraine and sold under our well-recognized brands and private labels, covering all price segments, both domestically and internationally. Our leadership position allows us to target the premium segment. Moreover, during FY2016 our bottled segment saw record export sales, accounting for 51% of total bottled oil sales.

## Sunflower seed crushing products

### Sunflower oil

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

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

### Sunflower meal

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

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

### Sunflower husk

Before processing, sunflower seeds are dehulled. These husks are burned at boilers on site at our crushing plants to produce steam and in some sites also electricity. Excessive quantities of husk are pelletized and sold to co-generation power plants.

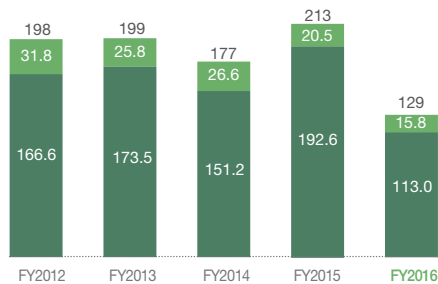
One ton of sunflower seed yields approximately 16% of sunflower husk.

# Sunflower Oil continued

## Financial performance

Our sunflower oil operations are reported under two segments: sunflower oil sold in bulk and bottled sunflower oil.

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



■ Bottled sunflower oil  
■ Sunflower oil sold in bulk

Source: Kernel.

Overall EBITDA contributed by the sunflower oil segments reached USD 128.8 million in FY2016, down 40% y-o-y, mostly due to increased demand for sunflower seeds as a result of higher crushing capacity combined with the reduced pace of sunflower seed sales by farmers.

### Sunflower oil sold in bulk

Revenues from the bulk sales segment amounted to USD 1,032.1 million, down 6% y-o-y in FY2016, primarily arising from a similar decrease in volumes sold. The segment's EBITDA stood at USD 113.0 million, down 41% y-o-y. Two major factors drove the EBITDA down in FY2016: higher crushing capacity in the market and farmers' unwillingness to sell their crops, lowering sunflower seed supply in October to January, which pressured margins through higher procurement prices during that period.

### Bottled sunflower oil

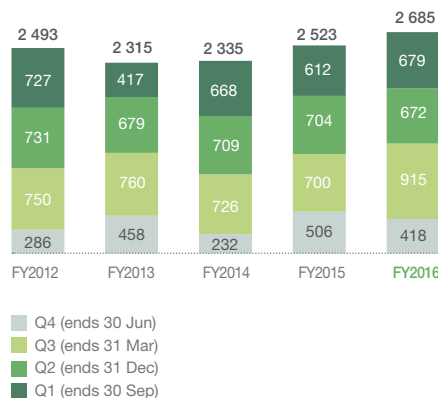
Bottled sunflower oil sales were down 10% y-o-y to USD 102.6 million, as a result of decreasing sales volumes, caused by the deterioration of purchasing power in Ukraine due to the depreciation of the Ukrainian hryvnia over the past two years and our cautious approach to counterparty risk. We shifted volumes from the domestic to export market with no currency and limited counterparty risk. Along with lower bulk oil profitability, the bottled oil segment's EBITDA margin decreased to USD 169.0 per thousand liters versus USD 207.7 a year ago.

## Sunflower oil business performance

Sunflower oil sold in bulk		FY2016	FY2015	y-o-y
Revenue	USD million	1,032.1	1,099.7	(6.1%)
EBITDA	USD million	113.0	192.6	(41.3%)
Volumes sold	thousand tons	983.9	1,030.2	(4.5%)
Revenue per ton	USD/ton	1,049.0	1,067.4	(1.7%)
EBITDA per ton	USD/ton	114.8	186.9	(38.6%)
EBITDA margin	%	10.9%	17.5%	(6.6pp)
Bottled sunflower oil		FY2016	FY2015	y-o-y
Revenue	USD million	102.6	114.1	(10.0%)
EBITDA	USD million	15.8	20.5	(22.8%)
Volumes sold	million liters	93.7	98.9	(5.3%)
Revenue per thousand liters	USD/thousand liters	1,095.4	1,153.1	(5.0%)
EBITDA per thousand liters	USD/thousand liters	169.0	207.7	(18.6%)
EBITDA margin	%	15.4%	18.0%	(2.6pp)
<b>Sunflower oil total EBITDA</b>	<b>USD million</b>	<b>128.8</b>	<b>213.1</b>	<b>(39.1%)</b>

Source: Kernel.

## Sunflower seed crushing volumes (thousand tons)



Source: Kernel.

Despite the above-mentioned circumstances, we managed to retain the EBITDA margin during the periods of intensified competition, thus posting a material premium over the bulk oil segment's EBITDA of 11% during FY2016.

## M&A update

In March 2016, Kernel finalized the acquisition of an oilseed crushing plant through an assignment of rights under agreement with a Ukrainian bank.

As of 30 June 2016, the consideration paid comprised USD 50 million and the amount due and payable was USD 25 million calculated as the present value of amounts payable in arrears within the next five years (refer to Note 7 of Financial Statements).

Commissioned in 2012, the world-class multi-seed facility has an installed crushing capacity of 560,000 tons of sunflower seed per year.

The production plant, where Kernel has been operating under a tolling agreement throughout the year, is located in the Kirovograd region of Ukraine and fits well into Kernel's existing origination and marketing platform.

In April 2016, Kernel divested the two least efficient oilseed crushing plants located in southern Russia for RUB 800 million, paid in cash by the buyer. The plants had a total crushing capacity of 200,000 tons of sunflower seed per year.

## FY2017 outlook

Our outlook is cautiously optimistic for FY2017. First, Ukrainian farmers have increased acreage by 15% versus the previous year, driven by the record high profitability of growing sunflower seed because of the sizable gap in supply and demand fundamentals. Favorable weather conditions during the pollination and ripening periods have brought expectations of a record sunflower seed harvest of around 13 million tons. Second, our crushing capacities increased by 30% y-o-y as a result of the acquisition of an oilseed crushing facility in FY2016 and the expansion at our Black Sea Industries crushing plant along with the signed tolling agreement. Thus, we expect our oilseed crushing volumes to reach 2.9 million tons in FY2017 compared to 2.7 million tons in FY2016.

# Sunflower Oil continued

## Non-financial performance

### Health and safety

There were no life-altering accidents at our sunflower oil production in FY2016. During the year ended 30 June 2016, there were two work-related injuries at our sunflower oil plants in general, comparable to the previous year. Each production facility has a dedicated health and safety specialist who ensures that workplaces comply with safety requirements; all workers are equipped with coveralls and receive proper health and safety training. For more details on our health and safety performance, please refer to page 41 of this report.

### Employee training and development

During the financial year ended 30 June 2016, we extended our sunflower oil management training program for key specialists at our oil crushing plants. A dozen managers were selected to go through this MBA Challenger module-based education program aimed to develop general business skills and competencies. With a total of 112 hours of formal learning spent in FY2016, excl. additional time for supplementing activities and diploma project, this educational program is designed to resemble executive business administration courses, adjusted for local specific needs.

Our graduate recruitment program, initially focused at the farming business division, has also been expanded to the sunflower oil business in FY2016. See more details on page 39.

### Energy consumption and emissions intensity

In FY2016, our energy consumed per ton of sunflower seed crush continues to decrease, as we managed to increase fuel burning efficiency at boilers installed at our production plants. At the same time, total energy consumption decreased as we divested two of our plants in the Russian Federation. During the year, we also benchmarked fuel efficiency at several our plants with global practice, revealing that our steam and electricity consumption is in line with the low end of the international range.

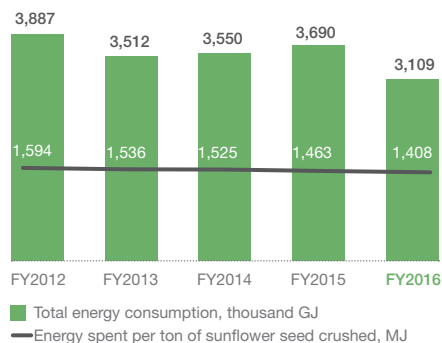
All but one of our oilseed crushing plants use sunflower seed husk, a waste by-product of processing, as a key energy source to produce the steam required for production.

### Product safety

All of our sunflower oil products produced in FY2016 were produced at facilities certified at ISO 22000 standards, which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application procedures developed by the Codex Alimentarius Commission. In addition, bottling facilities are certified under FSSC 22000 standard, and all production plants are certified under ISO 9001. We also ensure control over the food safety along the protein meal production and distribution value chain: production facilities are certified under GMP+B1, our truck company is certified under GMP+B4, transshipment and freight chartering is certified under GMP+B3.

For more details on our health and safety, employee training and development, energy consumption and other sustainability performance and approach, please refer to pages 35-46 of this report.

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



Source: Kernel.



# Grain and Infrastructure



In FY2016, our infrastructure set new records, being a vital element of our captive origination platform supporting our export volumes

## Revenues

\$ 917.2m

-20% y-o-y

## EBITDA

(before head office expenses allocation)

\$107.1m

-6% y-o-y

### Our business model

Ultimately, our grain and infrastructure segment successfully connects Ukrainian and Russian farmers with global markets. Kernel operates a highly sophisticated grain export supply chain. Our 2.8-million-ton silo service network provides essential grain drying, cleaning and storage to third-party farmers and to our own farming division. Vertical integration of our grain segment supply chains provides a long-term competitive advantage as it secures captive origination and levels earnings volatility. Therefore, our grain and infrastructure segment handles export operations, starting from buying grain from farmers at the farm gate or inland silos, providing transportation and selling these grains through forward contracts to the international markets via our two deepwater grain export terminals on the Black Sea with a total capacity of 6 million tons per year. Like our sunflower oil business, grain and infrastructure is a margin-driven business where profitability is determined by the physical supply of grains in the domestic market and efficient infrastructure rather than by global prices.

### FY2016 performance

Grain sales volumes stood at 4.4 million tons, down 7% y-o-y, due to the change in seasonality of grain exports from Ukraine and the accumulation of pre-sold stock to meet stronger demand for deliveries in Q1 FY2017. Weaker grain trading margins of the first half of the season were offset with expanded margins in the second half following the reinstatement of VAT refunds on grain exports on 1 January 2016.

Export terminals' performance continued to set records, transshipping 5.3 million tons in FY2016, a healthy 11% y-o-y increase, largely attributable to the de-bottlenecking of our Chornomorsk (formerly Illichevsk) facility and capacity expansion at Taman, our joint venture deepwater grain transshipment terminal in Russia. The overall contribution to consolidated EBITDA of the segment was USD 37.5 million, up 2% y-o-y.

The silo services segment's performance prospered in FY2016, delivering 2.8 million tons of cumulative grain and oilseed intake at inland silos – a strong 12% y-o-y increase, caused by improving turnover of our storage facilities and streamlining the customer base. At the same time, revenues reached USD 38.2 million, down 10% y-o-y, as drier weather conditions during harvesting resulted in a 10% y-o-y decline in the volume of drying services provided. Overall, the segment's EBITDA contribution surged 28% y-o-y, reaching USD 23.4 million in FY2016, stemmed from the deflation of costs, attributable to lower natural gas prices and the devaluation of the Ukrainian hryvnya.

### FY2017 outlook and strategy

In FY2017, grain exports are expected to be comparable to the previous year at 38 million tons in Ukraine and 37 million tons in Russia. We aim to grow export volumes from the region from increased in-house grain production along with the expanded capacities of our deepwater transshipment facilities. Silo services are expected to remain at the similar levels of intake.

# Grain and Infrastructure continued

## Our markets

### Ukraine's grain production and exports in 2015/2016

Ukraine reached a sustainable level of grain production above the 60-million-ton mark with a forecasted 6% increase in 2016/17 owing to favorable weather conditions and continuous improvement of applied farming technologies. Combined with a decrease in domestic consumption, Ukraine reached a record level of exported grains – 38 million tons in 2015/16, up 7% y-o-y. Wheat exports surged by 50% in 2015/16 to 17 million tons. Corn exports fell to 16 million tons in 2015/16, down 20% y-o-y as a result of weaker domestic production. Barley export supplies remained steady at 4.4 million tons in the 2015/16 marketing year. Solid domestic grain production combined with record export volumes kept our infrastructure busy achieving nearly full capacity utilization ratios.

### Russian grain production and exports in 2015/2016

Overall, the grain harvest in the Russian Federation has remained relatively unchanged at 100 million tons, with wheat being a dominant crop accounting for almost 90% of gross output. A notable increase in carry-over stocks at the beginning of 2015/16, combined with flattening domestic consumption, resulted in an increase that boosted Russian exports by 10% y-o-y.

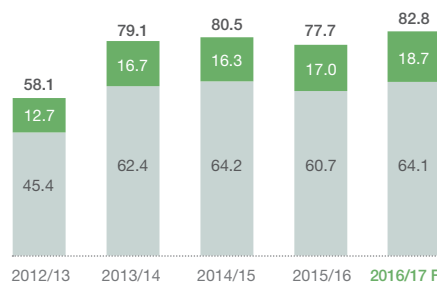
### Market outlook

The 2016/17 forecast for the total grain harvest in Ukraine is 64 million tons, as of the date of this report's publication, which should result in record exports of grains – around 38 million tons. In the Russian Federation, the 2016/17 season's harvest is estimated to reach a record level of 108 million tons, up 9% y-o-y, which should translate into approximately 37 million tons of grain exports. Kernel intends to maintain its market share.

## Key market trends:

- Both Ukraine and the Russian Federation produced and exported healthy grain and oilseed volumes to international markets, keeping our infrastructure at nearly full capacity utilization.
- Strong outlook for grain production in the Black Sea region in FY2017.

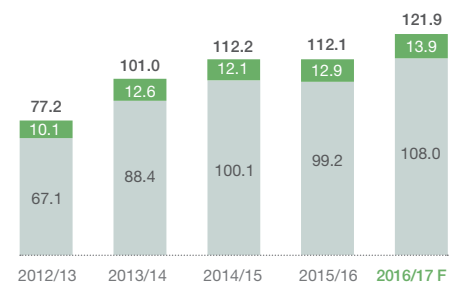
Grain and oilseed production in Ukraine (million tons)



Oilseeds  
Grains

Source: State Statistics Service of Ukraine, APK-Inform forecasts. September 2016.

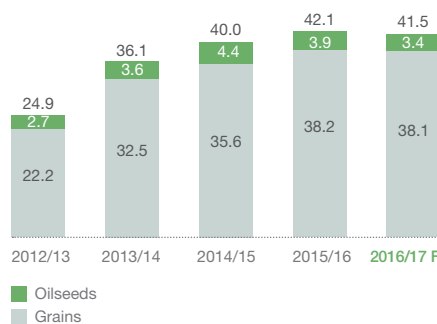
Grain and oilseed production in Russia (million tons)



Oilseeds  
Grains

Source: Russian Federation Federal State Statistics Service, APK-Inform forecasts. September 2016.

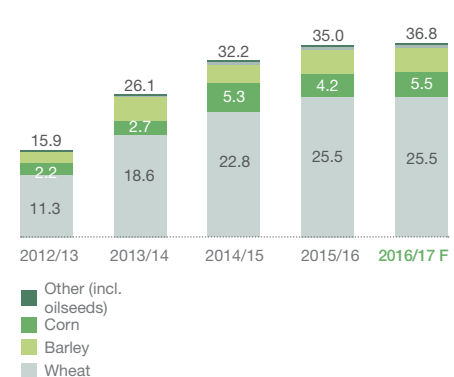
Ukraine's grain and oilseed exports (million tons)



Oilseeds  
Grains

Source: APK-Inform forecasts. September 2016

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



Other (incl. oilseeds)  
Corn  
Barley  
Wheat

Source: APK-Inform forecasts. September 2016

Note: Differences are possible due to rounding.

# Grain and Infrastructure continued

## Our business model

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

### Silo services

Our inland silo network has 2.8 million tons of grain storage capacity, located across the key grain production regions in Ukraine. These silos provide grain drying, cleaning and storage services for both our own farms and third party farmers nationwide. In addition to typical services provided, our silo network serves as a crucial origination tool, enabling our procurement team to purchase grains and sunflower seed from farmers within a 100 km range from the harvested land, thus being the first buyer to consider. Grain storage capacities remain a bottleneck in Ukraine, considering the 1.5x increase in grain production over the last decade, while the construction of new silos is lagging due to capital intensity. Therefore, our silo services segment boasts a sustainable EBITDA margin with significant barriers to entry. Moreover, our inland silo footprint enables us to maintain close contacts with third-party farmers and have a better visibility of Ukrainian grain supply.

### Grain marketing

Kernel, being among the top exporters of grain from Ukraine, accounts for around 10% of Ukraine's total grain exports and approximately 4% of Russia's, making us a key player in both countries and one of the largest exporters of grains from the Black Sea region. During FY 2016, we exported 4.4 million tons of grain, with 1.6 million tons of grains produced by Kernel's farming division and 2.8 million tons bought from thousands of farmers.

Our infrastructure and scale in combination with prudent risk management is the cornerstone for success in this low-margin, high-volume business. Similar to the sunflower oil segment, we are averse to commodity price volatility and risks, thus following a 'balanced book' policy: selling grain through forward contracts in a similar time frame as when we purchase it from farmers on the spot market. Our crop structure and destination mix is comparable to the traditional export distribution for the countries we operate in, with the dominant export crop being corn in Ukraine and wheat – in the Russian Federation.

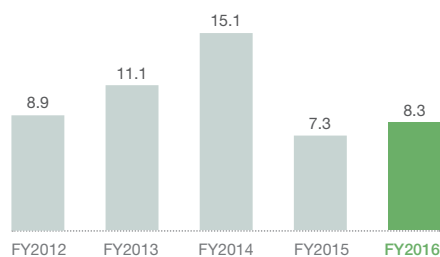
### Export terminals

In Ukraine, Kernel owns a 4-million ton transshipment facility located on the Black Sea coast in Chornomorsk (formerly Illichevsk). In the Russian Federation, we operate the Taman grain export terminal via a 50/50 joint venture, with our share of capacity standing at 2 million tons in FY2016. In both countries, export terminals are deepwater facilities capable of loading Panamax vessels with deadweight of up to 70,000 tons, providing materially cheaper logistic advantages. Therefore, our port facilities are essential for our large-scale grain export operations, with the history of material increases in our grain sales after the acquisition of our port in Ukraine and joint venture in the Russian Federation serving as the best proof. As with the silo services business, the combination of high capital expenditure and land area limitations for any new port facility ensures high margins, historically in the range of 47-65%, with natural barriers to entry.

## Strategy

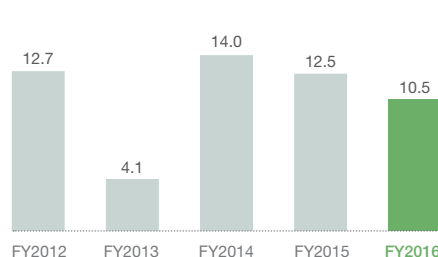
With the Black Sea being the world's fastest growing region in terms of grain production and exports, and with farmers continuously developing their crop cultivation technologies, our mid-term strategy stands at doubling grain exports and expanding our export terminals' throughput capacity by investing into the greenfield construction of a 4-million-ton deepwater grain export terminal in Chornomorsk (formerly Illichevsk) next to our existing Transbulkterminal facility. Looking ahead, we expect to scale our origination in Ukraine by preserving the cornerstones of our business model: focusing on margins, balanced book policy and scale.

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



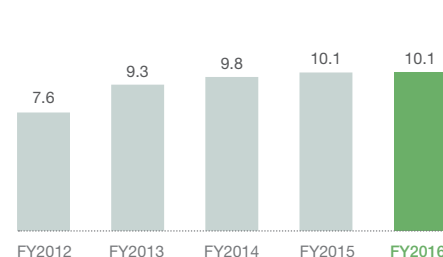
Source: Kernel.

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



Source: Kernel.

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



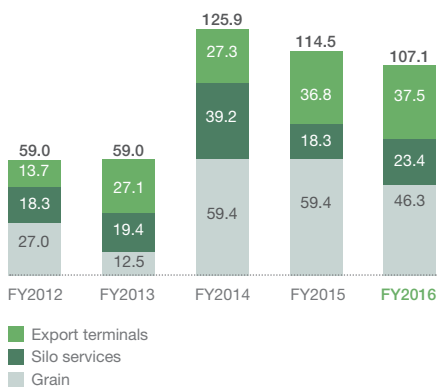
Source: Kernel.

# Grain and Infrastructure continued

## Financial performance

Our grain and infrastructure business is reported under three segments: silo services, grain marketing and export terminals. While these operations are closely interconnected, internal transactions are reported on an arm's-length basis. The overall EBITDA contribution of these segments reached USD 107.1 million in FY2016, down 6% from previous year, predominantly due to weaker grain export volumes and margins posted in FY2016.

### Grain and infrastructure EBITDA contribution, USD million



### Grain marketing

Grain export volumes stood at 4.4 million tons, down 7% y-o-y, due to the change in seasonality of grain exports from Ukraine and the accumulation of pre-sold stock to meet stronger demand for deliveries in Q1 FY2017. For instance, in Q3 FY 2016, we reached record sales volumes of 1.4 million tons primarily caused by capacity improvements at our grain transshipment facility in Ukraine and the overall acceleration of grain sales driven by reinstatement of the grain export VAT refunds on 1 January 2016.

At the same time, the segment's revenues decreased by 22% to USD 821.7 million, as the weak international pricing environment.

The grain export margin decreased 16% y-to-y to USD 10.5 per ton, but remained flat in relative terms. Similar to our sunflower oil segment's EBITDA, in particular, slow selling activity by the farmers during October to January, resulted in a margin squeeze as exporters offered to incentivise farmers by higher prices.

### Grain and infrastructure segments' performance

Grain		FY2016	FY2015	y-o-y
Revenue	USD million	821.7	1,053.3	(22.0%)
EBITDA	USD million	46.3	59.4	(22.1%)
Volumes sold	million tons	4.4	4.7	(7.0%)
Revenue per ton	USD/ton	186.3	222.1	(16.1%)
EBITDA margin	USD/ton	10.5	12.5	(16.2%)
EBITDA margin	%	5.6%	5.6%	(0.0pp)
Silo services		FY2016	FY2015	y-o-y
Revenue	USD million	38.2	42.4	(9.9%)
EBITDA	USD million	23.4	18.3	27.7%
Throughput volumes	million tons	2.8	2.5	11.8%
Revenue per ton	USD/ton	13.5	16.8	(19.4%)
EBITDA margin	USD/ton	8.3	7.3	14.2%
EBITDA margin	%	61.2%	43.2%	18.0pp
Export terminals		FY2016	FY2015	y-o-y
Revenue	USD million	57.3	55.3	3.7%
EBITDA	USD million	37.5	36.8	1.9%
Throughput volumes <sup>(1)</sup>	million tons	3.7	3.6	2.1%
Revenue per ton	USD/ton	15.4	15.1	1.6%
EBITDA margin	USD/ton	10.1	10.1	(0.2%)
EBITDA margin	%	65.4%	66.6%	(1.2pp)
Grain and infrastructure total EBITDA	USD million	107.1	114.5	(6.4%)

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

Source: Kernel.

### Export terminals

Our export terminals' throughput was up 11%, thus setting a record level of 5.3 million tons transhipped in FY2016, as we increased the share of grain exports through our own terminals after de-bottlenecking grain intake capacity in Ukraine and expanding the storage capacity at our Taman facility in the Russian Federation. In Ukraine, our revenues stood firm at USD 57.3 million, up 4% y-o-y and the segment's EBITDA was USD 10.1 per ton, remaining flat, in relative terms at a 65% margin versus 67% a year ago. As a result, the segment's EBITDA, which reflects Ukrainian operations, was USD 37.5 million, unchanged y-o-y. In the Russian Federation, where we operate through a joint venture and report contributions under the equity method of accounting, the terminal posted EBITDA of USD 5.9 million in FY 2016, versus USD 5.1 million a year ago.

### Silo services

The silo service segment's revenues declined 10% y-o-y to USD 38.2 million in FY 2016, as drier weather conditions resulted in a 10% y-o-y decrease in volumes of drying services provided. At the same time, the cumulative grain and oilseed intake at inland silos increased 13%

y-o-y and reached 2.8 million tons in FY 2016, as we improved the turnover of our storage facilities and streamlined the customer base.

The silo services' EBITDA increased 28% to USD 23.4 million in FY2016, as costs deflated, driven by lower natural gas prices and the devaluation of the national currency.

### FY2017 outlook

As Ukraine's total grain exports are forecasted to increase by 7% y-o-y in 2016/17, we also expect to maintain our market share, which should be in line with the overall trend in exports pattern and solid production in our farming division. Following the de-bottlenecking of our Chernomorsk (former Illichevsk) facility in Ukraine and the expansion of the Taman storage capacity, both facilities are well-positioned to accommodate the expected growth in grain exports from the region to drive throughput volumes up in FY2017.

# Grain and Infrastructure continued

## Non-financial performance

### Health and safety performance

During the year ended 30 June 2016, there was a minimum number of work-related injuries – 2 in our grain and infrastructure business, compared to eleven a year ago. As a part of a group-wide initiative to align our health and safety management practices with OHSAS 18001 standards, we trained our health and safety specialists under these standards two years ago and launched comprehensive hazard risk identification and mapping. For more details on our health and safety performance, please refer to page 41 of this report.

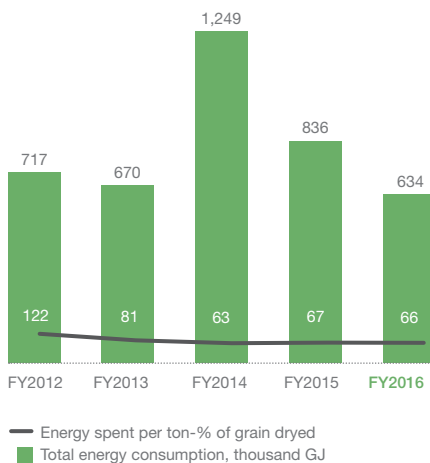
### Employee training and development

In addition to our regular activities to train and develop our personnel, we expanded our dedicated corporate MBA for the middle management of our grain and infrastructure segments. The two-year part-time program consists of a mix of case studies, lectures and team projects, taught and led by lecturers who also teach at certified MBA programs. See more details on page 39.

### Energy consumption and emissions intensity

Our energy consumption within the grain and infrastructure segments decreased by 24% y-o-y to 634,000 gigajoules in FY2016, mainly as a result of dryer weather conditions during autumn. Grain drying is the most energy-intensive part of this segment, and dryer weather led to lower demand from farmers for this service. At the same time, energy intensity remained similar to the previous year, with 66 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 67 mega joules a year ago. For full group disclosure of energy consumption, emissions and intensity ratios, see pages 35-46 of this report.

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



Source: Kernel.



# Farming



In FY2016, our farming division delivered another year of a record earnings owing to improved operating performance and depreciation of the cost base

## Revenue

\$358.1m

+15% y-o-y

## EBITDA

(before head office expenses)

\$146.0m

+49% y-o-y

### Our business model

Kernel grows grains and oilseeds on 390,000 hectares of leasehold farmland in the central and western regions of Ukraine, yielding approximately 1.8 million tons of agricultural produce. Our crop mix remains relatively consistent, with corn being the dominant crop at a 36% share, followed by wheat and sunflower seed sharing equally 21%, and soybean with 15%. Almost immediately after the harvest, we process crops through our supply chain by adding value and earning incremental profits along the way. Our grains are stored at the silos and transshipped through our export terminals to international markets, while sunflower seeds are crushed at our sunflower oil production facilities.

### FY2016 performance

In FY2016, we continued to benefit from changes in technology and a management system implemented several years ago. Our corn and sunflower yields steadily improve. While weather conditions were challenging in western Ukraine during the season, we managed to limit the decline in winter wheat and soybean yields. Also, we cultivated rapeseed with yield 65% higher than Ukraine's average – 4.3 tons per hectare. Our farming business' EBITDA posted a record level of USD 146.0 million, stemming from a combination of lower production costs and yield improvements.

In December 2015, the Ukrainian parliament approved changes to the tax code which reinstated VAT refunds on grain exports starting 1 January 2016, effectively increasing farm gate prices and reduced VAT benefits previously available to the farming segment. The change is beneficial for our farming segment, because its net effect is a reduction of the cost base. Prior to this change, the VAT paid on inputs was expensed as part of the production costs.

### FY2017 outlook and strategy

Looking forward, Kernel aims to strengthen its farming operations by further streamlining and digitalizing processes to increase productivity and yields, thus assuring the sustainability of our production and decreasing the human factor in the decision making process.

# Farming continued

## Our markets

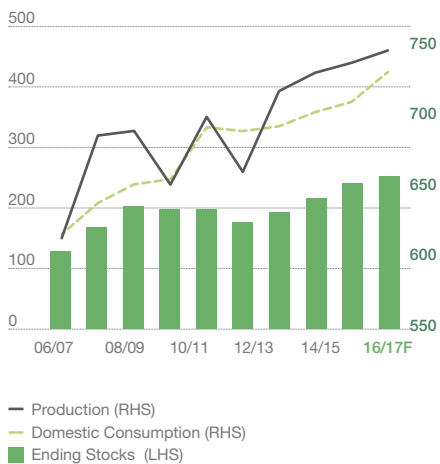
Being an export-oriented company, our selling prices mirror global trends. Worldwide grain production has been surpassing consumption for the third consecutive year, pushing down global prices for soft commodities.

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

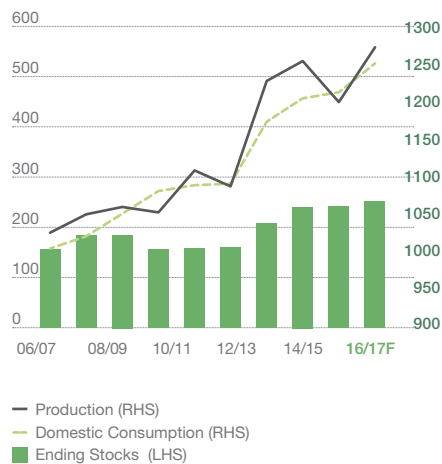
## Key market trends

- Continued prevalence of grain production over consumption is expected to keep international prices under pressure.
- Devaluation of currencies in emerging markets reduced the USD denominated cost base of crop production supporting profitability of farmers.
- Changes in tax legislation effective from 1 January 2016 had a net positive contribution to farming earnings.

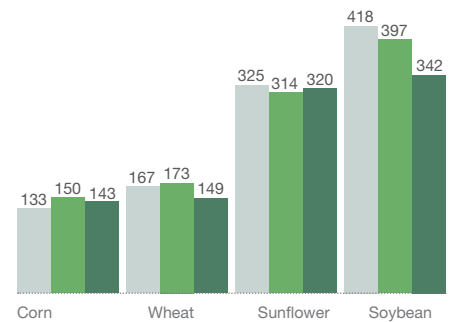
**Wheat production, utilization and stocks (million tons)**



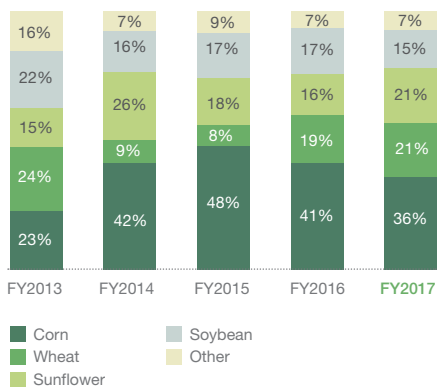
**Coarse grain production, utilization and stock (million tons)**



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



**Kernel's farmed acreage crop mix**



Source: Kernel.  
Note: Differences are possible due to rounding.

# Farming continued

## Our business model

### Large-scale farming

Our farming cultivates crops on 390,000 hectares of leasehold farmland in Ukraine's western and central regions which are rich with black soil and receive sufficient precipitation. As the third largest crop producer in Ukraine, Kernel grows approximately 1.5 million tons of grains and 0.3 million tons of oilseeds, with approximately 36% attributable to corn, 21% to sunflower, 21% to wheat, 15% to soybean, and the balance to other minor crops.

Our operations are structured within nine production clusters, with functions and decision-making sufficiently decentralized, thus ensuring production teams to make timely decisions. Moreover, Kernel utilizes a bottom-up budgeting and planning approach, with top-down control, meaning that our central office is responsible for strategic decision-making and key input procurement, while the regional clusters oversee operations.

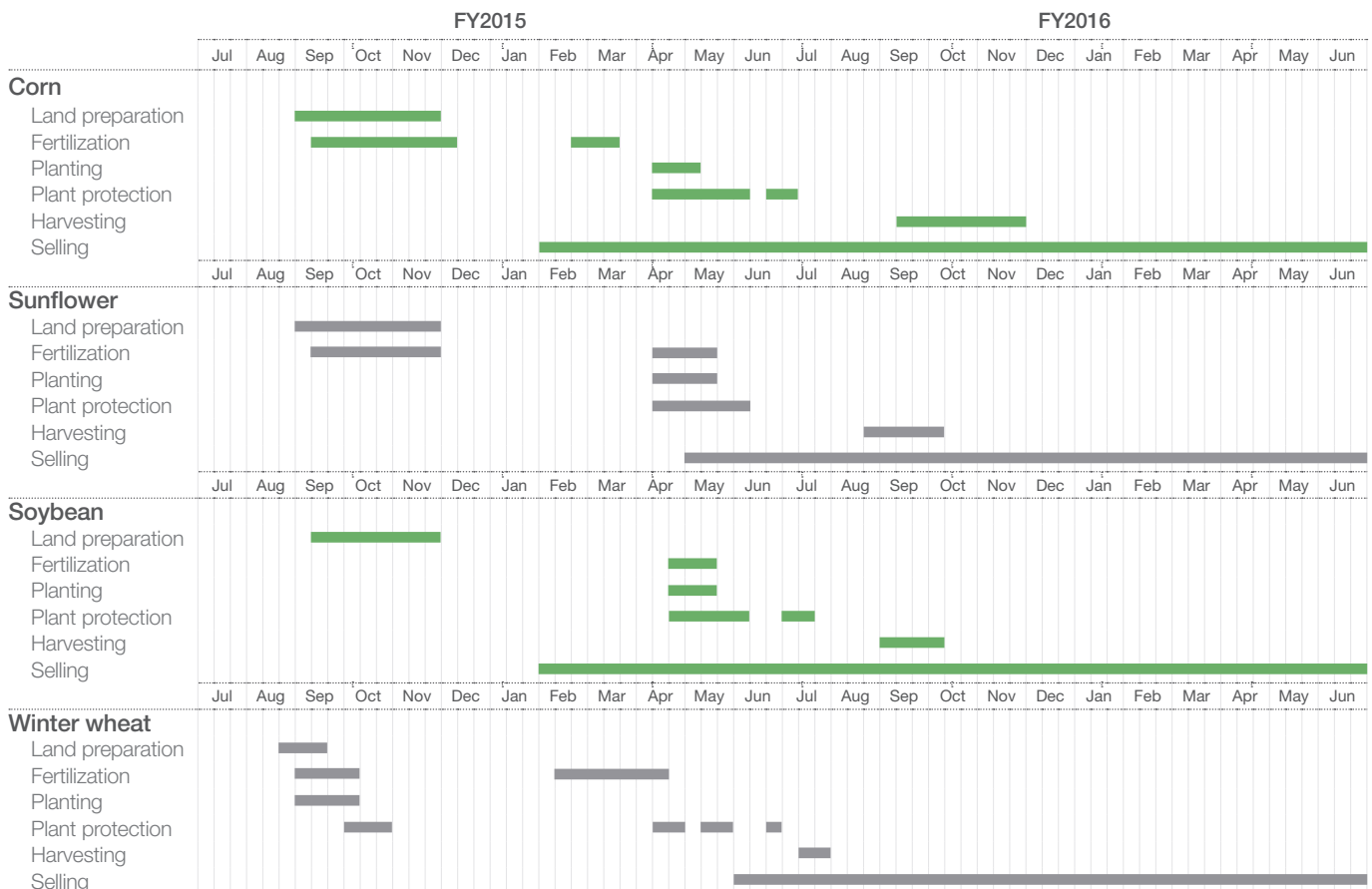
### Modern and sustainable production technology

Our production technology and approach is designed to ensure the long-term productivity of our soil. We use non-GMO seeds either supplied by top international suppliers or grown internally from high-quality parent seeds. Kernel continues to apply a balanced fertilization technique aimed at enriching its soil by utilizing both organic and mineral nourishments. Unlike many Ukrainian farmers, we apply most of our fertilizers in autumn, ahead of the spring planting campaign. Autumn application is beneficial for several reasons, the major ones include: a longer time for the nourishments to be absorbed by the land, the capability of applying fertilizers in liquid or fast-dissolving form, and the ability to finish the spring planting campaign within a shorter period of time.

Our crop rotation cycle is designed to mitigate the buildup of pathogens and pests while improving soil structure. Furthermore, Kernel has never compromised on environmental risks, thus dealing only with well-known international companies and applying only pesticides approved by the Ministry of Ecology and Natural Resources of Ukraine. We test all of pesticides at our modern laboratories as an additional measure of control.

We continue to develop our production technology. Just last year, Kernel introduced the application of fertilizer to a deeper soil level (ca. 25 cm under the ground), thus concentrating around the plants' root system ensuring faster absorption.

### Crop production cycle

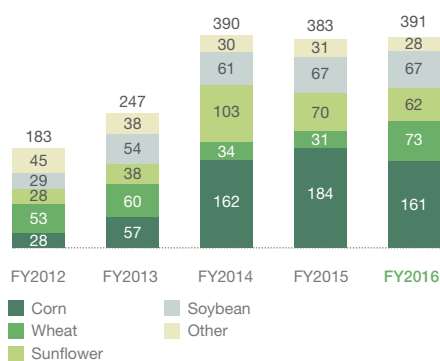


# Farming continued

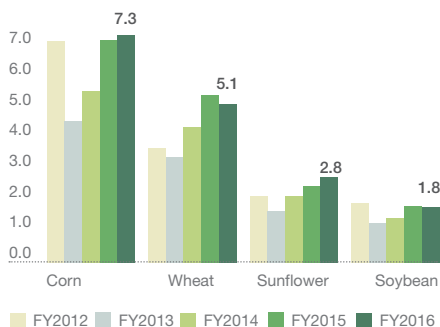
## Leasehold land operations

In accordance with Ukrainian legislation, agricultural land cannot be traded, and all farmers lease land from its current owners. Approximately 80% of the land is owned by private individuals in small land plots as a consequence of the land distribution process implemented in the 1990s after the collapse of the Soviet Union. Another 20% of agricultural land is owned by the state and state-owned enterprises. We lease this land through contracts with an average maturity of 10 years, with such contracts containing the right of first refusal to prolong leases or buyout of the land should the land market open up in the future. During FY2016, there was a debate around the benefits and possible prospects of lifting the moratorium on land trading, but as of the date of this report's publication the topic is still under discussion.

## Acreage harvested by crop, thousand hectares



## Crop yields (tons / ha)



## Financial performance

Our farming segment continues to set records with its revenues increasing by 15% y-o-y and amounting to USD 358.1 million in FY2016, reflecting intragroup sales to our export companies in 1H FY2016 and changes in legislation. Namely, in December 2015, the Ukrainian parliament approved a change to the tax code which reinstated VAT refunds on grain exports starting 1 January 2016 and reduced VAT benefits previously available to the farming segment. The change is beneficial for our farming segment because its net effect is a reduction of the cost base, as VAT paid on inputs was previously expensed as part of production costs. As a result, Kernel has accelerated the export sales of corn and wheat as the reinstatement of VAT refunds on grain exports significantly improves farm-gate prices.

The segment's EBITDA increased 49% y-o-y to USD 146.0 million in FY2016, because of the cost-driven growth in farming's profitability. Namely, production costs per hectare declined y-o-y, driven by lower land lease, labor and energy costs as well as strong crop yields.

The changes we implemented to our production technology following an overhaul of the management team in 2013 were major factors behind the growth in crop yields over the last three years:

- We continued our primary application of fertilizers in autumn, which allowed us to use liquid nourishments that have higher absorption rates that result in better vegetation periods;
- In 2016, we deepened the application of our fertilizers to around 25 cm, thus ensuring close proximity to the crops' root system and fostering overall development;

- Also, we applied approximately 20% of our fertilizer during our planting campaign, thus boosting plant cultivation during the most crucial period;
- We moved the significant portion of tillage and soil leveling to autumn, which led to the completion of our spring planting campaign within a shorter time frame;
- Higher quality plant protection products were procured;
- A significant portion of managerial responsibilities have been pushed down to regional levels, with decentralization improving the speed of decision-making within the internal controls and procedures frame.

Overall, the farming segment's profitability this year reflects better y-o-y earnings resulting from lower production costs amid consistently strong crop yields.

## FY2017 outlook

In a nutshell, the financial contribution of our farming segment in FY2017 is expected to be comparable to the previous year's levels, which reflects our committed approach to sustainable efficiency and increasing productivity.

The weather was favorable during the pollination periods for our major crops and the yields are expected to increase on average by double digit percentage, reflecting the changes in cultivation and tillage technology.

As of the date of this report's publication, we have successfully launched an ambitious project, #DigitalAgriBusiness, which, through big data analytics and machine learning, shall transform the traditional way of thinking about large-scale farming and its operations to streamline processes and result in prompt decision-making.

## Farming segment's performance

		FY2016	FY2015	y-o-y
Revenue	USD million	358.1	310.4	15.4%
EBITDA	USD million	146.0	97.9	49.0%
Net IAS 41 gain	USD million	20.1	(6.8)	n/m
Volumes sold	thousand tons	1,818.3	1,798.5	1.1%
Acreage harvested	thousand hectares	390.5	382.6	1.0%
Revenue	USD/hectare	916.9	811.3	13.0%
Adjusted EBITDA margin <sup>1</sup>	USD/hectare	322.2	273.7	17.7%
Adjusted EBITDA margin	%	35.1%	33.7%	1.4pp

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

Source: Kernel.



# Farming continued

## Non-financial performance

### Health and safety

Tragically, there was one fatal incident at our farming division. Overall, there were 10 work-related injuries at our farming division in the year under review, compared to 5 incidents a year ago. As a result of increased injury rates during the year, we enhanced our health and safety team, and trained specialists in accordance with the requirements of OHSAS 18001.

### Employee training and development

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

During the year ended 30 June 2016, with a total of almost two hundred hours of lectures and training, the group of our middle-management and specialists was taught by lecturers hired from certified MBA programs, and by the top management of our company.

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

### Energy consumption and emissions intensity

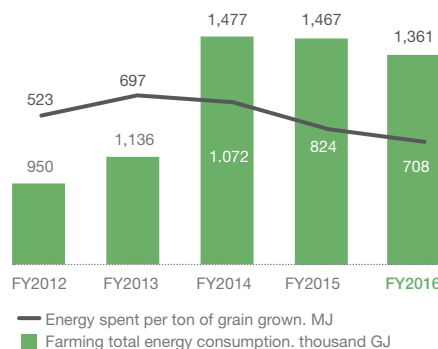
Growth in the productivity of our crop production has also resulted in a material decline in our energy consumption in FY2016. For the second consecutive year, drier weather during our harvesting campaign required us to spend less natural gas for drying crops, resulting in total energy consumption being decreased by 7% compared to the previous year. However, as our technology improvements resulted in sustainability of our total production tonnage at the level of 1.8 million tons of grains and oilseeds, average energy spent per ton of product decreased 14% y-o-y.

### Giving back to local communities

Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than two hundred of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct contact with local residents allows us to plan and execute our social activities in the most efficient way and receive direct feedback on the impact of our operations on communities. Our key areas of investments in communities in FY2016 were improvements in local schools and kindergartens, infrastructure and healthcare.

For comprehensive detail on our activities, please refer to page 41 of this report and the website of our charitable foundation, [razom.kernel.ua](http://razom.kernel.ua) (in Ukrainian).

### Farming segment's performance



Source: Kernel.

# Risks and Uncertainties

## Kernel's risk identification and mitigation system



As a part of our annual strategy management, Kernel identifies and manages key risks through the development of detailed mitigation plans. The process of key risk identification, prioritization and risk control measure development is facilitated by the working team, which is headed by the CFO, includes the heads of the financial controlling and internal audit departments, and also involves managers of the divisions and support functions.

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

## Kernel's TOP 10 risks

### Industry-related risks

- Sunflower seed harvest in Ukraine
- Grain harvest in Ukraine and southern Russia
- Agricultural commodities price volatility

### Legislative risks

- Changes in corporate legislation
- Adverse changes in taxation
- Sustainability concerns

### Operational risks

- Inventory safety
- Information technology adequacy
- Fraud and fraudulent activity
- Land lease prolongation and the land bank size

# Risks and Uncertainties continued

## Industry-Related Risks

### Harvest size

#### Sunflower seed harvest in Ukraine

##### Possible impact

Utilization of oilseed crushing plants depends on the availability of sunflower seed production in the domestic market. Low availability may have a negative impact on both capacity utilization and crushing margins, adversely affecting the Company's earnings and financial standing.

##### Management approach

Our primary strategy is to have a diversified asset base across the sunflower seed growing region: our crushing plants are located from the south to the northeast of Ukraine. Additionally, we create and monitor sunflower seed profitability and balances by regions, including analysis on the basis of satellite pictures.

#### Grain harvest in Ukraine and southern Russia

##### Possible impact

Approximately 75% of our grain exports and export terminal throughput and 50% of our silo service intake volumes are originated from third-party farmers. A lower harvest may result in lower revenues and profit from the entire value chain of both owned and purchased grain sales.

##### Management approach

Over the last several years, we have significantly diversified our origination base. Our farming production now contributes to 25% of our total grain export and export terminal throughput volumes. We introduced a harvest report based on data from our silo network, thus monitoring overall regional grain production.

## Agricultural commodities price volatility

#### Sunflower oil price volatility

##### Possible impact

Significant movements in sunflower oil prices within a short period of time during certain periods of the year could adversely affect the Company's earnings.

##### Management approach

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

#### Corn price volatility

##### Possible impact

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

##### Management approach

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

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

##### Possible impact

Although our sunflower oil, grain export and infrastructure businesses have limited exposure to soft commodity price levels, our farming segment (21% of total assets) is directly exposed to soft commodity prices. Therefore, low crop prices, corn in particular, have an adverse effect on our earnings, but primarily through the farming segment. Moreover, a prolonged period of low global soft commodity prices, if it occurs, could cause a structural shift in crop production in Ukraine, which would decrease the country's overall harvest size.

##### Management approach

Our approach is based on utilization of hedging instruments. For instance, we sell a portion of our own farming division's harvest in advance, employing CME corn and soybean futures and options, and forward contracts for a Black Sea origin premium to hedge for a longer horizon. Shorter terms are hedged with physical forward contracts for delivery within six months.

# Risks and Uncertainties continued

## Legislative risks

### Changes in corporate legislation

#### Possible impact

Recently in the world, including EU and Switzerland, there has been a tendency for the revision of off-shore legislation which could adversely affect the Group's legal structure and/or lead to an increase in administrative expenses for the trading companies.

#### Management approach

We recognize the importance of global changes in legislation; therefore, we maintain continuous dialogue with a team of external lawyers to anticipate and prepare for changes in existing legislation.

### Adverse changes in taxation

#### Possible impact

Volatile tax legislation in Ukraine and uncertainty around the timing of taxation changes.

#### Management approach

We continue to develop and advance our strict procedures for acquiring raw material in order to ensure the highest quality of tax-required documents. Also, any expected changes in taxation are immediately accounted for in pricing by our grain and oilseed procurement teams. In addition, over the past several years, the Ukrainian government has maintained a constructive dialogue with the leading exporters of grain crops, which has resulted in better predictability of government policies.

### Sustainability concerns

#### Possible impact

Being a socially responsible company, Kernel recognizes the threat of unsustainable development. Failure to comply with health, safety and environment (HSE) state regulations might result in stoppage of oilseed crushing plants, silos and other agribusiness related operations, which shall have an adverse effect on the Company's earnings.

#### Management approach

We continue to implement the ISO/OHSAS certification of our key assets to comply with the standards for health and ecology. Additionally, Kernel aims to centralize the safety measurement systems and its environmental policies at regional levels, with the coordination and control managed by the central office.

## Operational Risks

### Inventory safety

#### Possible impact

Insufficient quality control over the existence and custody of grains and oilseeds during the purchasing campaign and storage at silos.

Additionally, the safety of the Company's inventories stored at third-party silos is subject to fraudulent activity and bankruptcy of the silo owner, which, if material, could result in a write-off of current assets of the Company.

#### Management approach

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

Each of our counterparties undergo rigorous due diligence and screening prior to grain and oilseed purchasing and storage at those silos. As an additional measure, we follow a prudent insurance policy for our goods and periodical inventory counts are performed to mitigate the risks.

### Information technology adequacy

#### Possible impact

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

#### Management approach

A recent change to the organizational charter has resulted in CIO onboarding and the initiation of several work-flow optimization projects, collectively aimed at increasing the automation of our business processes. Also, we have expanded the coverage of our enterprise resource planning, launched the #DigitalAgriBusiness project and, among other projects, commenced a digital document flow initiative.



# Risks and Uncertainties continued

## Operational Risks

### Fraud and fraudulent activities

#### Possible impact

The Company's operations are subject to both internal and external fraud risks, ranging from simple theft and inventory management to fraudulent procurement practices and conflicts of interest. Failure by one of the Company's significant counterparties to honor their contracts might negatively affect the Company's financial position and its performance.

#### Management approach

The Company actively manages fraud risk through continuous improvements of its business processes, periodic assessments conducted by internal auditors, and through the dissemination of Kernel's values among its employees. Also, we follow a conservative counterparty risk policy in both domestic and global markets. When buying grain and sunflower seeds from farmers, we rarely provide any pre-payments unless we have an established line of credit with ensured delivery at a fixed future date. When selling our goods to international markets, we execute delivery either against letters of credit or limit counterparty risk by selling only to established global players.

### Land lease prolongation and relations with local communities

#### Possible impact

The Company's farming division leases the land it farms from numerous individual owners across Ukraine for an average term of approximately seven years. There is a significant dependence on the land bank size from Kernel's reputation in the regions. Also, there is a trend of growing competition for the land plots from the local farmers. If the land trading moratorium is lifted, there is a risk of additional land legislation amendments and sales of small plots which form the Company's land bank. The combination of those items might result in a decrease in acreage farmed.

#### Management approach

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

Other risks identified by the Company's management include:

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

# Sustainability



Social spending

\$1.7m

-13% y-o-y

Energy consumption

5,132 terajoules

-15% y-o-y

We are committed to be a responsible partner to local communities where we operate; as a farmer, we aim to improve the fertility of our land; as a value chain manager, we seek to assure the highest quality of our products across the supply network.

## Our approach

We base the long-term sustainability of our business on several pillars. We aim to produce our harvests in an efficient and effective way, with the lowest energy consumption and in strict compliance with regulatory, product safety and quality standards. Additionally, we strive to grow our crops to maximize the long productivity of our soils and guarantee the efficient use of resources. We put our people as the very core asset of our business. Therefore, we develop our employees through a variety of means, and ensure that their health and safety is always a top priority. Finally, we support the communities, where we have a presence, by investing in social development projects with a particular focus on rural regions.

## FY2016 performance

We continued to reduce our carbon footprint. In FY2016, it declined to 207 thousand tons in CO2 equivalent, down 17% y-o-y, as we divested our crushing facilities in Russia and advanced our biomass energy production which stood at saving 72 million cubic meters of natural gas. In our farming division, we advanced the monitoring and control of fuel usage, boosted efficiency twofold at one of our farms by exchanging all of its machinery with fewer units of John Deere equipment which were specifically made for our purposes.

During the financial year ended 30 June 2016, we have further advanced our communication with the rural regions by extending the number of dedicated relationship managers and listening directly to the communities' representatives, thus structuring our social activities in the most manageable way. As a result, we increased our social spending to UAH 39,6 million, up 29% from the previous year, but down 13% in US dollars due to the depreciation of local currency.

## FY2017 outlook

Our pipeline of projects includes the following: further optimization of resource utilization at our farming division, with the gradual implementation of #DigitalAgriBusiness, launching a project to upgrade all of our biomass boilers, continuing the feasibility study for biomass electricity generation and promoting the development of the rural regions by advancing infrastructure, medical care, education and living standards in communities where we operate.

Sustainability section is prepared in accordance with GRI G4 'Core' framework. For GRI content index, see page 48.

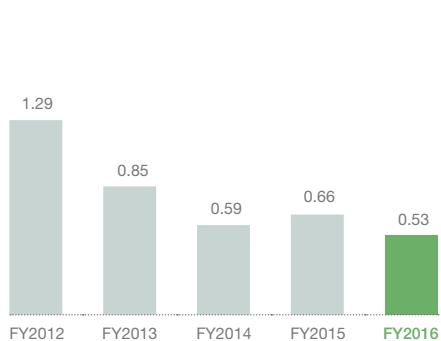
# Sustainability continued

## Key non-financial KPIs

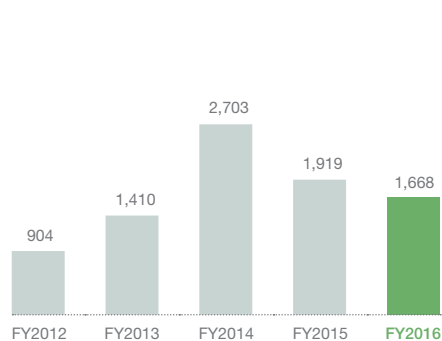
		FY2016	FY2015	FY2014	FY2013	FY2012
Total number of employees		<b>14,075</b>	15,229	16,518	17,603	17,743
sunflower oil		<b>17%</b>	18%	17%	17%	17%
grain and infrastructure		<b>23%</b>	20%	20%	18%	18%
farming		<b>55%</b>	58%	59%	59%	54%
headoffice and other		<b>5%</b>	4%	4%	6%	11%
Total injury accidents		<b>16</b>	19	18	25	33
incl. fatalities		<b>1</b>	1	2	-	4
Injury frequency rate	accidents/million worked hours	<b>0.53</b>	0.66	0.59	0.85	1.29
Total training expenditures	thousand USD	<b>194</b>	241	254	244	172
Total social spending	thousand USD	<b>1,668</b>	1,915	2,703	1,410	904
Direct (Scope 1) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	<b>361</b>	248	284	274	323
Total energy consumption	thousand gigajoules	<b>5,132</b>	6,026	6,321	6,279	7,248
incl. renewable	thousand gigajoules	<b>2,561</b>	2,849	2,549	2,462	2,553
Renewable energy produced and sold	thousand gigajoules	<b>46</b>	45	42	46	55
Energy spent per ton of sunflower seed crushed	megajoules	<b>1,408</b>	1,463	1,525	1,536	1,594
Energy spent per ton-% of grain dried	megajoules	<b>66</b>	67	63	81	122
Energy spent per ton of grain grown	megajoules	<b>708</b>	824	1,072	1,136	950
Sunflower oil produced at ISO 22000 certified plants	%	<b>100%</b>	96%	94%	92%	92%

Source: Kernel.

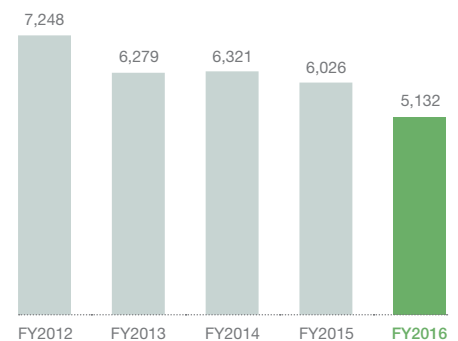
### Injury frequency rate (accidents per million worked hours)



### Total social spending (USD thousand)



### Energy consumption (thousand gigajoules)



Source: Kernel.

## Our approach to materiality and report content

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

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

a managerial assessment of the aspects' importance for the sustainable development of the Company. Following the materiality exercise, the list of aspects to be disclosed was approved by the executive management. See an index of GRI content on page 48.

# Sustainability continued

## Key stakeholder groups and engagement channels

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

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

## Mapping material issues to external stakeholder groups

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

Our environmental mission is two-pronged: avoid adverse material harm and improve energy efficiency.

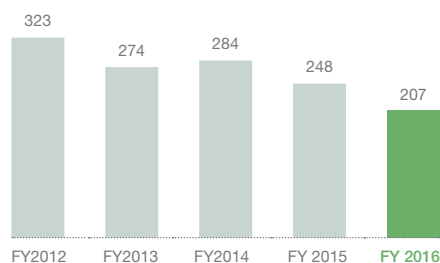


# Sustainability continued

## Environment

Our environmental mission is two-pronged: avoid adverse material harm and improve energy efficiency.

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



### Energy consumption within the organization

Our farming business consumes the most fossil-fuel energy within our business model as tractors, harvesters and other machinery use diesel. Silo services are a close second as natural gas is used to dry freshly harvested grain and oilseed crops. Finally, our trucking division and oilseed crushing facilities complete the list.

To improve energy efficiency in our farming division, we focus on two main areas. First, as larger tractors are more fuel-efficient than smaller tractors, we are gradually increasing the size of our machinery as we replace obsolete tractors. Given the scale of our farming operations, with each cluster 100 times larger than the average US farm, we use only large-scale machinery. All of our motor vehicles are manufactured by top global brands, and we routinely replace machinery after seven years. Under our current replacement program, new equipment is typically 20-30% more powerful than the replaced units and is the first- or second-largest available from the supplier.

Second, we improve efficiency in consumption as we implement various operational changes. Although our fuel consumption per hectare rose when we increased the share of corn in our crop mix and implemented deeper tillage practices to boost corn crop yields, thus increasing our production tonnage, the amount of fuel per ton of output decreased. Over the last several years, we have also implemented numerous control points to ensure that fuel is not wasted or stolen. We installed GPS trackers and launched several control centers to monitor vehicle movements. We also equipped these vehicles with fuel sensors to eliminate diesel theft, which has historically accounted for 10-20% of fuel use.

Last year we benchmarked fuel consumption to international practices and learned that our diesel consumption per hectare was within the similar range. As a next step, in the FY2016 harvesting campaign, we began to implement autopilot modes on machinery to improve fuel consumption. Moreover, we replaced all of our machinery at a 25,000-hectare farm with John Deere equipment, achieving a twofold boost in efficiency and managed to notably minimize our carbon footprint.

Energy efficiency initiatives in other business divisions include the following. In the silo business, to meet quality standards of grain during intake at silo storage facilities, over the years we have been gradually upgrading our drying equipment with more energy-efficient models. Moreover, we have been redirecting commodity flows to silos with more efficient equipment, and over the next year we aim to test and develop grain driers fueled by sunflower seed husk, a waste by-product of sunflower oil production.

All but one of our crushing facilities use sunflower seed husk instead of natural gas to produce the steam needed for the crushing process (see the corresponding box for more details). Moreover, next year we plan to implement the first stage of a three-year project to replace the existing biomass boiler and ancillary facilities at all of our crushing plants. Once completed, the new boilers will increase fuel efficiency and subsequently decrease emissions generated during sunflower seed husk burning. The average steam and electricity consumption of our major plants is in line with the low end of the international range, according to an energy audit conducted two years ago.

As most of our carbon emissions are related to energy consumption, we manage our emissions by focusing on the optimization of our use of energy resources. At the same time, we strictly control other emissions that are naturally generated at our sunflower oil production plants, fully complying with local legislation and the specific limits set for our production plants by local regulatory authorities. For the disclosure of our emissions by type and asset group, please refer to pages 44-45 of this report.

### Producing green energy from waste

After divesting two of our Russian oilseed crushing plants, six of our existing seven facilities (94% of total capacity) use sunflower seed husks, a waste by-product of the crushing process, as their fuel source to produce the steam required for processing.

Approximately 44% of sunflower seed husk produced is burned to generate steam, a process that saved us 72 million cubic meters of natural gas in FY2016. At one plant we also co-generate and sell green electricity to the national grid.

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

### Sustainable farming

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

Additionally, we apply an integrated pest management system to ensure the thresholds are set for any pest application and that cultural methods are applied prior to the use of pesticides. Since any use of pesticides is subject to strict regulations, we test and monitor the quality of products in our laboratory prior to wide application. We do not use substances prohibited by the Stockholm Convention on Persistent Organic Pollutants and/or substances listed in Annex 3 of the Rotterdam Convention. 99% of our acreage is non-irrigated: we use irrigation only to grow seeds for internal needs.

# Sustainability continued

## Waste management

Our waste management approach is based on the general principles of waste hierarchy. Sunflower seed husk is by volume our main waste generated by our oilseed crushing business. Out of 364 thousand tons of sunflower seed husk produced in FY2016, 44% was burned at onsite boilers to produce the steam needed for our production process, and another 53% was pelletized and sold to third-party co-generation plants.

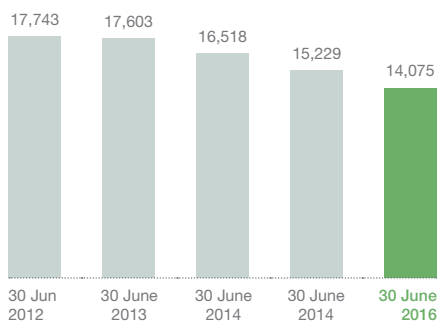
Straw is the key waste generated by our farming division. We leave straw on our fields to act as an organic fertilizer and help mitigate soil erosion. At our silo division, approximately 50% of waste generated is reused as cattle feed and the remainder is disposed in landfills.

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

## Biodiversity

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

## Full-time employees (USD thousand)



## Human capital

### Competitive remuneration

We put people at the core of Kernel and its strategy, as well as Kernel's key competitive advantage. As a result, we strive to unveil the potential of our employees and streamline it toward achieving a sustainable growth. Therefore, we have developed plentiful retention strategies, particularly competitive compensation. As a result, we have increased the level of social benefits for our employees, as of this year.

Kernel's remuneration policy is based on providing competitive compensation that matches or exceeds the levels observed in our industry. Moreover, we strictly comply with labor legislation and pay all salary-related taxes and social contributions.

### Investing in training and development

We encourage our employees to take responsibility for their own education and development, continuously building new skills and sharing knowledge, supported by our Kernel HUB platform which helps in structuring our training activities in different directions. A significant portion of our training activities covers various groups of personnel and is aimed at developing their professional qualifications. Our training is supplied by both internal and external providers. As of this year, we are launching a coaching program 'Internal Trainer', where we shall encourage employees to share their valuable expertise with the rest of the company, thus fostering the sustainable development of our staff.

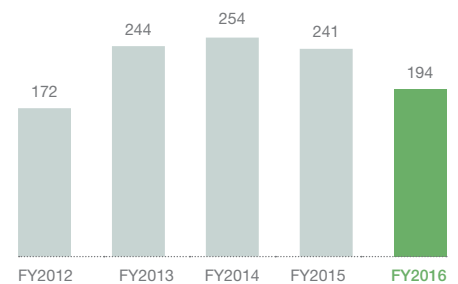
Moreover, we continue to develop our Smart Farm training center, a fully equipped modern training facility, where we provide a module-based well-rounded education to our agronomists, machinery engineers and accounting specialists from our farming division.

We invite both Ukrainian and European specialists, with the specific objectives of delivering practical knowledge related to modern farming practices. Similar programs have been extended to our sunflower and infrastructure divisions as well.

As of this year, we took our successful Agro MBA initiative one step further, by introducing an MBA Expert program to our cluster managers, thus disseminating the accumulation of professional knowledge and competencies.

Special attention is paid toward the training and development of our managerial staff, which consists of thousands of managers at different levels. Several years ago, we launched a Corporate MBA program, aimed at enrichment of general managerial skills and competencies. The module-based system is taught by lecturers, who also teach at certified MBA programs: it includes case studies delivered by top management, and term-based assignments, with a final graduation project.

## Training expenditures (USD thousand)



During the year ended 30 June 2016, we further promoted the idea of creating an internal talent pool to encourage both personal and professional development of a designated number of employees who have taken initiative and shown themselves as suitable and competent specialists. Through the process of rigorous screening, we have selected approximately 80 employees who will be coached in programs customized for their chosen positions.

Over 7,000 employees spend approximately 150,000 hours of training in FY2016 to advance not only their professional skills but also develop their personal competencies.

# Sustainability continued

## Individual development system and career planning

For the second consecutive year, we continue to advance our unified approach to planning individual development. While the program is still in an early stage of implementation, we almost doubled the number of covered employees, branching out to our oilseed production facilities. The primary objective of this program is to improve career planning and provide a clearer visibility of the ambitious talent pool, their training needs and prospects.

In FY2016, we successfully integrated the automation of individual development planning data within Kernel's enterprise resource management software. Moreover, we have advanced the coverage of our mentorship program, through which newcomers are assigned to a mentor and their relationships are structured, formalized and overseen by a program manager. Each mentor receives an appropriate training in coaching skills that advances their ability to provide constructive feedback. In addition, within the performance management system, we introduced a benchmark and ranking, thus fostering both professional and soft skills development. Top ranked employees are included within the talent pool for each of whom an individual professional growth plan is developed.

## Working with universities

Understanding the significance of business needs and the isolation of higher education delivered by Ukrainian universities, Kernel is actively involved in improving the quality of education. For the second consecutive year, we are cooperating with Sumy Agrarian University, advancing the quality of and the structure of educational content. As a part of this project, we have coached the faculty staff in modern approaches to crop cultivation and proposed certain changes to the curriculum. Moreover, we have selected a group of students to receive additional training, summer internships and, after successful completion of their studies, employment at Kernel. Approximately twenty people have successfully completed their studies and are now working as young specialists. Once employed, the recent graduates undergo intensive on-job training and mentoring, thus having a tailor-made career plan.

In FY2016, following the second successful year at Sumy Agrarian University, we launched a similar project at Kamenets-Podilsky University in western Ukraine.

## Our values and principles

Our core values and principles are the following:

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

## Injuries and fatalities by business division

	FY2016	FY2015	FY2014	FY2013	FY2012
<b>Fatalities</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>–</b>	<b>4</b>
Sunflower oil	–	–	1	–	2
Grain and infrastructure	–	1	1	–	1
Farming	1	–	–	–	1
<b>Non-fatal injuries</b>	<b>15</b>	<b>18</b>	<b>16</b>	<b>25</b>	<b>29</b>
Sunflower oil	2	2	3	6	8
Grain and infrastructure	3	11	7	4	4
Farming	10	5	6	15	17
<b>Total accidents</b>	<b>16</b>	<b>19</b>	<b>18</b>	<b>25</b>	<b>33</b>

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

## Labor practices

We continue our commitment to providing safe working conditions in compliance with labor legislation. Our commitments, among other things, include: compliance with minimum wage requirements; respect for working hours, vacations and sick leave (in FY2016, we introduced an additional vacation for special 'family' holidays in case of marriage or paternity leave for the birth of a child); full payment of taxes and social contributions related to salaries; and retaining positions for employees on maternity/paternity leave.

# Sustainability continued

## Human rights

Kernel is committed to developing a group-wide culture that implements a policy of support for internationally recognized human rights, seeks to avoid human rights abuses within our sphere of influence and makes sure we are not complicit in human rights abuses. Supporting the guidelines set by the United Nations Global Compact, we are against all forms of child labor and any forced or compulsory labor. We respect our employees' privacy, and since FY2016 we formalized the conflict of interest policy.

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

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

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

## Health and safety

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

Most of our production units employ dedicated health and safety specialists, all of whom are supervised by a group-level health and safety committee. All of our specialists underwent training to improve their knowledge and skills under OHSAS 18001. With a medium-term

goal of making the health and safety systems at most of our production units fully compliant with OHSAS 18001, we have also launched a process of hazard risk identification and ranking, which should serve as a backbone for building a proper preventive system. We also strengthened our health & safety team last year.

Most regrettably, during the year ended 30 June 2016, there was one fatality. Taking precautions, we have reduced the number of non-fatal injuries at our enterprise from 18, last year, to 15 this year.

## Social responsibility

### Giving back to local communities

Local communities are one of the key stakeholders playing an integral role for Kernel's operations. Therefore, we aim at building and developing long-term partnership with local groups. With the majority of our operations and two-thirds of our employees working in rural regions, we aspire to act with integrity and take a great responsibility in advancing those regions.

Our social activities are structured through social partnership agreements, with more than 70% of villages our operations cover already having signed agreements with us. Moreover, to act effectively and with integrity, we have established more than two hundred dedicated employees as relationship managers who advocate for the communities, thus ensuring sustainable communication channels with local councils, key opinion leaders and residents. Our approach entails structuring our activities based on what is of foremost importance for the community and receiving direct face-to-face feedback on the impact of our operations.

During the year ended 30 June 2016, our direct spending to support local communities amounted to USD 1.7 million (UAH 39.6 million, up 29% from the previous year). The most significant spending was attributed to local schools and kindergartens along with critical investments in local infrastructure and healthcare. We also conducted numerous activities to engage rural citizens through the facilitation of local sports tournaments, children's art competitions and site visits to our production facilities and farm operations for older schoolchildren. Moreover, all of our charitable activities were limited to the regions of our operations.

Each year we make a significant effort to maintain a continuous dialogue with our communities. We publish a corporate newspaper with a total monthly circulation of more than 50,000 copies where we provide updates on our social responsibility and business activities, and provide legal and other advice on important questions in rural regions. Moreover, we operate a telephone hotline (0 800 50 10 59) for local communities and receive mailed feedback that often helps us improve the efficiency of our social investments, thus fostering our understanding of community needs.

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

### Economic impact

Our total infrastructure spending amounted to USD 749 thousand in FY2016, excluding spending related to our business needs. Additionally, Kernel is one of the largest taxpayers to local government budgets in rural regions as we are committed to full compliance with tax payments. In FY2016, we paid USD 32 million in taxes versus USD 44 million in the previous year.

Nowadays, urbanization is going forward in Ukraine, thus leaving villages and local communities unattended and in degradation. Having two-thirds of our businesses in rural regions allows Kernel to support local communities through job creation and the dissemination of best farming practices, thus enhancing the knowledge and skills of our employees living there.

Moreover, we have an incentivizing retention policy for our employees in rural regions, motivating them not only through material compensation, but also through showing them that joining us in our modern crop production can lead to a promising career. At the same time, we do admit Kernel's efficiency improvements result in a gradual reduction of the full-time headcount of our farming operations.

# Sustainability continued

## Anti-fraud and anti-corruption

During the year ended 30 June 2016, we finalized the development of our group-wide anti-corruption and anti-fraud policy to assist employees in navigating through the challenges with respect to gifts, events, facilitation payments, public authorities and business partners. Those guidelines have been set to help our employees act ethically, and we strongly advise our employees to seek assistance when in doubt.

Therefore, Kernel continuously pursues a policy against the slightest hints of fraudulent activities and corruption in both legal obligations and ethical commitments. As an essential part of our core values, we aspire to eliminate all forms of dishonesty, corruption and fraud across our operations. Our Code of Conduct, in combination with group-wide procedures, is committed to advise our employees on our principles of doing business and maintaining corporate integrity.

Throughout the year, we continued to implement anti-corruption and anti-fraud efforts within our farming division. With the post-soviet legacy system being part of the mentality for many people in our regions of operations, our efforts have been designed to change behavior by showing strict non-tolerance to incidents of fraud and corruption. For instance, during the year ended 30 June 2016, we fired 74 people for fraudulent activity and corruption. Meanwhile, throughout all of our operations we strive to assess risks related to fraud and corruption. Key identified risks include general procurement, inventory theft, conflicts of interest, raw material procurement from unreliable suppliers, fuel consumption expensing, and excessive delegation of power.

## Product responsibility

Being the world's largest sunflower oil producer, with an 8% international market share in 2016, we endeavor to guarantee our produce meets the highest quality benchmarks. Therefore, in light of our divesting two Russian plants in February 2016, the food safety administration frameworks at all of our sunflower oil crushing facilities in Ukraine are certified under the ISO 22000 standard, which coordinates the standards of the Hazard Analysis and Critical Control Point (HACCP) system and application of methods created by the Codex Alimentarius Commission. Our food management system is preventive and aimed at addressing the risks of potential organic, compound, and physical hazards. It also guarantees the traceability of items in our value chain.

Those of our plants that produce bottled sunflower oil are additionally certified under the FSSC 22000 standard and the greater part of our production plants are certified under ISO 9001. We also guarantee control over food safety along the protein meal production and distribution value chain: production facilities are certified under GMP+B1, our truck organization is certified under GMP+B4, and transshipment and cargo chartering is certified under GMP+B3. Moreover, we continue to license our labs under the ISO 17025 standard, which permits us to expand the scope of analysis conducted at our own facilities.

In our farming division, corn cultivation is certified under the RBSA standard, which indicates prerequisites set for biofuel supply chain sustainability under the Renewable Energy Directive. Additionally Kernel is certified under the ISCC EU framework for soybean, rapeseed and wheat. During the last financial year, Kernel successfully certified its corn and grain supply chain under the standards required by China.

Periodically, our food safety framework is audited by an authorized third party, and is continually monitored by our in-house internal food safety team. The scope of our product safety evaluations incorporates all manufacturing and production, storage, distribution and supply processes.

## Product labeling and packaging

Just roughly 1% of our produce is packaged and labeled (measured by tonnage), while the greater part of our produce is sold in bulk. For packaged items, we strictly follow the national regulations for which the product is destined. Typically, labeling is subject to three-phase control and requires an authorized lab or third-party issued verification for any information exhibited on the packaging.

All of our crushing  
facilities are ISO  
22000 certified



# Sustainability continued

## 1. Human capital indicators

	FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total number of employees</b>	<b>14,075</b>	<b>15,229</b>	<b>16,518</b>	<b>17,603</b>	<b>17,743</b>	<b>G4-10</b>
by geography						
Ukraine	100%	96%	97%	95%	95%	G4-10
Russia & other	0%	4%	3%	5%	5%	G4-10
by gender						
men	71%	73%	68%	70%	69%	G4-10
women	29%	27%	32%	30%	31%	G4-10
by age						
<30 years old	20%	20%	21%	18%	19%	G4-10
30-50 years old	56%	55%	55%	56%	56%	G4-10
>50 years old	25%	24%	24%	25%	25%	G4-10
by level						
managers	7%	8%	7%	8%	8%	G4-10
specialists	22%	20%	19%	19%	19%	G4-10
workers	70%	72%	74%	73%	74%	G4-10
by business division						
sunflower oil	17%	18%	17%	17%	17%	G4-10
grain and infrastructure	23%	20%	20%	18%	18%	G4-10
farming	55%	57%	59%	59%	54%	G4-10
headoffice and other	4%	4%	4%	6%	11%	G4-10
Percentage of women in executive management	40%	29%	29%	29%	29%	
Percentage of women on the board of directors	25%	25%	25%	25%	25%	

Note: Differences are possible due to rounding.

Headcount data include full-time employees as at 30 June of the respective period.

## 2. Health and safety indicators

	FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total fatalities</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>4</b>	<b>G4-LA6</b>
sunflower oil	-	-	1	-	2	G4-LA6
grain and infrastructure	-	1	1	-	1	G4-LA6
farming	1	-	-	-	1	G4-LA6
<b>Total non-fatal injuries</b>	<b>15</b>	<b>18</b>	<b>16</b>	<b>25</b>	<b>29</b>	<b>G4-LA6</b>
sunflower oil	2	2	3	6	8	G4-LA6
grain and infrastructure	3	11	7	4	4	G4-LA6
farming	10	5	6	15	17	G4-LA6
<b>Total accidents</b>	<b>16</b>	<b>19</b>	<b>18</b>	<b>25</b>	<b>33</b>	<b>G4-LA6</b>
Ukraine	16	18	16	24	27	G4-LA6
Russia	-	1	2	1	6	G4-LA6
Injury frequency rate, accidents/million worked hours	0.53	0.66	0.59	0.85	1.29	G4-LA6

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

# Sustainability continued

## 3. Talent development

		FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
Training expenditures	USD thousand	194	241	254	244	172	
Training hours	hours	150,612	135,426	88,382	n/a	n/a	G4-LA9
% of workforce taking part in standardized performance appraisals		1%	1%	n/a	n/a	n/a	G4-LA11

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

## 4. Community

		FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
Total social spending	USD thousand	1,668	1,915	2,703	1,410	904	
incl. social infrastructure	USD thousand	749	1,025	n/a	n/a	n/a	G4-EC7
Operations with implemented local community engagements	% of total	63.0%	64.0%	n/a	n/a	n/a	G4-SO1

Social spending includes only direct expenses by the Company.

## 5. Greenhouse gas emissions

		FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Direct (Scope 1) GHG emissions</b>	<b>thousand tons of CO<sub>2</sub> equivalent</b>	<b>208</b>	<b>248</b>	<b>284</b>	<b>274</b>	<b>323</b>	<b>G4-EN15</b>
sunflower oil	thousand tons of CO <sub>2</sub> equivalent	7	19	30	33	47	G4-EN15
grain and infrastructure	thousand tons of CO <sub>2</sub> equivalent	31	46	70	39	42	G4-EN15
farming	thousand tons of CO <sub>2</sub> equivalent	168	181	182	114	99	G4-EN15
other	thousand tons of CO <sub>2</sub> equivalent	2	2	2	88	135	G4-EN15
Biogenic GHG emissions	thousand tons of CO <sub>2</sub> equivalent	253	282	252	244	253	G4-EN15
Gross indirect (Scope 2) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	163	183	182	174	176	G4-EN15
<b>GHG emissions intensity ratio</b>							
per ton of sunflower seed crushed	tons CO <sub>2</sub> equivalent	0.003	0.008	0.013	0.014	0.019	G4-EN15
per ton of grain grown	tons CO <sub>2</sub> equivalent	0.087	0.094	0.132	0.187	0.179	G4-EN15

Scope 1 emissions are calculated based on volumes of fossil fuel used across the company and those generated by livestock. Emissions are calculated based on volumes of energy used and conversion factors sourced from DEFRA. The calculation excludes GHG emissions from the application of fertilizers and pesticides by our farming division and the effect of carbon capture during the development of crops. Currently, we are examining available calculation methodologies. Emissions from livestock farming are calculated based on the average headcount of cattle for the reporting period and established regional normative levels for emissions per head.

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

# Sustainability continued

## 6. Energy consumption

		FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Total energy consumption</b>	<b>thousand gigajoules</b>	<b>5,130</b>	<b>6,026</b>	<b>6,321</b>	<b>6,279</b>	<b>7,248</b>	<b>G4-EN3</b>
by division							
sunflower oil	thousand gigajoules	3,109	3,690	3,550	3,512	3,887	G4-EN3
grain and infrastructure	thousand gigajoules	634	836	1,249	670	717	G4-EN3
farming	thousand gigajoules	1,361	1,467	1,477	697	523	G4-EN3
other	thousand gigajoules	25	33	45	1,400	2,121	G4-EN3
by source							
natural gas	thousand gigajoules	592	834	1,435	2,172	3,153	G4-EN3
diesel, gasoline	thousand gigajoules	1,322	1,607	1,608	950	836	G4-EN3
electricity	thousand gigajoules	652	732	727	695	704	G4-EN3
other non-renewable	thousand gigajoules	3	4	–	–	–	G4-EN3
sunflower seed husk (renewable)	thousand gigajoules	2,561	2,849	2,549	2,462	2,553	G4-EN3
by country							
Ukraine	thousand gigajoules	5,129	5,732	5,874	5,869	6,759	G4-EN3
Russia	thousand gigajoules	1	294	447	410	487	G4-EN3
<b>Renewable energy produced and sold</b>	<b>thousand gigajoules</b>	<b>46</b>	<b>45</b>	<b>42</b>	<b>46</b>	<b>55</b>	<b>G4-EN3</b>
electricity	thousand gigajoules	35	32	30	31	38	G4-EN3
heating	thousand gigajoules	10	13	12	15	17	G4-EN3
<b>Energy intensity</b>							
Energy spent per ton of sunflower seed crushed	megajoules	1,408	1,463	1,525	1,536	1,594	G4-EN5
Energy spent per ton-% of grain dried	megajoules	66	67	63	81	122	G4-EN5
Energy spent per ton of grain grown	megajoules	708	824	1,072	1,136	950	G4-EN5

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

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

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

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

# Sustainability continued

## 7. Materials used in production

		FY2016	FY2015	FY2014	FY2013	FY2012	GRI Index
<b>Sunflower oil production</b>							
Sunflower seeds	thousand tons	2,208	2,523	2,335	2,286	2,439	G4-EN1
% of renewable	%	100%	100%	100%	100%	100%	G4-EN1
Associated process materials	thousand tons	1	1	1	2	2	G4-EN1
% of renewable	%	0%	0%	0%	0%	0%	G4-EN1
Packaging	thousand tons	4	5	4	5	5	G4-EN1
% of renewable	%	61%	43%	43%	42%	45%	G4-EN1
<b>Crop production</b>							
Seeds	thousand tons	26	26	22	25	21	G4-EN1
Fertilizer	thousand tons	260	260	285	206	80	G4-EN1
% of organic fertilizer	%	51%	51%	44%	57%	27%	G4-EN1
Other non-renewable	thousand tons	2	2	2	1	1	G4-EN1
<b>Sunflower oil produced at ISO 22000 certified plants</b>	%	100%	96%	94%	92%	92%	G4-EN1

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

Our sunflower oil production uses sunflower seed as the primary input material. Additionally, hexane is used as a component in the solvent extraction process. Less than 10% of our sunflower oil output is packaged. The cardboard we use for packaging (61% of total materials used for packaging) is sourced from reused materials.

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

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

## 8. Aspect boundaries

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

# Sustainability continued

## 9. GRI G4 Content Index

### GENERAL STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
<b>Strategy and analysis</b>			
G4-1	Statement from the most senior decision-maker.	No	Chairman of the board of directors' letter (pages 6-7).
<b>Organizational profile</b>			
G4-3	Name of organization.	No	Kernel Holding S.A.
G4-4	Primary brands, products and services.	No	Kernel at a Glance (page 8).
G4-5	Headquarters' location.	No	Kyiv, Ukraine.
G4-6	Number and names of countries where the organization operates.	No	Ukraine and Russia.
G4-7	Nature of ownership and legal form.	No	Note 2 'Change in Issued Capital' to the Consolidated Financial Statements (page 69).
G4-8	Markets served.	No	Kernel at a Glance (page 9), Sunflower Oil (page 17), Grain and Infrastructure (page 22).
G4-9	Scale of the organization.	No	Employee structure (page 45), Key highlights (page 3), Kernel at a Glance (page 8).
G4-10	Workforce statistics.	No	Employee structure (page 43).
G4-11	Percentage of total employees covered by collective bargaining agreements.	No	Approximately 95% of our employees are covered by collective bargaining agreements.
G4-12	Description of organization's supply chain.	No	Sunflower Oil (page 18), Grain and Infrastructure (page 23).
G4-13	Significant changes during the reporting period.	No	Notes 1 to the Consolidated Financial Statements (page 68), Sunflower Oil (page 24).
G4-14	Application of precautionary approach or principle.	No	Product responsibility (page 42).
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	No	International Labour Organization's Fundamental Principles and Rights at Work, United Nations Global Compact (UNGC), United Nations Universal Declaration of Human Rights
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations.	No	Kernel, through its subsidiaries, is a member of several industry associations, including the Federation of Oils, Seeds and Fats Associations, the Grain and Feed Trade Association, the Ukrainian Grain Association, the Ukrainian Agri-business Club, the Ukrainian Agrarian Association, the American Chamber of Commerce, and the European Business Association.
<b>Identified material aspects and boundaries</b>			
G4-17	Coverage of entities in relation to organization's consolidated financial statements or equivalent documents.	No	Notes 1 to the Consolidated Financial Statements (page 68). Certain sustainability information does not include data for all entities, which is highlighted in each case.
G4-18	Process for defining report content and aspect boundaries	No	'Our approach to materiality and report content' on page 39.
G4-19	Material aspects identified.	No	Page 36.
G4-20	Aspect boundaries within the organization for each material aspect.	No	'Aspect boundaries' (page 46).
G4-21	Aspect boundaries outside the organization for each material aspect.	No	
G4-22	Restatements.	No	This is the first report presented under GRI methodology.
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries.	No	This is the first report presented under GRI methodology.
<b>Stakeholder engagement</b>			
G4-24	List of stakeholder groups engaged by the organization.	No	Key stakeholder groups and engagement channels (pages 36, 37).
G4-25	Basis for identification and selection of stakeholders with whom to engage.	No	'Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' on pages 36, 37. Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest.
G4-25	Organization's approach to stakeholder engagement.	No	
G4-25	Key topics and concerns raised through stakeholder engagement.	No	'Mapping material issues to external stakeholders' (page 37), 'Our approach to materiality and report content' (page 36). Also discussed throughout this report.



# Sustainability continued

## GENERAL STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
<b>Report profile</b>			
G4-28	Reporting period.	N/a	Fiscal year 2016 ended 30 June 2016. See also Note 1 to the Consolidated Financial Statements (page 68).
G4-29	Date of most recent previous report.	22 Oct 2015	As a sustainability section of the FY2015 annual report
G4-30	Reporting cycle.	No	Annual.
G4-31	Contact point for questions regarding the report or its contents.	No	Jamil Zakaraiev, j.zakaraiev@kernel.ua
G4-32	'In accordance' option.	No	This report was prepared in accordance with the GRI G4 'Core' option.
G4-33	Policy and current practice with regard to seeking external assurance of the report.	No	Financial data in Consolidated Financial Statements for 12 months ended 30 June 2016 was audited by Deloitte Audit; see Report of the Reviseur d'Entreprises agree on page 59.

## Governance

G4-34	Governance structure of the organization.	No	Corporate Governance (pages 50-58).
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## Ethics and integrity

G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	No	'Our values and principles' (page 40).
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## SPECIFIC STANDARD DISCLOSURES

### CATEGORY: ECONOMIC

#### Material aspect: Economic performance

G4-DMA	Generic disclosures on management approach.	No	The Group's strategy defines shareholders' value creation as an ultimate goal, which makes economic performance a material aspect. See also 'Strategy' (page 11). Also discussed throughout this report.
G4-EC1	Direct economic value generated and distributed.	No	Page 63. See Consolidated financial statements.
G4-EC4	Financial assistance received from the government.	No	Note 26 'Other operating income' to the Consolidated Financial Statements (page 104).

#### Material aspect: indirect economic impact

G4-DMA	Generic disclosures on management approach.	No	Indirect economic impact (page 41), Giving back to local communities (page 41), Sustainable farming (page 35)
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	No	Indirect economic impact (page 41), Giving back to local communities (page 41), Sustainable farming (page 35).

### CATEGORY: ENVIRONMENTAL

#### Material aspect: Materials.

G4-DMA	Generic disclosures on management approach.	No	'Materials used in production' (page 46), 'Our approach to materiality and report content' (page 36).
G4-EN1	Materials used by weight or volume.	No	'Materials used in production' (page 46).

#### Material aspect: Energy.

G4-DMA	Generic disclosures on management approach.	No	The Company is not subject to any government or industry-specific policy for energy use. Management approach disclosed in 'Energy consumption within the organization' (page 38), 'Our approach to materiality and report content' (page 36).
G4-EN3	Energy consumption within the organization.	No	'Energy consumption within the organization' (page 38).
G4-EN5	Energy intensity.	No	'Energy consumption within the organization' (page 38).

#### Material aspect: Emissions.

# Sustainability continued

## SPECIFIC STANDARD DISCLOSURES

Standard Disclosure	Standard Disclosure Title	External Assurance	Page number or direct response
G4-DMA	Generic disclosures on management approach.	No	'Environment' (pages 44-45), 'Our approach to materiality and report content' (page 36).
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1).	No	'Environment' (pages 44-45).
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2).	No	'Environment' (pages 44-45).
G4-EN18	Greenhouse gas (GHG) emissions intensity.	No	'Environment' (pages 44-45).
G4-EN21	NOX, SOX, and other significant air emissions.	No	The Company is in the process of establishing group-wide data collection for non-GHG emissions.
G4-EN31	Total environmental protection expenditures.	No	Not disclosed. The company is in the process of adjusting its data collection system in order to consolidate this data at the group level.

## CATEGORY: SOCIAL

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

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

G4-DMA	Generic disclosures on management approach.	No	'Health and safety' (page 41), 'Our approach to materiality and report content' (page 36).
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	No	'Health and safety' (page 43). Certain indicators are not disclosed because they are not tracked by the company's management system.

#### Material aspect: Training and education.

G4-DMA	Generic disclosures on management approach.	No	'Investing in training and development' (page 39), 'Our approach to materiality and report content' (page 36).
G4-LA9	Average hours of training per year per employee by gender, and by employee category.	No	This data is currently not tracked. The Company is assessing ways to incorporate this data into its management accounting system.
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	No	Kernel started implementing a group-wide performance management system. Approximately 1% of all employees are covered by the program.

## SUB-CATEGORY: SOCIETY

### Material aspect: Local communities.

G4-DMA	Generic disclosures on management approach.	No	'Giving back to local communities' (page 41), 'Our approach to materiality and report content' (page 36).
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	No	We calculate that 64% of our operations (by labor count) are actively involved in local community engagements, though the frequency and depth of engagement differs by region. See 'Giving back to local communities' (page 41) for details.

### Material aspect: Anti-corruption.

G4-DMA	Generic disclosures on management approach.	No	'Anti-corruption' (page 42), 'Our approach to materiality and report content' (page 36).
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	No	'Anti-corruption' (page 42).

## SUB-CATEGORY: PRODUCT RESPONSIBILITY

### Material aspect: Customer health and safety.

G4-DMA	Generic disclosures on management approach.	No	'Product responsibility' (page 42), 'Our approach to materiality and report content' (page 36).
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	No	90% of produced products by value (excluding products that were traded and services).
FP5	Percentage of production volume manufactured in sites certified by an independent third party according to internationally recognized food safety management system standards.	No	'Product responsibility' (page 42).

# Corporate Governance

## Introduction

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

Kernel Holding S.A. has a single class of shares, all ranking pari passu, having equal voting rights and no special control rights attached to any of the shares. As of 30 June 2016, there were 79,683,410 ordinary shares issued and fully paid. Four shareholders owned more than 5% of the Company's share capital as of 30 June 2016, based on the notifications received from them:

The Company did not own any of its own shares as of 30 June 2016. As a part of the management incentive program, the Company grants options to the management team. As of 30 June 2016, there were a total of 7,407,820 options outstanding, out of which 4,057,820 were vested, with each option representing the right to acquire one ordinary share of the Company.

The Company's system of governance is defined in its articles of association, available on Kernel's website. Fully adhering to the corporate law of the Grand Duchy of Luxembourg, Kernel Holding S.A. also voluntarily aims to comply with the Best Practice for companies listed on the Warsaw Stock Exchange and the Ten Principles of Corporate Governance issued by the Luxembourg Stock Exchange, with a few exceptions, mentioned further in the text.

Kernel's corporate objective is to become the leader of global agribusiness and make the Black Sea region a key supplier of agricultural products to the world market, and Kernel does that by developing the potential of its people.

Therefore, in pursuing its corporate objective, Kernel strives to commit to the highest levels of governance, namely fostering a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. For Kernel, governance assures the following:

- executives are leading and managing effectively, as well as acting ethically for the shareholders and other stakeholders;
- the business is taking the right direction;
- adequate, effective and transparent communication with investors and analysts;
- efficient internal control, risk management and compliance system in place, to identify, manage and mitigate risks.

Finally, the Company's balanced approach to the Board's composition ensures that governance is continuously reviewed to guarantee that appropriate safeguards are in place to protect shareholders' interests.

### Shareholders owning above 5% of the Company

	Shares owned	Percentage owned
Namsen Limited	31,345,878	39.34%
Cascade Investment Fund <sup>(1)</sup>	3,984,345	5.00%
Nationale-Nederlanden PTE S.A. <sup>(2)</sup>	4,786,230	6.01%
TFI PZU S.A. <sup>(3)</sup>	4,119,128	5.17%

### Governance structure

#### Board of Directors

Responsible for the overall conduct of the Group's business and strategy, and:

- Is vested with the broadest powers to perform all acts of administration and disposition in compliance
- Is responsible for the long-term success of the Company
- Is responsible for ensuring the effectiveness of and reporting on the system of corporate governance
- Is accountable to the shareholders for the proper conduct of the business

#### Executive management team

Focuses on strategy implementation, financial and competitive performance, commercial and technological developments, succession planning and organizational development

#### Nomination and remuneration committee

Sets, reviews and recommends Kernel's remuneration policy and strategy for members of the Board and Executive Management Team, as well as reviews the implementation of that policy

#### Audit committee

Assists in ensuring effective governance over Company's financial results and reviews the integrity, adequacy and effectiveness of Kernel's system of internal control and risk management

(1) As of 13 October 2015, when the fund notified of crossing the 5% threshold.

(2) As of 9 June 2014, when the fund notified of crossing the 5% threshold.

(3) TFI PZU SA with its registered office in Warsaw, Poland, acting on behalf of investment funds under management: PZU Fundusz Inwestycyjny Otwarty Parasolowy, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Uniwersum, PZU Fundusz Inwestycyjny Zamknięty Akcji Focus, PZU Fundusz Inwestycyjny Zamknięty Dynamiczny crossed 5% threshold of share capital as of 21 June 2016, according to the fund's notification.

# Corporate Governance continued

## Board of directors

The board of directors (hereinafter – ‘the Board’) is the ultimate decision-making body except for the powers reserved to the shareholders’ meeting by law, or as specified in the Company’s articles of association. Nevertheless, the Board is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Company’s corporate objective. Moreover, the Board resolves to take its decisions objectively and in the best interest of the Company.

The Board is responsible to shareholders for the performance of the Company. Therefore, its role includes the establishment, review and monitoring of strategic objectives, approval of major acquisitions, dispositions and capital expenditure, and overseeing the Group’s system of internal control, governance and risk management. In addition, the Board receives regular presentations from the executive management team, as well as from directors of key group functions enabling to explore specific issues and developments in greater detail.

The schedule of matters, reserved for the Board include:

- revision and approval of financial statements and presentation of an annual report to the shareholders at a general meeting;
- revision of matters to be resolved by the general meeting of shareholders;
- supervision of internal controls and the audit functions;
- approval of any material agreements between the Company and its related parties;
- interim dividend decisions.

## Board composition

The Board currently comprises a chairman, four executive directors and three non-executive directors. The Remuneration & Nomination Committee regularly reviews the composition of the Board to ensure that Kernel has an appropriate and diverse mix of skills, experience, independence and knowledge of the Group.

Moreover, the Company believes that diversity amongst directors contributes to a high performing and effective Board.

## Board diversity

Over the last few years, Kernel has met terms of gender diversity, with more women filling senior management positions across all major divisions of the Company.

As of 2016, the Board has employed a diversity policy to assist in keeping diversity at the forefront of the Board’s mind when considering its composition, whilst also driving initiatives across the business. As Kernel continues to pursue its strategy, it is ever more important to ensure the Board has international experience and outlook, and that the management is reflective of the customers and communities which Kernel serves.

As in previous years, as a part of the Company’s annual evaluation of Board performance, all Directors were consulted on the composition of the Board, as to size, the appropriate range of skills and balance between executive and non-executive directors.

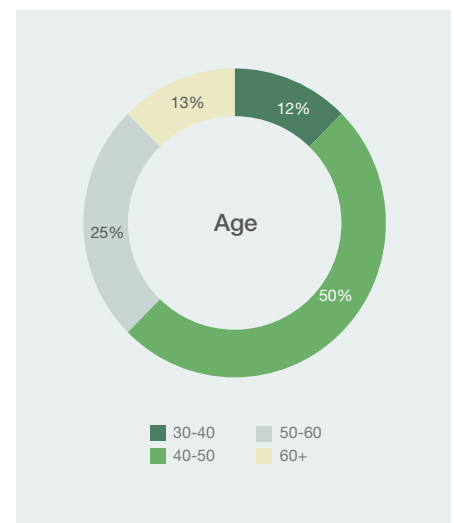
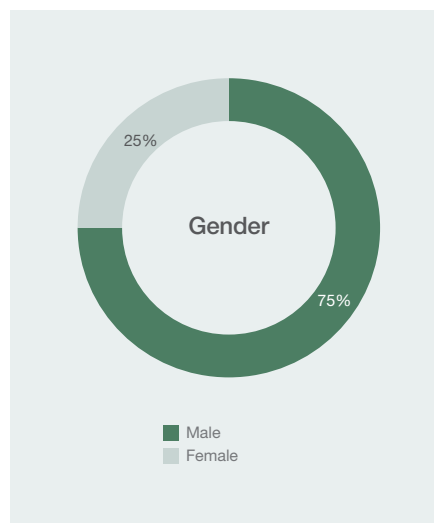
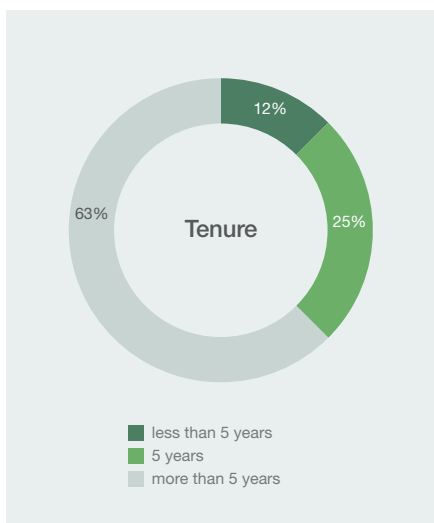
## Board activities and meetings

The Board has held seven scheduled and one unscheduled meeting during the last year ended 30 June 2016. Typically, at each meeting, the Chairman of the Board and Chief Financial Officer report to the Board on the subjects of strategy implementation. The Board also discusses the strategy by means of received reports on each of the functions and main businesses. Moreover, it may also receive from the Company Secretary an update on any relevant corporate governance matter.

The Board allocated its time at scheduled meetings during the financial year to the following:

- discussing and reviewing reports from the Chairman on strategic progress, matters considered by Executive management team and competitor activity
- analyzing reports from the Chief Financial Officer on the financial position of the Company, which included operating updates, segment results and liquidity updates throughout the financial year, thus accompanying the existent strategy
- reviewing and discussing reports from each of the Board’s committees
- receiving and analyzing reports on risk management and legal risks
- approving the full year and half-year results of the Company
- acknowledging a report on the effectiveness of the Board following performance review
- receiving reports on the governance issues and updates on changes in company law

The majority of directors attended all eight meetings occurring during the periods.



# Corporate Governance continued

## Independence

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

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

The non-executive directors are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees.

All directors are equally accountable for the proper stewardship of the company's affairs. The non-executive directors have a particular responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed.

This enables the directors to promote the success of the company for the benefit of its shareholders as a whole, whilst having regard to, among other matters, the interest of employees, the fostering of business relationships with customers, suppliers and other stakeholders, as well as promoting the impact of the company's operations on the communities in which the business operates and the environment.

## Conflict of interest

The board of directors adopt procedures for authorization of existing and for considering (and authorizing where appropriate) new situations which may give rise to a conflict of interest on the part of any director. For instance, these rules provide statutory duties, which include, but are not limited to the following:

- a duty not to accept any benefits from third parties, which give rise to a personal interest and/ or gain;
- a duty to disclose any interest in a proposed transaction or arrangement with the Company and a separate and independent duty to disclose any interest in an existing transaction or arrangement with the Company;
- a duty to avoid conflicts of interest unless authorized.

The procedures give guidance to directors as to what situations may be affected and of their obligations to notify the Company's Board of any such instances. Moreover, those directors shall refrain from deliberating or voting on issues concerned in accordance with relevant legal provisions, except for everyday transactions entered into under normal conditions.

Any abstention due to a conflict of interest shall be indicated in the minutes of the meeting and disclosed at the next general meeting, in accordance with applicable legal provisions. Notwithstanding any contrary provision, any material agreement between the Company and its related party must be approved in advance by the Board, with at least one independent director voting in favor of such resolution.

## Nomination, appointment and re-election

In accordance with the Company's articles of association, all directors are appointed by the shareholders at the annual general meeting, which determines their number, remuneration and term of office. The term of the office of a director may not exceed six years and the director shall hold office until his or her successor is elected. Directors may be re-elected for consecutive terms of office. The directors are elected by a simple majority vote of the shares present or represented. Any director may be removed at any time with or without cause by the general meeting of shareholders.

The Board plans its own succession with the assistance of the Nomination & Remuneration Committee. In doing so, the Board:

- considers the skills, competencies, knowledge and experience necessary to allow it to meet the strategic vision of the Company;
- assesses the skills, knowledge and the experience currently presented;
- identifies any competencies, knowledge and experience not adequately represented and agrees the process necessary to ensure a candidate is selected who brings those qualities;
- evaluates how board performance might be enhanced, both at an individual director level and for the board as a whole.

When considering new appointments to the Board, the Nomination & Remuneration Committee, among other matters, oversees the preparation of a position's specification. For details regarding nominations, refer to page 56, outlining details on Nomination & Remuneration Committee operations.

Newly nominated directors must submit themselves to shareholders for election at the first annual general meeting, following their nomination.



# Corporate Governance continued

## Board committees

Following good corporate governance practice, the Board of directors must have a number of specialized committees in place, to ensure that it performs its duties effectively. This structure contributes to diversification of the workload, thus allowing motions and resolutions on certain material issues to be heard first by a specialized and independent body with explicit professional expertise, which can therefore filter accordingly and report on its decisions.

The main objective is to guarantee the required objectivity and ensure that motions are discussed thoroughly before being passed by the Board.

Therefore, the Board has created two special committees: the Audit Committee and the Nomination & Remuneration Committee. On an annual basis, the Board reviews the necessity to establish any new committees.

## Board evaluation

In accordance with the Ten Principles of Corporate Governance issued by the Luxembourg Stock Exchange, the Board assesses its operating methods and relationship with the executive management. The evaluation is conducted through an online questionnaire with each director anonymously assessing the Board's effective fulfillment of its merit, composition, organizational structure and its effectiveness as a collective body, among other things. The evaluation of the Board takes place in autumn each year (the most recent took place in October 2015 related to performance of the Board during the FY2015), and the Board is due to decide on a self-evaluation procedure for its committees.

## Executive management team

Kernel's daily operations are managed by an executive team of ten managers, employed by the Company's subsidiaries, who are responsible for the operating segments and support functions. The full list with short biographies is available on Kernel's website, [kernel.ua/en/management](http://kernel.ua/en/management).

## Corporate secretary and independent advice

All directors are able to consult with the corporate secretary. The corporate secretary is available to provide assistance and information on governance, corporate administration and legal matters as appropriate.

Directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors if so desired at the Company's expense relating to the performance of his duties.

## Accountability and audit

### Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the strategic report on pages 11-30. The financials of the Group, its liquidity position, borrowing facilities and applicable terms are described in the financial statement accounts.

Current economic conditions have fostered the development of a number of risks and uncertainties for the Company, in particular in regards to global commodity prices and harvest expectations. Details can be seen in the Risks and Uncertainty section of this report, pages 31-34.

The directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about the future trading and production performance, as well as debt requirements.

The results show that the Company should be able to operate within the levels of its available capital. Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the annual report and accounts.

### Risk management

At Kernel, risk management is defined as a process, realized by the Board, members of the executive management team, and other staff which starts from strategy development and impacts all activities of the company. This activity aims at risk identification and management in order to provide reasonable assurance of the company's achievement of goals.

As a part of annual strategy management, Kernel identifies and manages key risks through the development of detailed management and mitigation plans. This process involves the identification, prioritization and development of management and mitigation actions. For details regarding risk management, refer to pages 31-34 of this report.

### Audit Committee

Being independent from the Company, the Audit Committee is able to oversee the affairs of Kernel, thus ensuring that the Company conducts its business ethically and responsibly, specifically in the areas of financial reporting, internal control and risk management.

The key objective of the Audit Committee is to provide effective governance over the fairness of the Company's financial reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditor, as well as to oversee the Group's system of internal controls, business risks and related compliance activities.

The Audit Committee consists of three independent non-executive directors, headed by the chairman of the committee. All members are appointed by the Board from the pool of independent directors.

The Audit Committee prepares recommendations and drafts resolutions on the issues that relate to its competence and presents them to the Board for consideration.

Besides the latter, the committee's responsibilities include, but are not limited to the following:

- assisting the Board in monitoring the reliability and integrity of financial information provided by the Company, in particular by reviewing the relevance and consistency of the accounting standards applied by the Company, including consolidation criteria;
- assisting the Board in formulating a description of the risks specific to the Company;
- assisting the Board in the implementation of a risk control system;
- making recommendations regarding the internal auditor's work program;
- monitoring the effectiveness of the internal audit function;
- making recommendation to the Board regarding the selection, appointment and re-appointment, and dismissal of the external auditor;
- monitoring the independence and objectivity of the external auditor;
- examining the nature and scope of the non-audit services to be provided with a view to avoid any conflict of interest.

The Audit Committee met on five occasions over the course of financial year 2016. Its main activities have been directed toward the integrity of the Company's financial accounting and reporting together with a related external audit, as well as the periodic revision of the implementation of a risk mitigation plan. Meeting its primary function of providing support to the Board, the main activities discussed and analyzed by the committee can be grouped into the following different areas of competency (see next page):

# Corporate Governance continued

## Financial reports

- Quarterly, semi-annual and annual financial reports.
- Critical accounting policies.

## External audit

- Annual audit plan and areas of focus.
- Management letter review.
- Face-to-face discussion with auditors in absence of executives.
- Review of the contract with the auditors.

## Internal audit

- Quarterly reports on internal audit projects and recommendations implementation dynamics.
- Projects planning on semi-annual basis.
- Face-to-face discussion in absence of executives.

## Risks

- Top risks identification.
- Group risk process.
- Periodic reports on risk mitigation plan implementation.

## Compliance

- Review of compliance with best corporate governance practices.
- Monitoring compliance of subsidiaries outside of Ukraine and Russian with local accounting standards.

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

## Internal audit

Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, as well as assists the personnel and management of the Company in improving the risk mitigation and internal control systems.

The Company's internal audit function, directed by experienced head of internal audit, reports to the Board and works closely with the Audit Committee.

The key objective objective of internal audit is to provide independent and objective evaluations of the effectiveness and efficiency of risk management and internal control systems within the operational and financial framework of the Company, in the area of IT and internal and external regulations observance.

Internal audit is one of the components of corporate governance, risk management and internal control systems that assure transparency of the Company's performance to the Board, audit committee, management and shareholders. Its major responsibilities include, but are not limited to:

- assisting personnel and management of the Company in improving the effectiveness of risk management and internal control systems;
- advising management regarding the effective execution of their responsibilities;
- consulting management on the subjects of specific improvements in policies and internal procedures;
- ensuring open communication among both internal and external auditors, management and personnel, the Audit Committee and the Board.

During the reporting period, internal audit provided reasonable assurance on key controls in such operational processes as bottled sunflower oil production, grain management at the silo division, management of fixed assets, utilization of GPS tracking systems and the procurement of sunflower seed and grain at the Russian business division. As well, the department also followed closely the progress of the implementation of the recommendations issued during previously completed audits. The audit committee of the board of directors reported it was satisfied with the progress of audit projects and with management's response actions.

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

## External auditor

The Company's annual consolidated and stand-alone accounts are audited by an external auditor appointed by the annual general meeting of shareholders. On 10 December 2015, the general meeting of shareholders appointed Deloitte Audit S.a.r.l., having its registered office at 560 rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B67895, as independent auditor of the consolidated and unconsolidated annual accounts of Kernel Holding S.A. for the year ended 30 June 2016. Deloitte has audited the Company's accounts since the financial year ended 30 June 2012.

The Audit Committee regularly meets with the auditors, including meetings without the presence of executive management, to discuss the audit process and management letter among other things and makes recommendations on the external auditor's work program. The amount of non-audit services provided by external auditors amounted to USD 18 thousand during the year ended 30 June 2016 (USD 33 thousand a year ago), compared to the audit fees of USD 500 thousand in FY2016 (USD 432 thousand a year ago). While services are authorized ex officio, the Audit Committee periodically examines the nature and scope of the non-audit services provided with a view to avoid any conflicts of interest.

During financial year 2016, the Board has adopted policy outlining the provision of non-audit services by the external auditor, with an aim to mitigate the risks of impairment of external auditor's independence. In essence, the external auditors' independence is deemed to be impaired if the auditor provides services which:

- result in the auditing of their own work by the auditor;
- result in the auditors acting as a manager or employee of the Company or any affiliated entity;
- put the auditor in the role of advocate for the Company;
- create a mutuality of interest between the auditor and the Company.

Therefore, Kernel addresses these issues by employing the following safeguards:

- disclosure of the extent and nature of non-audit services;
- prohibition of selected services;
- prior approval by the audit committee of non-audit services

The policy's definition of prohibited non-audit services corresponds with the European Commission's recommendations on auditors' independence and ongoing EU audit market reform.

# Corporate Governance continued

## Corporate policies, values and compliance

A Code of Conduct that includes corporate values is distributed throughout the Company. Relevant employees meet regularly to discuss external changes in regulatory, legal and financial environment in which Kernel operates, to ensure its compliance with new legislations.

The Board, through an Audit Committee, has reviewed the effectiveness of the internal controls of the Group. Moreover, there is an ongoing process of identifying, evaluating and managing significant risks encountered by the Company. A reporting structure has been in place throughout the year and up to the date of approval of the financial statements and is regularly reviewed by the directors.

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

The Company's dividend policy is to maintain a sustainable annual dividend of USD 0.25 per share, payable in US dollars. The dividend of USD 0.25 per share for FY2015 was distributed on 29 April 2016 to shareholders on the register at the close of business on 22 April 2016.

Kernel recognized the benefits of having a diverse senior management team and sees increasing diversity at the senior level as an essential element in maintaining an effective Board. As of 2016, Kernel has adopted its board of directors' diversity policy, which was developed to ensure that there is broad experience, competencies and knowledge on Kernel's Board.

The development and implementation of such policy has been considered from a number of aspects including, but not limited to gender, age, cultural and educational background, expertise, professional experience, skills, knowledge and length of service.

The Nomination & Remuneration Committee reviews and assesses the Board's composition on behalf of the Board and recommends the appointment of new directors, when necessary.

## Takeover disclosure

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

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

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

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

## Remuneration

The Board and Nomination & Remuneration Committee continues to review and assess the remuneration arrangement and plans of Kernel continually, ensure that they are aligned with both the Company's strategy and shareholders' interests, while complying with regulatory requirements.

Core principles and compensation governance: Compensation policies and plans at Kernel reward performance, sustainable growth and long-term shareholder value creation. Moreover, the remuneration programs for the Board and executive management team are competitive, internally equitable and straight-forward.

Remuneration policy, programs and amounts are reviewed by the Nomination & Remuneration Committee annually and, if necessary, adjusted by the Board of Directors.

## Nomination & Remuneration Committee

The Board of Directors define the functions of the Nomination & Remuneration (hereinafter – 'NRC'). The NRC supports the Board in nominating and assessing candidates for positions to the Board and to the executive management team, in establishing and reviewing the compensation strategy and principle and in preparing the respective proposals to the shareholders' general meeting regarding remuneration of the Board.

The members of the NRC are appointed by the Board from the pool of directors. NRC consists of a maximum of three members, including the Chairman of the committee, who is elected by the appointed NRC members.

## Key objective

The main objective of NRC is to assist in reviewing, advising and making recommendations to the Chairman of the Board and the Board itself on its membership structure and respective levels of compensation for individual members of both the Board and executive management team.

# Corporate Governance continued

## Responsibilities

The NRC is responsible for the following activities and submits all proposals concerning these activities to the Board, which has the final decision authority. Those major activities include, but are not limited to the following:

The NRC meets as often as business requires. During the financial year ended 30 June 2016, the committee held two meetings, which were attended by all members. The NRC meetings are not recorded due to confidentiality reasons.

Following each meeting of the NRC, the committee's chairman is required to report to the Board of Directors identifying the issues which he considers require action or improvement and makes recommendations for the necessary adjustments in its internal regulations if required.

## Compensation principles

Remuneration of the Board is fixed and does not contain any performance-based variable component. This ensures that the Board is truly independent in fulfilling its duties toward executive management team. Although, the Board's members are reimbursed for certain travel, hotel and other expenses related to the exercise of their directorship duties, they are not granted any pension, retirement, or similar benefits by the Company. The total remuneration of the Board is approved at the annual general shareholders' meeting.

Remuneration of the executive management team is driven by the main principle of pay-for-performance. Therefore, the compensation policy and programs are designed to reward performance, sustainable growth, and long-term shareholder value creation, while offering competitive remuneration to be able to attract and retain highly qualified employees. The compensation of executive management team is determined by the chairman of the Board Anriy Verevskyy and is reviewed by NRC annually, and, if necessary, adjusted and approved by decision of the Board based on proposal by the NRC.

In line with the pay-for-performance principle, a significant portion of compensation consists of variable incentives based on performance. The elements of the remuneration of the executive management team are summarized in the table on the right:

## Nomination

- advising on an appropriate size and composition of the Board
- recommending transparent procedures for nomination and selection of non-executive directors of the Board
- listing of necessary and desirable competencies of the directors
- overseeing the development and implementation of processes for evaluating the performance of the Board
- developing a succession plan for the Board and executive management team
- proposing an induction program

## Remuneration

- advising on remuneration policies and compensation of directors and members of the executive management team
- proposing key terms of appointment for directors and members of the executive management team
- recommending incentive policy packages for directors and members of the executive management team
- developing management incentive schemes
- advising on the professional indemnity and liability insurance for directors and members of the executive management team

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

Group of directors	FY2016	FY2015	FY2014
Chairman of the Board	200.0	116.7	—
Three non-executive directors	251.5	215.0	215.0
Four executive directors	44.1	50	50.0
<b>Total board of directors</b>	<b>495.6</b>	<b>381.7</b>	<b>265.0</b>

Each option is granted non-vested, with a vesting period from three to five years, carrying no rights to dividends, voting and to be executed in cash. As of 30 June 2016, there are a total of 7,407,820 options are outstanding, with 4,057,820 being vested. During the year ended 30 June 2016, there were no new management incentive plans proposed. For details of the option plans, refer to Note 2 to the financial statement on page 69.

Members of the executive management team are granted no pensions, retirement or similar benefits by the Company.

Remuneration for the executive management team of Kernel, totaling ten people, amounted to USD 6,476 thousand during the year ended 30 June 2016, compared to USD 8,564 thousand a year ago (14 people).

<b>Base salary</b>	The fixed salary is determined at the discretion of the Board on the basis of the market value of the respective position and the individual profile of the incumbent in terms of qualifications, skill set, and experience. All amounts are fixed and paid in cash on a monthly basis.
<b>Short-term variable bonus</b>	The bonus rewards the financial performance of the Company and/or its businesses, as well as the achievement of individual performance objectives over a period of one year. The target bonus expressed as a percentage of EBITDA minus financial expenses, with a minimum threshold level required to activate the payout.
<b>Long-term management incentive plan</b>	The management incentive plan rewards performance of the Company over the long-term period and aligns the interests of executive management team with those of the shareholders by delivering a substation portion of the compensation as company share options. The plan is duly reviewed by NRC and approved by the Board.

# Corporate Governance *continued*

## Investor relations

Kernel places considerable importance on communications with shareholders and responds to them on a wide range of issues. Moreover, the Company maintains regular contact with its investors through its investor relations team. All materials, presentations and reports are available to shareholders through the Company's website, [kernel.ua](http://kernel.ua).

### Annual general shareholders' meeting

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

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

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

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

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

During the annual general meeting held on 10 December 2015, the Company approved the management report and annual accounts for the financial year ended 30 June 2015 and approved the Board's proposal to distribute USD 0.25 per share dividend. The meeting also granted discharge to the directors of the Company and its independent auditor, while it also renewed the mandates of seven of the Company's directors, approved directors' remuneration, and reappointed Deloitte Audit S.a.r.l. as its independent auditor.

During the year ended 30 June 2016, the Company held one extraordinary general meeting on 10 December 2015 acknowledging the Board's report of the Company with respect to the creation of the authorized capital and granting a new authorization to the Board to issue, from time to time, up to 7,407,820 new shares without indication of nominal value.

### Investor calendar

Q1 FY2017 operations update .....	24 October 2016
Q1 FY2017 financial report.....	30 November 2016
Annual general meeting of shareholders.....	12 December 2016
Q2 FY2017 operations update.....	20 January 2017
H1 FY2017 financial report.....	28 February 2017
Q3 FY2017 operations update.....	20 April 2017
Q3 FY2017 financial report .....	30 May 2017
Q4 FY2017 operations update.....	13 July 2017
FY2017 financial report .....	23 October 2017



# Board of Directors

## Effective and experienced leadership

Kernel Holding S.A. is governed by the Board of Directors, composing of eight directors (incl. three non-executive independent directors). Biographical details of the board and executive management team as at 30 June 2016 are as follows (with details available at [kernel.ua/en/management/directors/](http://kernel.ua/en/management/directors/))



**Andriy Verevskyy, 42**  
Chairman of the Board

**Tenure:** 9 years

**Skills and experience:**

Founded the Group's business in 1995, holding various executive positions within the Group. Presently, he oversees the strategic development and overall management of the Group.

**Board Committee:**

Nomination & Remuneration Committee.



**Ton Schurink, 70**  
Non-executive independent director

**Tenure:** 9 years

**Skills and experience:**

Extensive experience in trading commodities, risk management, barter, shipping, financial trading and trade and structured finance acquired during a 32-year career with Cargill.

**Board Committee:**

Chairman of the Nomination & Remuneration Committee, Audit Committee.



**Andrzej Danilczuk, 53**  
Non-executive independent director

**Tenure:** 9 years

**Skills and experience:**

Rare know-how which combines a very good understanding of western corporate culture and modus operandi with a deep knowledge of local culture and business practices in the Black Sea region.

**Board Committee:**

Nomination & Remuneration Committee, Audit Committee.



**Sergei Shibaev, 57**  
Non-executive independent director

**Tenure:** 4 years

**Skills and experience:**

Occupied different managerial roles with international consultancy and financial services firms including PWC, ING Barings, Deloitte & Touche and Roland Berger, among others.

**Board Committee:**

Chairman of the Audit Committee.



**Anastasiia Usachova, 45**  
Chief financial officer

**Tenure:** 9 years

**Skills and experience:**

Ms. Usachova holds a MBA degree from IMD (Switzerland), CMA and CFM certification from the Association of Accountants and Financial Professionals in Business (IMA).

**Board Committee:**

None.



**Kostiantyn Lytvynskyi, 43**  
Chief operating officer

**Tenure:** 5 years

**Skills and experience:**

Mr. Litvynskyi is responsible for the export of grains and sunflower oil, raw material procurement, purchase of grains and logistics.

**Board Committee:**

None.



**Viktoriia Lukianenko, 41**  
Chief legal officer

**Tenure:** 9 years

**Skills and experience:**

Ms. Lukianenko is responsible for providing legal advice and counseling in all aspects of Kernel's business operations.

**Board Committee:**

None.



**Yuriy Kovalchuk, 35**  
Corporate investment director

**Tenure:** 5 years

**Skills and experience:**

Mr. Kovalchuk is responsible for investor relations and management of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013.

**Board Committee:**

None.

To the Shareholders of  
Kernel Holding S.A.  
19, rue de Bitbourg  
L-1273 Luxembourg

# Report of the Réviseur d'Entreprises agréé

## Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated December 10, 2015, we have audited the accompanying consolidated financial statements of Kernel Holding S.A., which comprise the consolidated statement of financial position as at June 30, 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### Responsibility of the réviseur d'entreprises agréé

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

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

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

**Opinion**

In our opinion, the consolidated financial statements on pages 63 to 116 give a true and fair view of the consolidated financial position of Kernel Holding S.A. as of June 30, 2016, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Emphasis of Matter**

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

**Report on other legal and regulatory requirements**

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements. The accompanying corporate governance statement on pages 50 to 57 which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial companies and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit, Cabinet de révision agréé

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

21 October 2016

# Statement of Management Responsibilities

for the year ended 30 June 2016

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

- The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Company and the undertakings included within the consolidation taken as a whole; and
- The Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

21 October 2016

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Selected Financial Data

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

		USD		PLN		EUR	
		30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
I.	Revenue	1,988,520	2,329,507	7,696,766	8,117,400	1,791,855	1,947,235
II.	Profit from operating activities	287,190	335,557	1,111,598	1,169,282	258,787	280,492
III.	Profit before income tax	247,789	122,838	959,092	428,041	223,283	102,680
IV.	Profit for the period from continuing operations	243,879	121,686	943,958	424,027	219,759	101,717
V.	Net cash generated by operating activities	133,723	404,723	517,588	1,410,298	120,498	338,308
VI.	Net cash used in investing activities	(60,732)	(24,305)	(235,069)	(84,693)	(54,726)	(20,317)
VII.	Net cash used in financing activities	(136,843)	(321,698)	(529,665)	(1,120,989)	(123,309)	(268,907)
VIII.	Total net cash flow	(63,852)	58,720	(247,146)	204,616	(57,537)	49,084
IX.	Total assets	1,509,355	1,465,618	6,007,686	5,517,319	1,357,514	1,315,391
X.	Current liabilities	373,305	458,104	1,485,866	1,724,533	335,751	411,148
XI.	Non-current liabilities	138,995	116,670	553,242	439,204	125,012	104,711
XII.	Issued capital	2,104	2,104	8,375	7,921	1,892	1,888
XIII.	Total equity	997,055	890,844	3,968,578	3,353,582	896,751	799,532
XIV.	Number of shares	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410	79,683,410
XV.	Profit per ordinary share (in USD/PLN/EUR)	2.83	1.34	10.94	4.68	2.55	1.12
XVI.	Diluted number of shares	81,384,851	79,779,975	81,384,851	79,779,975	81,384,851	79,779,975
XVII.	Diluted profit per ordinary share (in USD/PLN/EUR)	2.77	1.34	10.71	4.67	2.49	1.12
XVIII.	Book value per share (in USD/PLN/EUR)	12.49	11.16	49.72	42.03	11.23	10.02
XIX.	Diluted book value per share (in USD/PLN/EUR)	12.23	11.15	48.68	41.97	11.00	10.01



# Consolidated Statement of Financial Position

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2016	As of 30 June 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	60,372	129,121
Trade accounts receivable, net	9	75,207	56,135
Prepayments to suppliers and other current assets, net	10, 33	52,983	60,647
Corporate income tax prepaid		7,400	16,600
Taxes recoverable and prepaid, net	11	130,378	88,246
Inventory	12	200,213	158,756
Biological assets	13	190,312	146,571
Assets classified as held for sale	14	3,602	2,482
<b>Total current assets</b>		<b>720,467</b>	<b>658,558</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	15	538,728	535,177
Intangible assets, net	16	36,818	52,572
Goodwill	17	121,912	119,442
Investments in joint ventures	32	52,164	57,037
Deferred tax assets	23	20,161	15,524
Corporate income tax prepaid		8,056	13,940
Other non-current assets	18, 33	11,049	13,368
<b>Total non-current assets</b>		<b>788,888</b>	<b>807,060</b>
<b>Total assets</b>		<b>1,509,355</b>	<b>1,465,618</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade accounts payable		41,910	27,384
Advances from customers and other current liabilities	19, 33	76,945	63,380
Short-term borrowings	20	179,615	298,005
Current portion of long-term borrowings	21	74,835	69,335
<b>Total current liabilities</b>		<b>373,305</b>	<b>458,104</b>
<b>Non-current liabilities</b>			
Long-term borrowings	21	81,841	88,901
Obligations under finance leases	22	2,275	6,277
Deferred tax liabilities	23	17,143	19,613
Other non-current liabilities	33	37,736	1,879
<b>Total non-current liabilities</b>		<b>138,995</b>	<b>116,670</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>			
Issued capital		2,104	2,104
Share premium reserve		463,879	463,879
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve		6,582	4,793
Revaluation reserve		43,815	39,456
Translation reserve		(691,885)	(586,283)
Retained earnings		1,130,890	925,661
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>995,329</b>	<b>889,554</b>
Non-controlling interests		1,726	1,290
<b>Total equity</b>		<b>997,055</b>	<b>890,844</b>
<b>Total liabilities and equity</b>		<b>1,509,355</b>	<b>1,465,618</b>
Book value		995,329	889,554
Number of shares	37	79,683,410	79,683,410
Book value per share (in USD)		12.49	11.16
Diluted number of shares	37	81,384,851	79,779,975
Diluted book value per share (in USD)		12.23	11.15

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

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Profit or Loss

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2016	30 June 2015
<b>Revenue</b>	24	<b>1,988,520</b>	2,329,507
Net change in fair value of biological assets and agricultural produce	13	20,134	(6,789)
Cost of sales	25	(1,548,474)	(1,805,573)
<b>Gross profit</b>		<b>460,180</b>	517,145
Other operating income, net	26	44,617	82,420
<b>Operating expenses</b>			
Distribution costs	27	(158,323)	(197,098)
General and administrative expenses	28	(59,284)	(66,910)
<b>Profit from operating activities</b>		<b>287,190</b>	335,557
Finance costs, net	29	(57,121)	(64,809)
Foreign exchange gain/(loss), net	30	30,442	(143,443)
Other expenses, net	31, 33	(16,608)	(9,554)
Share of gain of joint ventures	32	3,886	5,087
<b>Profit before income tax</b>		<b>247,789</b>	122,838
Income tax expenses	23	(3,910)	(1,152)
<b>Profit for the period from continuing operations</b>		<b>243,879</b>	121,686
<b>Discontinued operations:</b>			
Loss for the period from discontinued operations	14	(17,035)	(26,153)
<b>Profit for the period</b>		<b>226,844</b>	95,533
<b>Profit/(Loss) for the period attributable to:</b>			
<b>Equity holders of Kernel Holding S.A.</b>		<b>225,150</b>	106,930
Non-controlling interests		1,694	(11,397)
<b>Earnings per share</b>			
From continuing and discontinued operations			
Weighted average number of shares	37	79,683,410	79,683,410
Profit per ordinary share (in USD)		2.83	1.34
Diluted number of shares	37	81,384,851	79,779,975
Diluted profit per ordinary share (in USD)		2.77	1.34
From continuing operations			
Weighted average number of shares	37	79,683,410	79,683,410
Profit per ordinary share (in USD)		3.04	1.67
Diluted number of shares	37	81,384,851	79,779,975
Diluted profit per ordinary share (in USD)		2.98	1.67

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

	30 June 2016	30 June 2015
<b>Profit for the period</b>	<b>226,844</b>	95,533
<b>Other comprehensive income/(loss)</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Gain on revaluation of property, plant and equipment	5,314	—
Income tax related to components of other comprehensive income	(955)	—
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	(106,860)	(216,407)
<b>Other comprehensive loss, net</b>	<b>(102,501)</b>	(216,407)
<b>Total comprehensive income/(loss) for the period</b>	<b>124,343</b>	(120,874)
<b>Total comprehensive income/(loss) attributable to:</b>		
Equity holders of Kernel Holding S.A.	123,907	(111,662)
Non-controlling interests	436	(9,212)

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2016 (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	Reva- luation reserve	Translation reserve	Retained earnings	Total	Non- controlling interests	Total equity
<b>Balance as of 30 June 2014</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>3,176</b>	<b>39,456</b>	<b>(367,691)</b>	<b>848,793</b>	<b>1,029,661</b>	<b>1,025</b>	<b>1,030,686</b>
Profit/(Loss) for the period	—	—	—	—	—	—	106,930	106,930	(11,397)	95,533
Other comprehensive (loss)/income	—	—	—	—	—	(218,592)	—	(218,592)	2,185	(216,407)
<b>Total comprehensive (loss)/income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(218,592)</b>	<b>106,930</b>	<b>(111,662)</b>	<b>(9,212)</b>	<b>(120,874)</b>
Distribution of dividends	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Effect of changes in non-controlling interests (Note 1)	—	—	—	—	—	—	(10,141)	(10,141)	9,477	(664)
Recognition of share-based payments (Note 2)	—	—	—	1,617	—	—	—	1,617	—	1,617
<b>Balance as of 30 June 2015</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>4,793</b>	<b>39,456</b>	<b>(586,283)</b>	<b>925,661</b>	<b>889,554</b>	<b>1,290</b>	<b>890,844</b>
Profit for the period	—	—	—	—	—	—	225,150	225,150	1,694	226,844
Other comprehensive income/(loss)	—	—	—	—	4,359	(105,602)	—	(101,243)	(1,258)	(102,501)
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,359</b>	<b>(105,602)</b>	<b>225,150</b>	<b>123,907</b>	<b>436</b>	<b>124,343</b>
Distribution of dividends (Note 2)	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Recognition of share-based payments (Note 2)	—	—	—	1,789	—	—	—	1,789	—	1,789
<b>Balance as of 30 June 2016</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>6,582</b>	<b>43,815</b>	<b>(691,885)</b>	<b>1,130,890</b>	<b>995,329</b>	<b>1,726</b>	<b>997,055</b>

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Cash Flows

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2016	30 June 2015
<b>Operating activities:</b>			
<b>Profit before income tax</b>		<b>231,664</b>	97,244
<b>Adjustments for:</b>			
Amortization and depreciation		60,002	68,287
Finance costs, net	14, 29	58,798	68,575
Movement in allowance for doubtful receivables		1,595	2,279
Other accruals		4,452	4,463
Loss/(Gain) on disposal of property, plant and equipment	31	1,079	(494)
Net foreign exchange (gain)/loss		(28,991)	93,238
Write-offs and impairment loss		16,672	4,282
Net change in fair value of biological assets and agricultural produce	13	(20,134)	6,789
Share of gain of joint ventures	32	(3,886)	(5,087)
Loss/(Gain) on sales of Subsidiaries	7, 14, 31	3,595	(861)
Other losses		5,607	—
<b>Operating profit before working capital changes</b>		<b>330,453</b>	338,715
<b>Changes in working capital:</b>			
Change in trade accounts receivable		(17,204)	29,517
Change in prepayments and other current assets		396	(10,148)
Change in restricted cash balance		4,897	(5,000)
Change in taxes recoverable and prepaid		(50,904)	(14,888)
Change in biological assets		(13,857)	18,374
Change in inventories		(87,671)	123,940
Change in trade accounts payable		15,787	5,509
Change in advances from customers and other current liabilities		12,232	102
<b>Cash generated from operations</b>		<b>194,129</b>	486,121
Finance costs paid		(57,595)	(68,371)
Income tax paid		(2,811)	(13,027)
<b>Net cash generated by operating activities</b>		<b>133,723</b>	404,723
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(33,863)	(24,728)
Proceeds from disposal of property, plant and equipment		3,507	2,052
Purchase of intangible and other non-current assets		(525)	(4,105)
Acquisition of subsidiaries	7	(49,957)	—
Disposal of subsidiaries	7, 14	13,689	2,476
Amount advanced for subsidiaries	14	6,417	—
<b>Net cash used in investing activities</b>		<b>(60,732)</b>	(24,305)
<b>Financing activities:</b>			
Proceeds from borrowings		391,425	147,265
Repayment of borrowings		(505,973)	(423,005)
Payment of dividends	2	(19,921)	(19,921)
Repayment of reimbursed debt		—	(13,499)
Acquisition of non-controlling interests	1	—	(664)
<b>Net cash used in financing activities</b>		<b>(134,469)</b>	(309,824)
Effects of exchange rate changes on the balance of cash held in foreign currencies		(2,374)	(11,874)
Net (decrease)/increase in cash and cash equivalents		(63,852)	58,720
Cash and cash equivalents, at the beginning of the year	8	124,121	65,401
Cash and cash equivalents, at the end of the year	8	60,269	124,121

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

Kernel Holding S.A. (hereinafter referred to as the 'Holding' or the 'Company') incorporated under the legislation of Luxembourg on 15 June 2005 (number B 109,173 in the Luxembourg Register of Companies) is the holding company for a group of entities (hereinafter referred to as the 'Subsidiaries'), which together form Kernel Group (hereinafter referred to as the 'Group' or the 'Kernel 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 corn, soybean, wheat and barley), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine and the Russian Federation. As of 30 June 2016, the Group employed 14,075 people (15,229 people as of 30 June 2015).

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

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

As of 30 June 2016 and 30 June 2015, the primary subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of	
			30 June 2016	30 June 2015
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%
Tweelingen Ukraine LLC		Ukraine	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%
Prydniprovskiy OEP LLC		Ukraine	100.0% <sup>(1)</sup>	0.0%
Stavropol oil CJSC		Russian Federation	0.0% <sup>(2)</sup>	100.0%
Ust-Labinsk Florentina OEP LLC		Russian Federation	0.0% <sup>(2)</sup>	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%
Agrofirma Kuybyshevo LLC		Ukraine	100.0%	100.0%
Palmira LLC		Ukraine	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0% <sup>(3)</sup>

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 21 October 2016.

<sup>(1)</sup> Was founded on 28 August 2015 as 'Zernoviy Terminal' LLC and on 16 May 2016 renamed in Prydniprovskiy OEP LLC.

<sup>(2)</sup> Disposed in March 2016 (Note 7).

<sup>(3)</sup> During the year ended 30 June 2015, the Group acquired non-controlling interests in agricultural farms with a total negative net assets in the amount of USD 9,477 thousand, for a cash consideration in the amount of USD 664 thousand. These operations were recorded within the statement of changes in equity as transactions between equity holders.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'). The issued capital of the Holding as of 30 June 2016 and 2015 consisted of 79,683,410 ordinary electronic shares without indication of the nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

	As of 30 June 2016		As of 30 June 2015	
	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')	31,345,878	39.34%	31,247,152	39.21%
Free float	48,337,532	60.66%	48,436,258	60.79%
<b>Total</b>	<b>79,683,410</b>	<b>100.00%</b>	<b>79,683,410</b>	<b>100.00%</b>

As of 30 June 2016 and 2015, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

On 9 June 2014, the Company received a notification from NATIONALE-NEDERLANDEN Powszechnie Towarzystwo Emerytalne S.A. (former ING Ot-warty Fundusz Emerytalny) that it had crossed the 5% threshold for ownership and owned 6.01% of Kernel Holding S.A.'s share capital.

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

On 20 June 2016, the Company received a notification from Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna that it had acquired 4,119,128 shares in the Company, representing 5.17% of the subscribed share capital.

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

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 30 June 2016, may not be distributed as dividends.

As part of the management incentive scheme, the Company's executives and senior employees are granted options to acquire shares of the Company. During the year ended 30 June 2015, the board of directors approved a new management incentive plan and amendment to the previous management incentive plan, issuing a total of 4,350,000 new options (600,000 options with a strike price of PLN 75.00 and 3,750,000 options with a strike price of PLN 29.61), with the authorized capital due to be approved by the general meeting of shareholders. As a result, as of 30 June 2016, a total of 7,407,820 options were issued, of which 4,057,820 were vested. 657,820 options (all vested) have a strike price of PLN 24.00, 3,000,000 options (all vested) have a strike price of PLN 75.00, and 3,750,000 options (of which 400,000 are vested) have a strike price of PLN 29.61. The weighted average remaining contractual life was 12 years. These options granted under the Company's management incentive scheme carry no rights to dividends and no voting rights.

The fair value of the share-based options was USD 6,582 thousand as of 30 June 2016 and USD 1,789 thousand was recognized as an expense (part of payroll and payroll related expenses) during the year ended 30 June 2016 with a corresponding increase in equity over the vesting period (30 June 2015: USD 4,793 thousand and USD 1,617 thousand, respectively).

On 10 December 2015, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share amounting to USD 19,921 thousand.

On 29 April 2016, the dividends were fully paid to the shareholders.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies

### Basis of Preparation and Accounting

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

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

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

### Adoption of New and Revised Standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 July 2015:

- \* Amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions
- \* Amendments to IFRSs – 'Annual Improvements to IFRSs 2010-2012 Cycle'
- \* Amendments to IFRSs – 'Annual Improvements to IFRSs 2011-2013 Cycle'

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

### Standards and Interpretations Issued but not Effective

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

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 1 'Disclosure Initiative'	1 January 2016
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
Amendments to IAS 16 and IAS 41: Bearer Plants	1 January 2016
Amendments to IAS 27 'Separate Financial Statements' (revised 2011) – Equity Method in Separate Financial Statements	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception	1 January 2016
Amendments to IFRSs – 'Annual Improvements to IFRSs 2012-2014 Cycle'	1 January 2016
Amendments to IAS 7 'Disclosure Initiative'	Not yet adopted in the EU
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	Not yet adopted in the EU
IFRS 15 'Revenue from Contracts with Customers'	Not yet adopted in the EU
IFRS 9 'Financial Instruments'	Not yet adopted in the EU
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions	Not yet adopted in the EU
Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance contracts'	Not yet adopted in the EU
IFRS 16 'Leases'	Not yet adopted in the EU
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	EU endorsement currently halted

Management is currently evaluating the impact of the adoption of IFRS 9 'Financial Instruments', IFRS 16 'Leases', IFRS 15 'Revenue from Contracts with Customers' and amendments to IAS 12 'Income Taxes' and IFRS 2 'Share-based Payment'. For other standards and interpretations, management anticipates that their adoption will not have a material effect on the financial statements of the Group in future periods.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Functional and Presentation Currency

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

### Foreign Currencies

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

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

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

Currency	Closing rate as of 30 June 2016	Average rate for the year ended 30 June 2016	Closing rate as of 30 June 2015	Average rate for the year ended 30 June 2015
USD/UAH	24.8544	23.8630	21.0154	17.4029
USD/EUR	0.8994	0.9011	0.8975	0.8359
USD/RUB	64.2575	67.3438	55.5240	49.5381
USD/PLN	3.9803	3.8706	3.7645	3.4846

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

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

### Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2016.

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

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Basis of Consolidation continued

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

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

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

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

### Fair Value Measurement

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

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

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

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

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

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

### Business Combinations

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

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

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



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Business Combinations continued

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

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

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

### Goodwill

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

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

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

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

### Investments in Joint Ventures

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

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

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

### Discontinued Operations

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Discontinued Operations continued

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

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

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

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

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

### Inventories

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

### Biological Assets and Agricultural Produce

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

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

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

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

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

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

### Property, Plant, and Equipment

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Property, Plant and Equipment continued

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

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

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

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

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

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

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

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

### Intangible Assets

Intangible assets with finite useful lives that are acquired separately are measured on initial recognition at cost. Amortization is recognized on a straight-line basis over their estimated useful lives. The amortization method and estimated useful life are reviewed annually with the effect of any changes in estimate being accounted for on a perspective basis. Intangible asset with indefinite useful lives that are acquired separately shall not be amortized and are carried at cost less accumulated impairment loss.

### Trademarks

The 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks have indefinite useful lives and are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

### Land Lease Rights

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

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

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

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

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

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

### Financial Instruments

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

The financial assets of the Group are represented by cash, loans and receivables and financial assets at fair value through profit or loss. The financial liabilities of the Group are represented by other financial liabilities and financial liabilities at fair value through profit or loss. Other financial liabilities (including borrowings, obligations under finance lease, trade and other payables) are subsequently measured at amortized cost using the effective interest method.

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

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss. The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below the market is recognized net of the tax effect as an income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Financial Instruments continued

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

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

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

### Cash and Cash Equivalents

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

### Loans Receivable

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

### Trade Accounts Receivable

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

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

### Impairment of Financial Assets

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

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

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

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



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Impairment of Financial Assets continued

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

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

### Trade payables

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

### Leases

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

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

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

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

### Taxes Recoverable and Prepaid

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

### Employee Benefits

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

### Provisions

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Contingencies

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

### Issued Capital

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

### Repurchase of Issued Capital

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

### Equity-settled Transactions

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

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

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

### Earnings per Share

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

### Revenue Recognition

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

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

#### Sale of Goods and Finished Products

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

#### Rendering of Services

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

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

#### VAT benefits

Some of the Group's companies are subject to special tax treatment for value added tax (VAT). The Group's enterprises that qualify as agricultural producers are entitled to retain a portion of net VAT payable. VAT amounts payable are not transferred to the government, but credited to the entity's separate special account to support the agriculture activities of the Group. Starting from 1 January 2016, producers of grain and industrial crops, cattle and dairy producers, poultry and other agriculture producers shall retain VAT in a portion of 15%, 80% and 50%, respectively. Till 31 December 2015 100% of net VAT liability was retained by agricultural producers. Abovementioned share of the net result of VAT operations calculated as an excess of the VAT liability over VAT credit is accounted for in the Consolidated Statement of the Profit or Loss as other operating income. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities in the next period.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Borrowing Costs

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

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

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

### Income Taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently enacted in the legal jurisdictions where the operating entities are located. Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Deferred tax assets and liabilities are offset when:

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

### Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 30 June 2015 and for the year then ended to conform to the current year's presentation.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

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

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

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

### Critical Judgments in Applying Accounting Policies

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

#### Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying grain is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying grain indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 29,167 thousand and USD 48,837 thousand for the years ended 30 June 2016 and 2015, respectively.

#### Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (bulk and bottled oil segments). At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period.

During the year ended 30 June 2016, the Group appointed an independent appraiser to perform a revaluation of buildings, constructions, production machinery and equipment used in the sunflower oil segments (both in bulk and bottled).

The independent appraiser has performed the valuation in accordance with International Valuation Standards applying the following techniques:

- depreciated replacement cost for buildings and constructions; and
- depreciated replacement cost and market comparable approach, if applicable, for production machinery and equipment.

Key assumptions used by the independent appraiser in assessing the fair value of property, plant and equipment using the replacement cost and market comparable methods were as follows:

- present condition of particular assets based on examination of valuation experts and physical wear-and-tear;
- changes in prices of equipment, construction materials and services from the date of their acquisition/construction to the date of valuation represented by inflation rates;
- external prices for production machinery and equipment; and
- other external and internal factors that might have effect on fair value of property, plant and equipment under review.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

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

The results of revaluation using the depreciated replacement cost and market comparable approaches were then compared with results of income approach for corresponding assets to test whether impairment indicators exist.

Description	Fair value as of 30 June 2016	Valuation techniques	Fair value hierarchy	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Buildings and constructions	192,371	Depreciated replacement cost	Level 3	Index of physical depreciation	0-100% (34%)	The higher the index of physical depreciation, the lower the fair value
Production machinery and equipment	67,346	Depreciated replacement cost	Level 3	Index of physical depreciation	0-100% (44%)	The higher the index of physical depreciation, the lower the fair value
Production machinery and equipment	9,862	Market comparables	Level 3	Index of physical depreciation	6-82% (66%)	The higher the index of physical depreciation, the lower the fair value

If the above unobservable inputs to the valuation model were 5 p. p. higher/lower while all other variables were held constant, the carrying amount of the buildings and constructions and production machinery and equipment would decrease/increase by USD 18,454 thousand and USD 17,807 thousand, respectively.

### Sources of Estimation Uncertainty

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

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

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

As of 30 June 2016, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 133,938 thousand (30 June 2015: USD 133,282 thousand). As of 30 June 2016, the impairment loss for goodwill and intangible assets with indefinite useful lives was recognized in the amount of USD 8,768 thousand (Notes 16, 17) (30 June 2015: USD 6,169 thousand). Details of the management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Notes 16 and 17.

### Impairment of Property, Plant and Equipment

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

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

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

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

As of 30 June 2016, no indicators of property, plant and equipment impairment have been identified.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

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

### Useful Lives of Property, Plant and Equipment

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

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

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

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

### Fair Value of Biological Assets and Agricultural Produce

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

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

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

### Deferred Tax Recognition

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

### VAT Recoverability

As of 30 June 2016, total VAT recoverable amounted to USD 116,429 thousand (as of 30 June 2015: USD 80,211 thousand) (Note 11). The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by setting it off against VAT liabilities in future periods. Management classifies the VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within 12 months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed to be created.

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

### Acquisition of Subsidiary

On 31 March 2016 the Group has acquired pledged assets through assignment agreement with a Ukrainian bank, which are represented by a 560,000 ton capacity oilseed crushing plant located in Kirovograd region. These assets were further registered at a Subsidiary of the Group – Prydniprovskiy OEP LLC. While accounting for this transaction, management considered the following matters: inputs, processes and outputs, to conclude whether assets acquired constitute a business or not. The following considerations were taken into account by management, that the Group has retained suppliers who provided raw materials for the production previously, all major operational processes as well as all major personnel were secured except for top management which was changed by the Group. Based on these considerations, management has concluded that the acquired assets constitute a business and should be accounted as a business combination of an oilseed crushing plant.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 5. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The management and members of the board of directors of the Group are identified as the chief operating decision makers.

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2016:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	102,608	1,032,137	186	25,063	821,671	7,306	—	—	—	(451)	1,988,520
Intersegment sales	—	—	57,142	333,013	—	30,899	—	—	(421,054)	—	—
<b>Total revenue</b>	<b>102,608</b>	<b>1,032,137</b>	<b>57,328</b>	<b>358,076</b>	<b>821,671</b>	<b>38,205</b>	<b>—</b>	<b>—</b>	<b>(421,054)</b>	<b>(451)</b>	<b>1,988,520</b>
Net change in fair value of biological assets and agricultural produce	—	—	—	20,134	—	—	—	—	—	—	20,134
Other operating income, net	112	3,832	15	33,876	6,063	777	—	—	—	(58)	44,617
<b>Profit/(Loss) from operating activities</b>	<b>13,035</b>	<b>96,463</b>	<b>34,480</b>	<b>112,857</b>	<b>46,265</b>	<b>19,907</b>	<b>—</b>	<b>(38,332)</b>	<b>—</b>	<b>2,515</b>	<b>287,190</b>
Finance costs, net	—	—	—	—	—	—	—	—	—	—	(57,121)
Foreign exchange gain, net	—	—	—	—	—	—	—	—	—	—	30,442
Other expenses, net	—	—	—	—	—	—	—	—	—	—	(16,608)
Share of gain of joint ventures	—	—	—	—	—	—	—	—	—	—	3,886
Income tax expenses	—	—	—	—	—	—	—	—	—	—	(3,910)
Profit for the period from continuing operations	—	—	—	—	—	—	—	—	—	—	243,879
<b>Total assets</b>	<b>56,127</b>	<b>827,835</b>	<b>115,387</b>	<b>311,559</b>	<b>80,346</b>	<b>54,193</b>	<b>—</b>	<b>60,306</b>	<b>—</b>	<b>—</b>	<b>1,505,753</b>
Capital expenditures	114	54,520	1,799	16,970	—	1,981	—	19,674	—	—	95,058
Amortization and depreciation	2,793	16,557	2,999	33,049	—	3,486	—	1,118	—	(839)	59,163
Liabilities	2,290	25,493	16,366	37,012	12,335	2,214	—	416,590	—	—	512,300

During the year ended 30 June 2016, one of the Group's external customers accounted for more than 10% of total external revenue. Also, during that period, export sales amounted to 96% 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 of the assets and about revenue from continuing operations generated by the assets located in these areas is detailed below:

	Revenue from external customers	Non-current assets
	Year ended 30 June 2016	As of 30 June 2016
Ukraine	1,748,691	736,035
Russian Federation	239,829	52,853
<b>Total</b>	<b>1,988,520</b>	<b>788,888</b>

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment continued

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

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	114,060	1,099,674	76	29,010	1,053,267	7,668	27,446	—	—	(1,694)	2,329,507
Intersegment sales	—	—	55,186	281,383	—	34,725	—	—	(371,294)	—	—
<b>Total revenue</b>	<b>114,060</b>	<b>1,099,674</b>	<b>55,262</b>	<b>310,393</b>	<b>1,053,267</b>	<b>42,393</b>	<b>27,446</b>	<b>—</b>	<b>(371,294)</b>	<b>(1,694)</b>	<b>2,329,507</b>
Net change in fair value of biological assets and agricultural produce	—	—	—	(6,789)	—	—	—	—	—	—	(6,789)
Other operating income, net	863	39,077	479	22,642	19,588	265	52	—	—	(546)	82,420
<b>Profit/(Loss) from operating activities</b>	<b>17,582</b>	<b>175,847</b>	<b>33,768</b>	<b>58,404</b>	<b>59,369</b>	<b>13,684</b>	<b>4,262</b>	<b>(34,334)</b>	<b>—</b>	<b>6,975</b>	<b>335,557</b>
Finance costs, net											(64,809)
Foreign exchange loss, net											(143,443)
Other expenses, net											(9,554)
Share of gain of joint ventures											5,087
Income tax expenses											(1,152)
Profit for the period from continuing operations											121,686
<b>Total assets</b>	<b>68,798</b>	<b>772,323</b>	<b>122,548</b>	<b>340,061</b>	<b>80,106</b>	<b>71,792</b>	<b>881</b>	<b>6,627</b>	<b>—</b>	<b>—</b>	<b>1,463,136</b>
Capital expenditures	2,786	6,917	749	14,031	—	9,151	—	497	—	—	34,131
Amortization and depreciation	2,958	16,703	3,028	39,535	—	4,640	—	1,423	—	(1,434)	66,853
Liabilities	2,074	41,754	902	24,740	13,891	6,319	923	484,171	—	—	574,774

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

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries

As stated in Note 4, on 31 March 2016 the Group has acquired pledged assets, which were further registered for Prydniprovskiy OEP LLC, which was accounted as the business combination. As of the date of acquisition, the net assets of oilseed crushing plant were USD 59,090 thousand and mostly consisted of property, plant and equipment in the amount of USD 49,132 thousand. As of 30 June 2016, the consideration paid comprised USD 49,957 thousand and the amount due and payable was USD 25,315 (as of the date of acquisition USD 41,957 thousand and USD 30,358 thousand, respectively), calculated as the present value of amounts payable in arrears within the next five years discount rate 22.96% (out of which USD 23,598 thousand represented the long-term part within the line 'Other non-current liabilities' and USD 1,717 thousand represented the short-term part within the line 'Advances from customers and other current liabilities').

The Group does not disclose the revenue and net profit of the acquired oilseed crushing plant as if it has been acquired at the beginning of the reporting period as it is impracticable due to the fact that no IFRS financial information is available for the acquired plant as from the beginning of the reporting period and up to the date of acquisition.

The goodwill in the amount of USD 13,225 thousand arising from the accounting for acquisition of Prydniprovskiy OEP LLC as business combination is attributable to the increasing capacity and the synergies expected to be gained in crushing, origination and marketing, decrease in regional competition for raw materials, and efficiency of scale and is not tax deductible.

During the year ended 30 June 2016, the Group disposed of two grain elevators located in the Mykolaiv and Zaporizhzhya regions and one small farming entity registered in the Kyiv region with no material leasehold farmland as of the date of disposal. The net assets of the disposed entities as of the date of disposal were equal to USD 1,189 thousand and the cash consideration received was USD 1,772 thousand. Cash balances disposed of comprised USD 16 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

During the year ended 30 June 2016, the Group disposed of two oilseed crushing plants located in the Russian Federation. The net assets of the disposed entities as of the date of disposal were equal to USD 16,122 thousand and the cash consideration received was USD 11,944 thousand. Cash balances disposed of comprised USD 11 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

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

During the year ended 30 June 2015, the Group disposed of one of its grain elevators located in the Kharkiv region. The net assets of the disposed entity as of the date of disposal were equal to USD 400 thousand and the cash consideration received was USD 1,232 thousand.

## 8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2016	As of 30 June 2015
Cash in banks in USD	55,825	110,537
Cash in banks in UAH	2,729	18,077
Cash in banks in other currencies	1,814	500
Cash on hand	4	7
<b>Total</b>	<b>60,372</b>	<b>129,121</b>
Less restricted and blocked cash on security bank accounts	(103)	(5,000)
<b>Cash for the purposes of cash flow statement</b>	<b>60,269</b>	<b>124,121</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 9. Trade Accounts Receivable, net

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

	As of 30 June 2016	As of 30 June 2015
Trade accounts receivable	76,743	58,060
Allowance for estimated irrecoverable amounts	(1,536)	(1,925)
<b>Total</b>	<b>75,207</b>	<b>56,135</b>

As of 30 June 2016, accounts receivable from one European customer accounted for approximately 11.6%, and one Ukrainian customer for 2.1% of the total carrying amount of trade accounts receivable (as of 30 June 2015: one European customer for approximately 22.2% and one Ukrainian customer for 3.4%).

The average credit period on sales of goods was 12 days (for the period ended 30 June 2015: 12 days). No interest is charged on the outstanding balances of trade accounts receivable. Most of the trade accounts receivable past due for more than one month are considered to be impaired. Allowances for doubtful debts are recognized against trade accounts receivable that are overdue between 30 and 365 days and are calculated on the basis of the delay in payment by applying a fixed percentage.

Before accepting any new customer, the Group uses an external credit status system to assess the potential customer's credit quality and estimates credit limits by customer. Solvency and payment delays per customers are reviewed each quarter. As of 30 June 2016, the amount of not impaired trade accounts receivables and receivables past due less than one month accounted for USD 74,809 thousand (as of 30 June 2015: USD 53,746 thousand).

As of 30 June 2016, trade accounts receivable past due for more than one year were impaired in full and amounted to USD 1,473 thousand (2015: USD 1,818 thousand).

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

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

	As of 30 June 2016	As of 30 June 2015
Prepayments to suppliers	38,658	38,535
Other current assets	20,945	29,414
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(6,620)	(7,302)
<b>Total</b>	<b>52,983</b>	<b>60,647</b>

## 11. Taxes Recoverable and Prepaid, net

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

	As of 30 June 2016	As of 30 June 2015
VAT ('value added tax') recoverable and prepaid	116,429	80,211
Other taxes recoverable and prepaid	13,949	8,035
<b>Total</b>	<b>130,378</b>	<b>88,246</b>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in full within 12 months after the reporting date. For the year ended 30 June 2016, the amount of VAT refunded by the government in cash was USD 222,657 thousand (for the year ended 30 June 2015: USD 177,408 thousand).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 12. Inventory

The balances of inventories were as follows:

	As of 30 June 2016	As of 30 June 2015
Finished products	129,442	61,201
Goods for resale	39,068	19,640
Raw materials	21,012	59,249
Agricultural products	4,551	8,578
Fuel	1,899	2,624
Packaging materials	647	805
Other inventories	3,594	6,659
<b>Total</b>	<b>200,213</b>	<b>158,756</b>

As of 30 June 2016, finished products mostly consisted of sunflower oil sold in bulk in the amount of USD 120,192 thousand (as of 30 June 2015: USD 50,846 thousand).

As of 30 June 2016 and 30 June 2015, the inventory balances in the amounts of USD 110,427 thousand and USD 110,857 thousand, respectively, were pledged as security for short-term borrowings (Note 20).

## 13. Biological Assets

The balances of crops in fields were as follows:

	As of 30 June 2016		As of 30 June 2015	
	Hectares	Value	Hectares	Value
Corn	138,243	71,561	159,774	39,038
Wheat	82,372	41,529	72,500	30,864
Sunflower seed	81,429	48,697	61,902	37,308
Soybean	58,208	15,285	67,227	25,814
Pea	5,626	4,197	3,343	726
Forage	3,581	1,066	4,443	1,872
Rapeseed	2,639	2,885	9,565	6,675
Barley	1,244	632	131	11
Other	8,037	2,558	7,355	1,780
<b>Total</b>	<b>381,379</b>	<b>188,410</b>	<b>386,240</b>	<b>144,088</b>

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2016 and 30 June 2015:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 30 June 2014</b>	<b>148,800</b>	<b>29,693</b>	<b>178,493</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2014)	78,321	—	78,321
Decrease due to harvest (harvest 2014)	(227,121)	(29,693)	(256,814)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2015)	128,464	—	128,464
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2015)	—	13,124	13,124
Exchange difference	—	2,500	2,500
<b>As of 30 June 2015</b>	<b>128,464</b>	<b>15,624</b>	<b>144,088</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2015)	83,588	—	83,588
Decrease due to harvest (harvest 2015)	(212,052)	(15,624)	(227,676)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2016)	150,423	—	150,423
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2016)	—	33,742	33,742
Exchange difference	3,692	553	4,245
<b>As of 30 June 2016</b>	<b>154,115</b>	<b>34,295</b>	<b>188,410</b>



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 13. Biological Assets continued

The balances of current cattle were as follows:

	As of 30 June 2016		As of 30 June 2015	
	Number of heads	Value	Number of heads	Value
Cattle	8,907	1,902	10,139	2,483

As of 30 June 2016, non-current cattle in the amount of USD 7,447 thousand (2015: USD 6,189 thousand) were represented mainly by 8,279 heads of milk cows (2015: 9,031 heads) (Note 18). The change in the balances was mainly represented by a change in the mix of cattle and variation in prices and exchange rates between reporting dates. For the year ended 30 June 2016, the net gain arising from changes in the fair value of biological assets in the amount of USD 20,134 thousand (2015: loss of USD 6,789 thousand) includes a USD 1,325 thousand loss on changes in current and non-current cattle's fair value (2015: loss of USD 6,093 thousand).

Crops in fields and non-current cattle of the Group are measured using the discounted cash flow technique and are within the level 3 of the fair value hierarchy.

Current cattle is measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy. There were no changes in the valuation technique from the previous year. There were no material transfers between any levels during the year.

Description	Fair value as of 30 June 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	188,410	Discounted cash flow	Crop yields	1.60-7.00 (4.17) tons per hectare	The higher the crop yield, the higher the fair value
			Crop prices	USD 130 - 413 (259) USD per ton	The higher the crop price, the higher the fair value
			Discount rate	24.45% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	7,447	Discounted cash flow	Milk yield	15.00 – 19.56 (17.28) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.22 – 0.23 (0.22) per liter	The higher the market milk price, the higher the fair value
			Meat price	USD 0.57 – 0.89 (0.73) per kg	The higher the market meat price, the higher the fair value
			Weight of 1 calf	30 - 33 (31.5) kg	The higher the weight, the higher the fair value
			Yield of calves from 100 cows per year	66 - 80 (73) calves	The higher the yield, the higher the fair value
			Discount rate	18.50% (in UAH, long-term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 31,760 thousand and USD 30,271 thousand, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 14. Assets Classified as Held for Sale and Discontinued Operations

During the year ended 30 June 2016, the Group disposed of the property, plant and equipment that belonged to sugar segment. Net assets as of the date of disposal amounted to USD 2,030 thousand and total cash consideration received was USD 1,386 thousand.

As of 30 June 2016, according to management's plan to dispose one of export terminals, its net assets, which predominantly consist of property, plant and equipment in the amount of USD 3,602 thousand were classified as assets held for sale. As of 30 June 2016, advance for sale of the subsidiary in the amount of USD 6,417 has been received. The above mentioned property, plant and equipment was disposed in September 2016.

As a result of disposal of oilseed crushing plants located in the Russian Federation (sunflower oil sold in bulk operating segment), for the years ended 30 June 2016 and 2015, their activities were classified as discontinued operations. For the year ended 30 June 2015, discontinued operations of the Group also included activities of two remaining sugar plants (sugar operating segment).

The combined results of the discontinued operations included in the Consolidated Statement of Profit or Loss are set out below.

Result for the year from discontinued operations:

	Year ended 30 June 2016	Year ended 30 June 2015
Revenue	451	1,694
Cost of sales	(1,093)	(6,146)
Other operating income	58	546
Distribution costs	(1,028)	(1,454)
General and administrative expenses	(903)	(1,615)
Finance costs, net	(1,677)	(3,766)
Foreign exchange loss, net	(2,216)	(9,496)
Other expenses, net	(5,539)	(5,357)
Income tax expenses	(910)	(559)
Loss on disposal of operation	(4,178)	—
<b>Loss for the period from discontinued operations</b>	<b>(17,035)</b>	<b>(26,153)</b>

Earnings per share from discontinued operations

	Year ended 30 June 2016	Year ended 30 June 2015
Loss per ordinary share (in USD)	(0.21)	(0.33)
Diluted loss per ordinary share (in USD)	(0.21)	(0.33)

Since the full amount of loss from discontinued operations is attributed to equity holders of the Company, all of it is used in the calculation of basic and diluted earnings per share from discontinued operations.

Cash flows from discontinued operations:

	Year ended 30 June 2016	Year ended 30 June 2015
Net cash outflow form operating activities	(2,061)	(7,947)
Net cash outflow from financing activities	(38,000)	(10,000)
<b>Net decrease in cash and cash equivalents</b>	<b>(40,061)</b>	<b>(17,947)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2016:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net book value as of 30 June 2015</b>	<b>313,561</b>	<b>51,662</b>	<b>105,022</b>	<b>59,716</b>	<b>5,216</b>	<b>535,177</b>
Land	3,932	1,487	43	186	49	5,697
Buildings and constructions	217,352	21,748	15,120	42,912	2,529	299,661
Production machinery and equipment	80,730	27,003	3,583	9,929	40	121,285
Agricultural equipment and vehicles	1,449	35	81,184	330	1,149	84,147
Other fixed assets	3,142	139	2,403	396	1,437	7,517
CIP and uninstalled equipment	6,956	1,250	2,689	5,963	12	16,870
<b>Additions</b>	<b>5,464</b>	<b>1,786</b>	<b>16,364</b>	<b>1,917</b>	<b>19,613</b>	<b>45,144</b>
CIP and uninstalled equipment	5,464	1,786	16,364	1,917	19,613	45,144
<b>Reclassification</b>	<b>662</b>	<b>12</b>	<b>1,168</b>	<b>(1,092)</b>	<b>(750)</b>	<b>—</b>
Buildings and constructions	(26)	4	770	(750)	21	19
Production machinery and equipment	(59)	5	193	(333)	1	(193)
Agricultural equipment and vehicles	742	(1)	117	24	(773)	109
Other fixed assets	5	4	72	(17)	1	65
CIP and uninstalled equipment	—	—	16	(16)	—	—
<b>Additions from acquisition of subsidiaries</b>	<b>49,132</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>49,132</b>
Buildings and constructions	27,424	—	—	—	—	27,424
Production machinery and equipment	21,391	—	—	—	—	21,391
Other fixed assets	317	—	—	—	—	317
<b>Transfers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Land	—	—	—	—	1,097	1,097
Buildings and constructions	1,895	(2)	3,283	5,176	17,863	28,215
Production machinery and equipment	2,199	261	82	1,352	—	3,894
Agricultural equipment and vehicles	663	128	11,465	40	196	12,492
Other fixed assets	389	67	1,284	598	686	3,024
CIP and uninstalled equipment	(5,146)	(454)	(16,114)	(7,166)	(19,842)	(48,722)
<b>Revaluation</b>	<b>(1,236)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,236)</b>
Buildings and constructions	(7,940)	—	—	—	—	(7,940)
Production machinery and equipment	6,704	—	—	—	—	6,704
<b>Disposals (at net book value)</b>	<b>(18,176)</b>	<b>(5)</b>	<b>(1,818)</b>	<b>(898)</b>	<b>(96)</b>	<b>(20,993)</b>
Land	(1,653)	—	—	—	—	(1,653)
Buildings and constructions	(10,232)	(2)	(287)	(796)	(86)	(11,403)
Production machinery and equipment	(4,150)	(1)	(94)	(90)	—	(4,335)
Agricultural equipment and vehicles	(65)	—	(1,349)	(1)	(4)	(1,419)
Other fixed assets	(133)	—	(65)	(7)	(5)	(210)
CIP and uninstalled equipment	(1,943)	(2)	(23)	(4)	(1)	(1,973)
<b>Transfers to assets classified as held for sale</b>	<b>—</b>	<b>(3,602)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(3,602)</b>
Land	—	(1,258)	—	—	—	(1,258)
Buildings and constructions	—	(1,552)	—	—	—	(1,552)
Production machinery and equipment	—	(18)	—	—	—	(18)
Other fixed assets	—	(35)	—	—	—	(35)
CIP and uninstalled equipment	—	(739)	—	—	—	(739)

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net continued

The following table represents movements in property, plant and equipment for the year ended 30 June 2016 (continued):

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Depreciation expense</b>	<b>(18,967)</b>	<b>(2,981)</b>	<b>(23,730)</b>	<b>(3,472)</b>	<b>(920)</b>	<b>(50,070)</b>
Buildings and constructions	(8,729)	(794)	(2,086)	(2,463)	(230)	(14,302)
Production machinery and equipment	(8,885)	(2,128)	(483)	(780)	(6)	(12,282)
Agricultural equipment and vehicles	(650)	(12)	(20,493)	(66)	(153)	(21,374)
Other fixed assets	(703)	(47)	(668)	(163)	(531)	(2,112)
<b>Exchange difference</b>	<b>(253)</b>	<b>(1,069)</b>	<b>(5,990)</b>	<b>(8,921)</b>	<b>1,409</b>	<b>(14,824)</b>
Land	—	(229)	(7)	(28)	72	(192)
Buildings and constructions	—	(504)	(2,392)	(6,920)	1,112	(8,704)
Production machinery and equipment	—	(107)	(570)	(1,563)	(5)	(2,245)
Agricultural equipment and vehicles	(257)	(1)	(1,785)	(38)	(22)	(2,103)
Other fixed assets	(2)	(17)	(323)	(99)	21	(420)
CIP and uninstalled equipment	6	(211)	(913)	(273)	231	(1,160)
<b>Net book value as of 30 June 2016</b>	<b>330,187</b>	<b>45,803</b>	<b>91,016</b>	<b>47,250</b>	<b>24,472</b>	<b>538,728</b>
Land	2,279	—	36	158	1,218	3,691
Buildings and constructions	219,744	18,898	14,408	37,159	21,209	311,418
Production machinery and equipment	97,930	25,015	2,711	8,515	30	134,201
Agricultural equipment and vehicles	1,882	149	69,139	289	393	71,852
Other fixed assets	3,015	111	2,703	708	1,609	8,146
CIP and uninstalled equipment	5,337	1,630	2,019	421	13	9,420

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net continued

The following table represents movements in property, plant and equipment for the year ended 30 June 2015:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net book value as of 30 June 2014</b>	<b>326,891</b>	<b>59,035</b>	<b>148,825</b>	<b>101,038</b>	<b>7,673</b>	<b>643,462</b>
Land	3,932	2,644	6	770	46	7,398
Buildings and constructions	224,538	25,067	29,672	74,314	3,072	356,663
Production machinery and equipment	87,434	29,431	10,622	15,373	582	143,442
Agricultural equipment and vehicles	897	49	101,904	289	1,378	104,517
Other fixed assets	3,385	251	4,813	727	2,582	11,758
CIP and uninstalled equipment	6,705	1,593	1,808	9,565	13	19,684
<b>Additions</b>	<b>6,872</b>	<b>748</b>	<b>12,724</b>	<b>9,129</b>	<b>426</b>	<b>29,899</b>
CIP and uninstalled equipment	6,872	748	12,724	9,129	426	29,899
<b>Reclassification</b>	<b>(10)</b>	<b>4</b>	<b>1,105</b>	<b>(891)</b>	<b>(208)</b>	<b>—</b>
Land	—	—	70	—	3	73
Buildings and constructions	270	37	712	6	14	1,039
Production machinery and equipment	(237)	(35)	(4,412)	(6)	(514)	(5,204)
Agricultural equipment and vehicles	(23)	41	5,455	2	1,297	6,772
Other fixed assets	152	(39)	(1,778)	—	(1,015)	(2,680)
CIP and uninstalled equipment	(172)	—	1,058	(893)	7	—
<b>Transfers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Buildings and constructions	1,234	112	1,332	4,730	4	7,412
Production machinery and equipment	3,329	137	877	2,713	—	7,056
Agricultural equipment and vehicles	1,039	—	7,727	276	36	9,078
Other fixed assets	359	70	1,462	145	377	2,413
CIP and uninstalled equipment	(5,961)	(319)	(11,398)	(7,864)	(417)	(25,959)
<b>Disposals (at net book value)</b>	<b>(785)</b>	<b>(3)</b>	<b>(1,391)</b>	<b>(776)</b>	<b>(54)</b>	<b>(3,009)</b>
Land	—	—	—	(298)	—	(298)
Buildings and constructions	(19)	—	(412)	(314)	(16)	(761)
Production machinery and equipment	(208)	—	(19)	(138)	—	(365)
Agricultural equipment and vehicles	(48)	(1)	(880)	(6)	(23)	(958)
Other fixed assets	(22)	—	(28)	(7)	(7)	(64)
CIP and uninstalled equipment	(488)	(2)	(52)	(13)	(8)	(563)
<b>Depreciation expense</b>	<b>(19,261)</b>	<b>(3,023)</b>	<b>(26,510)</b>	<b>(4,628)</b>	<b>(1,225)</b>	<b>(54,647)</b>
Buildings and constructions	(8,670)	(848)	(3,459)	(3,379)	(138)	(16,494)
Production machinery and equipment	(9,581)	(2,111)	(750)	(1,026)	(7)	(13,475)
Agricultural equipment and vehicles	(281)	(18)	(21,623)	(69)	(588)	(22,579)
Other fixed assets	(729)	(46)	(678)	(154)	(492)	(2,099)
<b>Exchange difference</b>	<b>(146)</b>	<b>(5,099)</b>	<b>(29,731)</b>	<b>(44,156)</b>	<b>(1,396)</b>	<b>(80,528)</b>
Land	—	(1,157)	(33)	(286)	—	(1,476)
Buildings and constructions	(1)	(2,620)	(12,725)	(32,445)	(407)	(48,198)
Production machinery and equipment	(7)	(419)	(2,735)	(6,987)	(21)	(10,169)
Agricultural equipment and vehicles	(135)	(36)	(11,399)	(162)	(951)	(12,683)
Other fixed assets	(3)	(97)	(1,388)	(315)	(8)	(1,811)
CIP and uninstalled equipment	—	(770)	(1,451)	(3,961)	(9)	(6,191)
<b>Net book value as of 30 June 2015</b>	<b>313,561</b>	<b>51,662</b>	<b>105,022</b>	<b>59,716</b>	<b>5,216</b>	<b>535,177</b>
Land	3,932	1,487	43	186	49	5,697
Buildings and constructions	217,352	21,748	15,120	42,912	2,529	299,661
Production machinery and equipment	80,730	27,003	3,583	9,929	40	121,285
Agricultural equipment and vehicles	1,449	35	81,184	330	1,149	84,147
Other fixed assets	3,142	139	2,403	396	1,437	7,517
CIP and uninstalled equipment	6,956	1,250	2,689	5,963	12	16,870

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net continued

Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2016 and 2015 were as follows:

Group of property, plant and equipment	Cost as of 30 June 2016	Accumulated depreciation as of 30 June 2016	Cost as of 30 June 2015	Accumulated depreciation as of 30 June 2015
Land	3,691	—	5,697	—
Buildings and constructions	333,985	(22,567)	358,283	(58,622)
Production machinery and equipment	155,717	(21,516)	174,355	(53,070)
Agricultural equipment and vehicles	164,170	(92,318)	160,875	(76,728)
Other fixed assets	16,110	(7,964)	14,769	(7,252)
CIP and uninstalled equipment	9,420	—	16,870	—
<b>Total</b>	<b>683,093</b>	<b>(144,365)</b>	<b>730,849</b>	<b>(195,672)</b>

Had the Group's buildings and constructions and production machinery and equipment (bulk and bottled oil segments) been measured on a historical cost basis, their carrying amount would have been as follows:

Group of property, plant and equipment	As of 30 June 2016	As of 30 June 2015
Buildings and constructions	206,908	194,933
Production machinery and equipment	86,372	75,182
<b>Total</b>	<b>293,280</b>	<b>270,115</b>

Revaluation of property, plant and equipment of oil plants is comprised of impairment loss recognized in other expenses in the amount of USD 6,550 thousand (Note 31) and revaluation surplus recognized in other comprehensive income in the amount of USD 5,314 thousand.

As of 30 June 2016, property, plant and equipment with a carrying amount of USD 104,777 thousand (as of 30 June 2015: USD 130,652 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20 and 21).

As of 30 June 2016, property, plant and equipment with a carrying amount of USD 29,403 thousand (as of 30 June 2015: USD null) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region (Note 7).

As of 30 June 2016 and 30 June 2015, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 12,688 thousand and USD 16,463 thousand, respectively.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2016:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 30 June 2015</b>	<b>22,036</b>	<b>71,308</b>	<b>4,839</b>	<b>98,183</b>
Additions	—	486	296	782
Disposals	—	(58)	(866)	(924)
Exchange difference	—	(10,048)	(266)	(10,314)
<b>Cost as of 30 June 2016</b>	<b>22,036</b>	<b>61,688</b>	<b>4,003</b>	<b>87,727</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 30 June 2015</b>	<b>(8,196)</b>	<b>(34,952)</b>	<b>(2,463)</b>	<b>(45,611)</b>
Amortization charge	—	(9,388)	(544)	(9,932)
Disposals	—	21	646	667
Impairment loss recognized in the Statement of Profit or Loss	(1,814)	—	—	(1,814)
Exchange difference	—	5,683	98	5,781
Accumulated amortization and impairment loss as of 30 June 2016	(10,010)	(38,636)	(2,263)	(50,909)
<b>Net book value as of 30 June 2016</b>	<b>12,026</b>	<b>23,052</b>	<b>1,740</b>	<b>36,818</b>

The following table represents movements in intangible assets for the year ended 30 June 2015:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 30 June 2014</b>	<b>19,336</b>	<b>120,426</b>	<b>5,345</b>	<b>145,107</b>
Additions	2,700	843	689	4,232
Disposals	—	—	(156)	(156)
Exchange difference	—	(49,961)	(1,039)	(51,000)
<b>Cost as of 30 June 2015</b>	<b>22,036</b>	<b>71,308</b>	<b>4,839</b>	<b>98,183</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 30 June 2014</b>	<b>(2,027)</b>	<b>(45,914)</b>	<b>(2,427)</b>	<b>(50,368)</b>
Amortization charge	—	(13,111)	(529)	(13,640)
Disposals	—	—	29	29
Impairment loss recognized in the Statement of Profit or Loss	(6,169)	—	—	(6,169)
Exchange difference	—	24,073	464	24,537
Accumulated amortization and impairment loss as of 30 June 2015	(8,196)	(34,952)	(2,463)	(45,611)
<b>Net book value as of 30 June 2015</b>	<b>13,840</b>	<b>36,356</b>	<b>2,376</b>	<b>52,572</b>

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with values of USD 4,187 thousand, USD 3,976 thousand, USD 3,684 thousand and USD 179 thousand, respectively, in 2016 (USD 4,567 thousand, USD 5,002 thousand, USD 4,092 thousand and USD 179 thousand, respectively, in 2015). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management's view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net continued

The impairment testing of the value of trademarks as of 30 June 2016 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the bottled oil segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:

- The royalty rate used was determined at the weighted average market level of 5.47%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2016, management believed that the market for bottled oil was saturated and for a period of five years no growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 19.77% for UAH denominated cash flow projections.

As a result of testing performed as of 30 June 2016, recoverable amounts of the trademarks 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' were USD 4,187 thousand, USD 3,976 thousand, USD 3,684 thousand and USD 432 thousand, respectively (30 June 2015: USD 4,714 thousand, USD 5,002 thousand, USD 4,092 thousand and USD 485 thousand respectively).

As a result of testing performed, impairment of the trademarks 'Zolota', 'Stozhar' and 'Schedry Dar' in the amount of USD 408 thousand, USD 1,026 and USD 380 thousand, respectively, was recognized as of 30 June 2016 (30 June 2015: 'Zolota' and 'Stozhar' in the amount of USD 5,242 thousand and USD 927 thousand, respectively) and was recognized as a loss on impairment of intangible assets within 'Other expenses, net' (Note 31). Impairment was caused primarily by shrinkage of consumer demand for premium segment bottled sunflower oil due to the continuing economic recession in Ukraine.

## 17. Goodwill

The following table represents movements in goodwill for the year:

	As of 30 June 2016	As of 30 June 2015
Cost as of beginning of the year	119,442	138,575
Acquisition of subsidiaries (Note 7)	13,225	—
Impairment	(6,954)	—
Exchange differences	(3,801)	(19,133)
<b>Cost as of end of the year</b>	<b>121,912</b>	<b>119,442</b>

For the year ended 30 June 2016, the impairment of goodwill allocated to the Russian oilseed crushing plants was recognized in the amount of USD 5,182 thousand in discontinued operations. Impairment was caused by low crushing volumes of sunflower seeds in the reporting period due to high competition for raw materials in the region and intention of management to sell plants. The impairment of goodwill allocated to the oilseed crushing plant located in the Mykolaiv region was recognized in the amount of USD 1,772 thousand, caused by low crushing volumes of sunflower seeds in the reporting period due to high competition for raw materials in the region.

The recoverable amount of the Russian oilseed crushing plants in the amount of USD 11,944 thousand has been determined using value in use method based on discounted cash flow technique based on discounted cash flow projections for five years applying 11.86% discount rate and categorized within level 3 of the fair value hierarchy. The projected cash flows are based on volumes of sales (tons of oil for oilseed crushing plants) and respective prices and costs throughout the budget period. The recoverable amount of the oilseed crushing plant located in the Mykolaiv region in the amount of USD 15,296 thousand has been determined using fair value less cost of disposal methodology based on discounted cash flow projections for 2 years applying 10.23% discount rate and categorized within level 3 of the fair value hierarchy. Cash flow projection is based on the expected gross margins and crushing volume for the relevant period.

Based on a detailed review of the results of the impairment test, it was estimated that impairment does exist and related charge was recorded within the 'Sunflower oil sold in bulk' segment.

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

		As of 30 June 2016	As of 30 June 2015
		Goodwill carrying value	Goodwill carrying value
Sunflower oil sold in bulk	BSI LLC	44,396	44,396
	Kirovogradoliya PJSC	31,334	31,334
	Prydniprovskiy OEP LLC	13,225	—
	Ekotrans LLC	8,096	9,868
	Other	1,906	7,088
Export terminals	Transbulkterminal LLC	11,293	13,356
Farming	Druzhba-Nova Group and other agricultural farms	9,515	11,253
Bottled sunflower oil	Prykolotnoe OEP LLC	2,147	2,147
<b>Total</b>		<b>121,912</b>	<b>119,442</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 17. Goodwill continued

The recoverable amounts of sunflower oil sold in bulk, export terminals, and bottled sunflower oil were determined based on a value in use calculation, which uses cash flow projections accordingly to level 3 of the hierarchy based on the most recent financial budgets approved by the management and covering a five-year period. The values assigned to key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. The projected cash flows are based on volumes of sales (tons of oil for oilseed crushing plants and transshipment volumes for export terminals) and respective prices and costs throughout the budget period. As of 30 June 2016, the assumptions for expected sunflower oil prices were USD 800 per one metric ton in 2017-2021 with a corresponding cost of USD 368 per one metric ton of sunflower seeds, which corresponds to a margin of USD 115 for one metric ton of oil. For the year ended 30 June 2015, the price and cost were USD 810 per one metric ton of oil and USD 346 per one metric ton of sunflower seeds in 2016-2020, respectively, with a margin of USD 167 per one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-demand balance for raw material in Ukraine and the Russian Federation rather than on the level of prices. The discount rate used as of 30 June 2016 was 10.2% (30 June 2015: 17.5%). The discount rate reflects the current market assessment of the risks specific to the cash-generating units. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The growth rate used is available from market sources of information for the projected period. The rate was 2% and is the same as the long-term average growth rate for the industry.

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

Management estimates that a decrease in selling prices of sunflower oil by 21 to 47 USD would result in the recoverable amounts of the individual cash-generating units equals to their carrying amounts as summarized below:

		Decrease in selling prices of sunflower oil during the budget period
Sunflower oil sold in bulk	Kirovogradoliya PJSC	47
	Prydniprovskiyi OEP LLC	40
	BSI LLC	21
	Other	30
Bottled sunflower oil	Prykolotnoe OEP LLC	30

Excess of recoverable amount over carrying amount of individual CGUs summarized below:

		Excess of recoverable amount over carrying amount
Sunflower oil sold in bulk	Kirovogradoliya PJSC	71,113
	Prydniprovskiyi OEP LLC	53,171
	BSI LLC	37,327
	Other	33,545
Bottled sunflower oil	Prykolotnoe OEP LLC	10,657

Management believes that no reasonably possible change in the discount rate would cause the recoverable amounts of sunflower oil sold in bulk and bottled sunflower oil CGUs to fall below their carrying amounts.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of Transbulkterminal LLC to exceed its recoverable amount.

Management believes that no reasonably possible change in the key assumptions on which the recoverable amount of Druzhba-Nova Group and other agricultural farms is based will cause the carrying amount to exceed their recoverable amount.

As of 30 June 2016, no impairment of goodwill allocated to the bottled sunflower oil, export terminals and farming segments was identified.

As of 30 June 2015, no impairment of goodwill allocated to the sunflower oil sold in bulk, bottled sunflower oil, export terminals and farming segments was identified.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2016	As of 30 June 2015
Non-current biological assets (Note 13)	7,447	6,189
Prepayments for property, plant and equipment	2,615	1,361
Prepayments for Subsidiaries	—	3,105
Other non-current assets	987	2,713
<b>Total</b>	<b>11,049</b>	<b>13,368</b>

## 19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2016	As of 30 June 2015
Taxes payable and provision for tax liabilities	22,512	4,724
Accrued payroll, payroll related taxes and bonuses	9,820	10,382
Settlements for Subsidiaries	9,351	677
Advances from customers	7,802	13,751
Obligation under finance lease payable within one year (Note 22)	4,570	5,996
Provision for unused vacations and other provisions	4,196	4,393
Accounts payable for property, plant and equipment	3,554	924
Settlements with land lessors	1,143	6,758
Other current liabilities	13,997	15,775
<b>Total</b>	<b>76,945</b>	<b>63,380</b>

## 20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2016	As of 30 June 2015
Bank credit lines	177,446	295,313
Interest accrued on short-term borrowings	822	874
Interest accrued on long-term borrowings	1,347	1,818
<b>Total</b>	<b>179,615</b>	<b>298,005</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 20. Short-term Borrowings continued

The balances of short-term borrowings as of 30 June 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.25%	USD	August 2016	84,119
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2016	47,500
Ukrainian subsidiary of European bank	10.0%	USD	July 2016	25,000
European bank	Libor + 5.65%	USD	June 2017	14,264
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	March 2017	5,000
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	1,563
<b>Total bank credit lines</b>				<b>177,446</b>
Interest accrued on short-term borrowings				822
Interest accrued on long-term borrowings				1,347
<b>Total</b>				<b>179,615</b>

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

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

As of 30 June 2016, undrawn short-term bank credit lines amounted to USD 114,315 thousand (as of 30 June 2015: USD 97,376 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2016	As of 30 June 2015
Cash and cash equivalents (Note 8)	103	5,000
Inventory (Note 12)	110,427	110,857
Property, plant and equipment (Note 15)	46,890	114,037
Controlling stakes in Subsidiaries	—	Not quantifiable
<b>Total</b>	<b>157,420</b>	<b>229,894</b>

As of 30 June 2016, stakes in Subsidiaries were not pledged to secure short-term borrowings (as of 30 June 2015: nine agricultural companies, three sunflower oil plants, two export terminals and two holding companies).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2016	As of 30 June 2015
Long-term bank borrowings	156,676	158,236
Current portion of long-term borrowings	(74,835)	(69,335)
<b>Total</b>	<b>81,841</b>	<b>88,901</b>

The balances of long-term borrowings as of 30 June 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	73,978
European bank	Libor + 7.5%	USD	February 2018	51,633
European bank	Libor + 7.3%	USD	April 2018	20,000
European bank	Libor + 1.65%	USD	March 2020	11,065
<b>Total</b>				<b>156,676</b>

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

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

As of 30 June 2016 and 2015, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2016	As of 30 June 2015
Property, plant and equipment (Note 15)	57,887	16,615
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>57,887</b>	<b>16,615</b>

As of 30 June 2016, stakes in Subsidiaries were pledged to secure long-term borrowings including controlling stakes in one agricultural company, one sunflower oil plant, one export terminal and one holding company (as of 30 June 2015: one agricultural company).



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 22. Obligations under Finance Leases

The Group entered into finance lease arrangements for part of its agricultural equipment, vehicles and production machinery. Leases are denominated in USD and UAH. The average term of finance leases is 5 years.

The major components of finance lease liabilities were as follows:

	As of 30 June 2016		As of 30 June 2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable due to the finance lease:				
Within one year (Note 19)	5,142	4,570	7,594	5,996
Later than one year and not later than five years	2,536	2,275	7,385	6,277
<b>Total</b>	<b>7,678</b>	<b>6,845</b>	<b>14,979</b>	<b>12,273</b>
Less future finance charges	(833)	—	(2,706)	—
<b>Present value of lease obligations</b>	<b>6,845</b>	<b>6,845</b>	<b>12,273</b>	<b>12,273</b>

The average effective interest rate contracted for the year ended 30 June 2016 was at the level of 10.55% (for the year ended 30 June 2015: 6.94%).

## 23. Income Tax

The Company is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 22.47% as of 30 June 2016 and 30 June 2015. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2016 and 2015. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Fixed Agricultural Tax (FAT) in accordance with the Tax Code of Ukraine. The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The FAT does not constitute an income tax, and as such, is recognized in the Consolidated Statement of Profit or Loss in other operating income.

The components of income tax expense for the years ended 30 June 2016 and 2015 were as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Current income tax charge	(12,891)	(4,577)
Deferred tax benefit relating to origination and reversal of temporary differences	8,981	3,425
<b>Total income tax expense recognized in the reporting period related to continuing operations</b>	<b>(3,910)</b>	<b>(1,152)</b>

The income tax expense is reconciled to the profit/(loss) before income tax per Consolidated Statement of Profit or Loss as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Profit before income tax from continuing operations	247,789	122,838
Tax expense at Ukrainian statutory tax rate of 18%	(44,602)	(22,111)
Effect of income that is exempt from taxation (farming)	33,705	15,672
Effect of different tax rates of Subsidiaries operating in other jurisdictions	(10,854)	3,925
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	8,664	(6,904)
Other expenditures not allowable for income tax purposes and non-taxable income, net	9,177	8,266
<b>Income tax expense</b>	<b>(3,910)</b>	<b>(1,152)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 23. Income Tax continued

Income tax recognized in other comprehensive loss:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Income tax related to components of other comprehensive loss	(955)	—
<b>Total income tax expense recognized in other comprehensive loss</b>	<b>(955)</b>	<b>—</b>

Income tax recognized in other comprehensive loss is connected with a change in carrying amount arising from the revaluation of property, plant and equipment.

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	30 June 2016	30 June 2015
Tax losses carried forward	10,336	7,744
Valuation of property, plant and equipment	14,554	9,331
Valuation of accounts receivable	397	1,904
Valuation of inventory	371	167
Valuation of advances and other temporary differences	297	2,147
<b>Deferred tax assets</b>	<b>25,955</b>	<b>21,293</b>
Valuation of property, plant and equipment	(21,334)	(23,758)
Valuation of intangible assets	(1,111)	(1,064)
Valuation of prepayments to suppliers and other temporary differences	(492)	(560)
<b>Deferred tax liabilities</b>	<b>(22,937)</b>	<b>(25,382)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>3,018</b>	<b>(4,089)</b>

As of 30 June 2016, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 10,336 thousand (2015: USD 7,744 thousand) recognized with respect to tax losses carried forward by the Subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 57,191 thousand (2015: USD 42,106 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Tax losses can be brought forward for the reasonable period of time.

Unrecognized deferred tax assets arising from tax losses carried forward by the Group's Subsidiaries as of 30 June 2016, were USD 987 thousand (as of 30 June 2015: USD 9,651 thousand).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in Subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	30 June 2016	30 June 2015
Deferred tax assets	20,161	15,524
Deferred tax liabilities	(17,143)	(19,613)
<b>Net deferred tax assets/(liabilities)</b>	<b>3,018</b>	<b>(4,089)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 24. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Revenue from sunflower oil sold in bulk, sunflower meal and cake	1,050,752	1,123,694
Revenue from grain sales	821,671	1,053,267
Revenue from bottled sunflower oil	83,542	90,040
Revenue from farming	25,063	29,010
Revenue from grain silo services	7,306	7,668
Revenue from sugar	—	25,752
Revenue from transshipment services	186	76
<b>Total</b>	<b>1,988,520</b>	<b>2,329,507</b>

For the year ended 30 June 2016, revenue from the Group's top five customers accounted for approximately 40.5% of total revenue (for the year ended 30 June 2015, revenue from the top five customers accounted for 41.7% of total revenue).

## 25. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Cost of goods for resale and raw materials used	1,415,227	1,668,902
Amortization and depreciation	55,852	64,364
Rental payments	33,436	20,786
Payroll and payroll related costs	31,571	33,841
Other operating costs	12,388	17,680
<b>Total</b>	<b>1,548,474</b>	<b>1,805,573</b>

## 26. Other Operating Income, net

Other operating income, net was as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
VAT benefits	23,437	10,740
Gain on operations with commodity futures	9,112	1,456
Gain on sale of hard currency	5,629	57,441
Contracts wash-out (price difference settlement)	1,381	6,704
Other operating income	5,058	6,079
<b>Total</b>	<b>44,617</b>	<b>82,420</b>

According to the Tax Code of Ukraine and the Law 'On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform' (enacted from 1 January 2015), companies that generated not less than 75.0% of gross revenues for the previous tax period from sales of its own agricultural products, which were cultivated on the land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered, are entitled to retain share of the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on products sold (Note 3). Such a gain is recognized as VAT benefits.

For the year ended 30 June 2016, gain on sale of hard currency decreased as a result of drop down in differences between the market and official exchange rates for US dollars in Ukraine.

In the note 'Other operating income, net' to the consolidated financial statements as of 30 June 2015, the Gain on financial instruments was previously included in the line 'Other operating income'.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 27. Distribution Costs

Distribution costs were as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Carriage and freight	140,026	173,071
Storage and dispatch	8,138	11,567
Customs expenses	5,085	5,645
Certification	2,513	3,513
Sanitation services	679	579
Payroll and payroll related costs	152	154
Other expenses	1,730	2,569
<b>Total</b>	<b>158,323</b>	<b>197,098</b>

## 28. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Payroll and payroll related costs	28,253	37,068
Audit, legal and other professional fees	6,892	5,052
Business trip expenses	6,793	6,189
Insurance	3,717	3,094
Repairs and material costs	3,496	4,345
Amortization and depreciation	2,867	2,367
Taxes other than income tax	1,746	2,230
Bank services	1,657	1,932
Bad debt expenses	1,515	2,200
Rental payments	1,239	1,338
Communication expenses	791	859
Other expenses	318	236
<b>Total</b>	<b>59,284</b>	<b>66,910</b>

Audit, legal and other professional fees for the year ended 30 June 2016 include the auditor's remuneration in the amount of USD 500 thousand and consultancy fees in the amount of USD 18 thousand (30 June 2015: USD 432 thousand and USD 33 thousand, respectively).

## 29. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Interest expense on bank loans	50,745	60,281
Other finance costs, net	6,376	4,528
<b>Total</b>	<b>57,121</b>	<b>64,809</b>

## 30. Foreign Exchange Gain/(Loss), net

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

	For the year ended 30 June 2016	For the year ended 30 June 2015
Borrowings and other liabilities nominated in foreign currencies	26,447	(5,135)
Revaluation of balances nominated in foreign currencies	22,803	(59,517)
VAT recoverable and prepaid	(15,462)	(56,646)
Corporate income tax prepaid	(4,558)	(21,558)
Cash and cash equivalents nominated in foreign currencies	(2,115)	(4,483)
Obligations under finance leases	815	(2,059)
Other foreign exchange gain	2,512	5,955
<b>Total</b>	<b>30,442</b>	<b>(143,443)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 31. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Revaluation losses of property, plant and equipment (Note 15)	6,550	—
Impairment of intangible assets and goodwill (Note 16, 17)	3,586	6,169
Other material expenses	3,029	2,174
Fines and penalties	2,915	265
Social spending	1,668	1,915
Loss/(Gain) on disposal of property, plant and equipment	1,079	(494)
Gain on disposal of Subsidiaries (Notes 7)	(583)	(861)
Other (gain)/expenses, net	(1,636)	386
<b>Total</b>	<b>16,608</b>	<b>9,554</b>

In the note 'Other expenses, net' to the consolidated financial statements as of 30 June 2015, 'Fines and penalties' previously were included in the line 'Other expenses, net'.

## 32. Investments in Joint Ventures

On 27 September 2012, a 50/50 joint venture was formed with Renaisco BV, a Subsidiary of Glencore International PLC. The joint venture acquired a 100% interest in a deep water grain export terminal in Taman port (the Russian Federation). Taman port provides storage and transshipment services as well as an efficient freight forwarding process. The increase of throughput facilities resulted in increased profitability of grain exports from the Russian Federation.

As of 30 June 2016, the Group entered into a transshipment agreement with Zernovoy Terminalny Complex Taman LLC. According to the agreement, the Group has committed to transship 1,500,000 tons of grain through the facility in FY2016 (as of 30 June 2015: 1,500,000 tons).

The investment in the joint venture is accounted for using the equity method from the date of acquisition. The Group has the following significant interests in joint ventures (all related to the export terminal in Taman port):

Name of joint venture	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group	Proportion of ownership interest and voting rights held by the Group
			As of 30 June 2016	As of 30 June 2015
Taman Grain Terminal Holdings Limited	Holding Company	Cyprus	50.0%	50.0%
Taman Invest Limited CJSC	Holding Company	Russian Federation	50.0%	50.0%
Zernovoy Terminalny Complex Taman LLC	Grain export terminal	Russian Federation	50.0%	50.0%

Financial data in regards to joint ventures, reflecting 100% interest in the underlying joint venture, was as follows:

	As of 30 June 2016	As of 30 June 2015
Current assets	8,930	7,850
Non-current assets	74,434	89,292
Current liabilities	(19,731)	(18,844)
Non-current liabilities	(23,928)	(40,080)
<b>Net assets of joint ventures</b>	<b>39,705</b>	<b>38,218</b>

The above amount of assets and liabilities include the following:

	As of 30 June 2016	As of 30 June 2015
Cash and cash equivalents	1,649	412
Property, plant and equipment, net	73,525	87,456
Current financial liabilities (excluding trade and other payables and provisions)	(11,137)	(12,542)
Non-current financial liabilities (excluding trade and other payables and provisions)	(20,322)	(36,330)

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 32. Investments in Joint Ventures continued

Summarized statement of profit or loss and other comprehensive income of joint ventures was as follows:

	For the year ended 30 June 2016	For the year ended 30 June 2015
Revenue	31,689	30,314
Cost of sales	(24,713)	(19,762)
Other operating income	4,425	—
General and administrative expenses	(3,120)	(3,152)
<b>Profit from operating activities</b>	<b>8,281</b>	<b>7,400</b>
Other income, net	620	5,924
<b>Profit before income tax</b>	<b>8,901</b>	<b>13,324</b>
Income tax expenses	(1,129)	(3,150)
<b>Profit for the period</b>	<b>7,772</b>	<b>10,174</b>
<b>Other comprehensive loss</b>		
Exchange differences on translating foreign operations	(17,518)	(51,626)
<b>Total comprehensive loss</b>	<b>(9,746)</b>	<b>(41,452)</b>

The above information for the period includes the following:

	Year ended 30 June 2016	Year ended 30 June 2015
Depreciation and amortization	3,980	4,082
Interest expenses	4,199	4,698

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	Year ended 30 June 2016	Year ended 30 June 2015
Net assets of the joint venture	39,705	38,218
Proportion of the Group's ownership interest in the joint venture	50.0%	50.0%
Goodwill	32,311	37,928
Carrying amount of the Group's interest in the joint venture	52,164	57,037

## 33. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances as of 30 June 2016	Total category as per consolidated statement of financial position as of 30 June 2016	Related party balances as of 30 June 2015	Total category as per consolidated statement of financial position as of 30 June 2015
Prepayments to suppliers and other current assets, net (Note 10)	14,999	52,983	14,581	60,647
Other non-current assets (Note 18)	268	11,049	4,909	13,368
Trade accounts payable	3,219	41,910	722	27,384
Advances from customers and other current liabilities (Note 19)	16,021	76,945	15,898	63,380
Other non-current liabilities	13,030	37,736	—	1,879

As of 30 June 2016 and 30 June 2015, the Group did not create an allowance for prepayments to suppliers and other current and non-current assets from related parties.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 33. Transactions with Related Parties continued

On 31 March 2016, the Company acquired 100% of the equity of LLC City Business Estate from Namsen Limited. The acquisition was made with a purpose to possess the main headquarter's building of the Company located in Kyiv. This acquisition has been accounted as acquisition of assets. On the date of the acquisition of the Subsidiary, the net assets were equal to the amount of cash consideration paid in the amount of USD 9,109 thousand and mostly consisted of property, plant and equipment in the amount of USD 19,308 thousand and non-current liabilities in the amount of USD 9,938 thousand.

As of 30 June 2016, trade accounts payable included USD 3,156 thousand due to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement (30 June 2015: USD 235 thousand).

As of 30 June 2016, advances from customers and other current liabilities included USD 6,088 thousand in bonuses payable to management (30 June 2015: USD 6,000 thousand).

Advances from customers and other current liabilities as of 30 June 2016 and 30 June 2015 included an interest-free financial liability in the amount of USD 7,043 thousand due to Namsen Limited.

Other non-current liabilities as of 30 June 2016 included 4% interest-bearing financial liability in the amount of USD 9,977 thousand due to Namsen Limited (30 June 2015: USD 0 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given. As of 30 June 2016, the Group received a guarantee in the amount of USD 20,000 thousand. It was issued by the company under common control as a collateral for credit facility. Guarantee was cancelled by the Group as a result of sufficient available funds on 20 July 2016.

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

Transactions with related parties were as follows:

	Amount of operations with related parties, for the year ended 30 June 2016	Total category per consolidated statement of profit or loss for the year ended 30 June 2016	Amount of operations with related parties, for the year ended 30 June 2015	Total category per consolidated statement of profit or loss for the year ended 30 June 2015
Cost of sales (Note 25)	(34)	(1,548,474)	(241)	(1,805,573)
Other operating income, net (Note 26)	8	44,617	1,812	82,420
General, administrative expenses and distribution costs (Notes 27, 28)	(28,836)	(217,607)	(30,390)	(264,008)
Finance costs, net (Note 29)	(1,017)	(57,121)	6	(64,809)
Other expenses, net (Note 31)	43	(16,608)	(111)	(9,554)

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

For the year ended 30 June 2016, distribution expenses included USD 15,055 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the year ended 30 June 2015: USD 15,003 thousand).

All other transactions occurred with related parties under common control.

As of 30 June 2016, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the year ended 30 June 2016 amounted to USD 496 thousand (30 June 2015: 8 directors, USD 382 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 10 people, amounted to USD 6,476 thousand for the year ended 30 June 2016 (30 June 2015: 14 people, USD 8,564 thousand), including USD 4,200 thousand of variable bonus as per approved remuneration scheme (30 June 2015: USD 6,000 thousand).

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies

### Operating Environment

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

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

During the year ended 30 June 2016, the Ukrainian economy was going through a recession, a gross domestic product has contracted by 2% (2015: 13%), and the annual inflation rate reached 7% (2015: 57%). Unfavorable conditions on markets where Ukraine's primary commodities were traded were influencing further devaluation of the Ukrainian Hryvnia against major foreign currencies. The Ukrainian companies and banks continued to suffer from the lack of funding from domestic and international financial markets.

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

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

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

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

### Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 30 June 2016 were USD 10,559 thousand (2015: USD 18,920 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance these post-retirement benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions. For the year ended 30 June 2016, retirement and other pension obligation expenses of the Group amounted to USD 376 thousand (2015: USD 483 thousand). As of 30 June 2016 and 30 June 2015, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

### Capital Commitments

As of 30 June 2016, the Group had commitments under contracts with a group of suppliers for a total amount of USD 4,957 thousand, mostly for the purchase of agricultural equipment (30 June 2015: USD 856 thousand for the supply of equipment and services required for the construction of a new silo).

### Contractual Commitments on Sales

As of 30 June 2016, the Group had entered into commercial contracts for the export of 1,311,954 tons of grain and 409,849 tons of sunflower oil and meal, corresponding to an amount of USD 252,800 thousand and USD 174,033 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2015, the Group had entered into commercial contracts for the export of 452,000 tons of grain and 470,181 tons of sunflower oil and meal, corresponding to an amount of USD 96,073 thousand and USD 204,201 thousand, respectively, in contract prices as of the reporting date.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies continued

### Commitments on leases of property plant and equipment

As of 30 June 2016, following the strategy to increase port capacity, the Group entered into a 49-year lease contract of property plant and equipment with a renewal option according to the market rent. The Group is obliged to perform fixed monthly payments adjusted on the rate of inflation. The Group will not obtain the right to acquire property plant and equipment after expiration of the lease contract.

The future minimum lease payments:

Lease term	Future minimum lease payment as of 30 June 2016
Less than 1 year	577
From 1 to 5 years	2,308
More than 5 years	24,573
<b>Total</b>	<b>27,458</b>

### Commitments on land operating leases

As of 30 June 2016 and 2015, the Group had outstanding commitments under non-cancellable operating lease agreements with the following maturities:

Lease term	Future minimum lease payment as of 30 June 2016	Future minimum lease payment as of 30 June 2015
Less than 1 year	31,816	28,100
From 1 to 5 years	111,885	86,344
More than 5 years	172,952	114,263
<b>Total</b>	<b>316,653</b>	<b>228,707</b>

## Taxation and Legal Issues

The Group was involved in litigation in connection with a case of contaminated Ukrainian oil that occurred in April 2008. In January 2016, a court decision was issued in favor of the counterparty. A respective provision in the amount of USD 2,400 thousand was recognized as of 31 December 2015 in Other current liabilities and remained outstanding as of 30 June 2016.

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 30 June 2016, 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 to claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 30 June 2016, 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 50,742 thousand (30 June 2015: USD 76,922 thousand), from which USD 25,996 thousand related to VAT recoverability (30 June 2015: USD 44,561 thousand) USD 19,817 thousand related to corporate income tax (30 June 2015: USD 32,361 thousand) and USD 4,929 thousand related to other tax issues (30 June 2015: USD 0 thousand).

As of 30 June 2016, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 28,282 thousand (30 June 2015: USD 43,159 thousand) of the aforementioned amount. Of this amount, USD 20,143 thousand related to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2015: USD 31,168 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 34. Commitments and Contingencies continued

### Taxation and Legal Issues continued

Ukraine's tax environment is characterized by complexity in tax administration, 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. Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine' which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Starting from 1 January 2016, the approach to special VAT regime for the agricultural industry in Ukraine in a part of VAT payments has been changed. According to the Law 'On amending the Tax Code of Ukraine and certain legislative acts of Ukraine in terms of ensuring the balanced budget receipts in 2016', agricultural producers are entitled to retain only a portion of VAT on agricultural operations.

Thus, as a result of the new legislation, the Group's agricultural farms, engaged in growing crops, will retain only 15% of the net VAT liability versus 100% retained previously.

Special tax treatment of agricultural enterprises should continue to apply only up to 1 January 2017. Starting from 1 January 2017, 100% of net VAT liabilities will be paid to the Government.

Other changes applicable for the year 2016 include cancelation of the temporary VAT exemption for the supplies of certain types of grain crops. Management believes that the Group has been in compliance with all requirements of the effective tax legislation and currently is assessing the possible impact of the introduced amendments.

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

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

## 35. Financial Instruments

### Capital Risk Management

During the years ended 30 June 2016 and 2015, there were no material changes to the objectives, policies and processes for capital risk, credit risk, liquidity risk, currency risk, interest rate risk and other market risk management. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 20 and 21 and obligations under finance leases (Note 22), cash and cash equivalents and equity attributable to Kernel Holding S.A. shareholders, comprising issued capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

### Gearing Ratio

Every quarter, management reviews the capital structure of the Group, taking into consideration the seasonality of the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group's management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2016	As of 30 June 2015
Debt liabilities <sup>1</sup> (Notes 20, 21, 22)	343,136	468,514
Less cash and cash equivalents (Note 8)	(60,372)	(129,121)
Net debt	282,764	339,393
Equity <sup>2</sup>	995,329	889,554
<b>Net debt liabilities to capital</b>	<b>28%</b>	<b>38%</b>

1 Debt includes short-term and long-term borrowings and obligations under finance leases.

2 Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings and translation reserve.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Gearing Ratio continued

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

Risk management policies have been established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of trade receivables and cash represent the maximum credit exposure.

The Group's most significant customers are an international customer, which accounted for USD 8,746 thousand, and a local customer, which accounted for USD 1,572 thousand out of total trade accounts receivable as of 30 June 2016 (as of 30 June 2015 one international customer accounted for USD 12,471 thousand and one local customer for USD 1,890 thousand).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk.

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty recommendations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit and bank guarantees.

### Guarantees

The Group's policy is to provide financial guarantees only to wholly owned (controlled) Subsidiaries. As of 30 June 2016 as well as at 30 June 2015, no guarantees were outstanding in favor of third parties.

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The average credit period on purchases of goods is ten days.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Liquidity Risk continued

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2016. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Short-term borrowings (Note 20)	179,615	(180,997)	(180,997)	—	—	—
Long-term borrowings (Note 21)	156,676	(171,283)	(85,770)	(71,315)	(14,198)	—
Obligations under finance leases (Note 22)	6,845	(7,997)	(5,461)	(1,968)	(568)	—
Other non-current liabilities	37,736	(79,872)	(612)	(3,134)	(61,594)	(14,532)
<b>Total</b>	<b>380,872</b>	<b>(440,149)</b>	<b>(272,840)</b>	<b>(76,417)</b>	<b>(76,360)</b>	<b>(14,532)</b>

Financial liabilities, which were not included above, are repayable within one year.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2015. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years
Short-term borrowings (Note 20)	298,005	(304,049)	(304,049)	—	—
Long-term borrowings (Note 21)	158,236	(177,340)	(80,838)	(43,410)	(53,092)
Obligations under finance leases (Note 22)	12,273	(14,979)	(7,594)	(4,835)	(2,550)
Other non-current liabilities	1,879	(1,879)	—	(1,879)	—
<b>Total</b>	<b>470,393</b>	<b>(498,247)</b>	<b>(392,481)</b>	<b>(50,124)</b>	<b>(55,642)</b>

Financial liabilities, which were not included above, are repayable within one year.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group's policy is to synchronize future cash flow from sales and payments under financial liabilities and to limit open inventory positions.

### Currency Risk

The major sources of financing of the Group, prices of sales contracts with customers, and prices of significant contracts for the purchase of goods and services from suppliers are denominated in USD.

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having distinct functional currencies.



# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Currency Risk continued

The Group's exposure to foreign currency risk as of 30 June 2016 and 2015 was as follows:

	30 June 2016		30 June 2015	
	UAH	USD	UAH	USD
Cash and cash equivalents	1,834	124	14,281	1,055
Trade accounts receivable, net	4,139	—	6,836	—
Other non-current assets	1,632	—	413	—
Trade accounts payable	(10,536)	(20)	(17,354)	—
Other non-current liabilities	(24,068)	(9,977)	—	—
Short-term borrowings (Note 20)	—	—	—	—
Ukrainian subsidiary of American bank	—	(1,591)	—	(99)
Long-term borrowings (Note 21)	—	—	—	(7,813)
Ukrainian subsidiary of American bank	—	—	—	(4,078)
Obligations under finance leases	—	(2,076)	—	(4,078)
<b>Net exposure</b>	<b>(26,999)</b>	<b>(13,540)</b>	<b>4,176</b>	<b>(10,935)</b>

A 10% change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sensitivity of changes in the exchange rate of Ukrainian hryvnia (UAH) against US dollar (USD) is as follows:

Profit or loss effect for the year ended 30 June 2016:

10% strengthening of UAH ..... (1,469)  
10% depreciation of UAH..... 1,195

Profit or loss effect for the year ended 30 June 2015:

10% strengthening of UAH ..... 1,412  
10% depreciation of UAH..... (1,633)

The Ukrainian hryvnia devalued against major foreign currencies. Foreign exchange gains and losses reflected the significant Ukrainian hryvnia devaluation against the US dollar: by 15% for the year ended 30 June 2016 and by 44% for the year ended 30 June 2015. The Group recognized a net foreign exchange gain in the amount of USD 30,442 thousand for the year ended 30 June 2016 and USD 143,443 thousand of a net foreign exchange loss for the year ended 30 June 2015 (Note 30). In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange loss mostly consisted of loss incurred from operations resulted from normal operating activity during the year ended 30 June 2016.

The National Bank of Ukraine introduced a range of measures aimed at limiting the outflow of customer deposits from the banking system, improving the liquidity of banks, and supporting the exchange rate of the Ukrainian hryvnia. As a result of this restriction, the Group was obliged to sell most of the foreign currency it obtained from export sales (75-100%) on the Ukrainian interbank foreign exchange market. For the year ended 30 June 2016, the Group received other operating income from the difference between the market and official USD/UAH exchange rate in the amount USD 5,629 thousand (30 June 2015: USD 57,441 thousand) (Note 26).

Management of the Group optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 1,988,520 thousand, sales in USD comprised USD 1,723,120 thousand and in EUR comprised USD 177,875 thousand for the year ended 30 June 2016. Export sales represented 96% of the total sales volume.

### Interest Rate Risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 35. Financial Instruments continued

### Interest Rate Risk continued

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2016	Carrying amount as of 30 June 2015
Fixed rate instruments (financial liabilities)	37,372	37,273
Variable rate instruments (financial liabilities)	305,764	431,241
<b>Total</b>	<b>343,136</b>	<b>468,514</b>

The Group does not use any derivatives to manage interest rate risk exposure.

The sensitivity analysis below has been determined based on exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year ended 30 June 2016 would decrease/increase by USD 3,058 thousand (2015: decrease/increase by USD 4,312 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### Other Market Price Risk

The Group enters into agricultural commodities futures contracts for managing the exposures associated with agricultural commodity prices. Fair value of future contracts is evaluated based on quoted prices on international markets. Changes in the fair value of these contracts are recognized in the Consolidated Statement of Profit and Loss (Note 26). As of 30 June 2016, no open futures contracts were present.

## 36. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties in an arm's length transaction, rather than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary for arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts receivable, and trade accounts payable due to the short-term nature of the financial instruments.

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values:

	30 June 2016		30 June 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short and Long term borrowings	334,122	335,616	453,549	456,356
<b>Total</b>	<b>334,122</b>	<b>335,616</b>	<b>453,549</b>	<b>456,356</b>

For the year ended 30 June 2016, the fair value of bank borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 6.62% (2015: 6.32%), and is within level 2 of the fair value hierarchy.

As of 30 June 2016, fair value of other non-current liabilities does not differ materially from its carrying amount.

There were no changes in the valuation technique since the previous year.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2016 (in thousands of US dollars, unless otherwise stated)

## 37. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (79,683,410 for the period ended 30 June 2016 and 30 June 2015), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 81,384,851 ordinary shares is taken into account (30 June 2015: 79,779,975).

As of 30 June 2016 total of 3,000,000 options granted under the management incentive scheme were excluded from the weighted-average number of ordinary shares calculation for the purpose of diluted earnings per share as antidilutive (as of 30 June 2015: 3,000,000 options).

## 38. Subsequent Events

As of 27 July 2016, Kernel renewed a credit facility with a subsidiary of European bank. The one-year secured revolving facility with a limit of USD 40 million is used by the Group to fund the working capital needs.

As of 30 August 2016, Kernel renewed its sunflower oil pre-export credit facility with a syndicate of European banks. The one-year secured revolving facility with a limit of USD 300 million is used by the Group to fund the working capital needs of its sunflower oil production business in Ukraine.

As of 26 September 2016, Kernel renewed a credit facility with a subsidiary of European bank. The three-year secured revolving facility with a limit of USD 50 million is used by the Group to fund the working capital needs.

As of 15 September 2016, Fitch Ratings upgraded the Long-Term Local Currency Issuer Default Rating (IDR) of Kernel Holdings S.A. to B-, one notch above the sovereign LT LC IDR of 'CCC', reflecting Kernel's export-oriented business model and limited reliance on the Ukrainian banking system. Kernel's Long-Term Foreign Currency IDR remains constrained by Ukraine's Country Ceiling of 'CCC'. Fitch also upgraded Kernel's National Long-Term Rating to 'AA+ (ukr)' from 'A- (ukr)', assigning the National rating a 'Stable' Outlook.

# Corporate Information

## Headquarters

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Fax: +38044 4618864

## Registered office

Kernel Holding S.A.  
19, rue de Bitbourg  
L-1273 Luxembourg

## Registered number

B109173

## Auditors

Deloitte Audit S.a.r.l.,  
560, rue du Neudorf,  
L-2220 Luxembourg

## Investor relations

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## Stock information

Exchange..... Warsaw Stock Exchange  
Stock quote currency..... PLN  
Shares issued as of 30 June 2016..... 79,683,410  
Bloomberg..... KER PW  
Reuters ticker..... KERN.WA  
ISIN code..... LU0327357389

## Investor calendar

Q1 FY2017 operations update.....24 October 2016  
Q1 FY2017 financial report.....30 November 2016  
Annual general meeting of shareholders.....12 December 2016  
Q2 FY2017 operations update.....20 January 2017  
H1 FY2017 financial report.....28 February 2017  
Q3 FY2017 operations update.....20 April 2017  
Q3 FY2017 financial report.....30 May 2017  
Q4 FY2017 operations update.....13 July 2017  
FY2017 financial report.....23 October 2017

## Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

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