

KERNEL HOLDING S.A.

Société Anonyme

19, rue de Bitbourg

L-1273 Luxembourg

R.C.S. Luxembourg B 109173

ANNUAL ACCOUNTS FOR THE YEAR ENDED

30 JUNE 2016

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Report of the board of directors to the shareholders' ordinary general meeting deliberating on the approval of the annual accounts to be held on 12 December 2016

Dear Shareholders,

1. Kernel Holding S.A., (the "Company") was incorporated in Luxembourg on 15 June 2005 as a Société Anonyme ("S.A.") subject to the Luxembourg law for an unlimited period of time. Effective 12 April 2013, the Company has its registered office at 19, rue de Bitbourg, L-1273 Luxembourg. The Company is registered with the "Registre de Commerce et des Sociétés" in Luxembourg under the number B 109173.

The subsidiaries of Kernel Holding S.A. (forming together with the Company, the "Group") own assets primarily in Ukraine and the Russian Federation and operate across the agricultural value chain.

The Company operates in farming, grain origination, storage, transport and marketing, and in the production, refining, bottling and marketing of sunflower oil.

The Company's goal is the continuous development of profitable and sustainable business that enhances our leadership position in low-cost production, sourcing, processing and handling of agricultural commodities, bridging the resource-rich Black Sea region with large international consumer markets.

Overview

The overview below is mainly done from the Group perspective, taking into account the performance of the Kernel Holding S.A. as well as its subsidiaries.

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 the domestic oilseed demand.

Acquisitions/disposals

The Company sold 100% of its shares in Ust-Labinsk Essential Oil Extraction Plant Florentina for a total consideration of USD 5,982,749.58 received as follows:

- USD 882,136.18 on 14 January 2016;
- RUB 333,000,000.37 (equivalent to USD 5,063,391.23) on 14 April 2016; and
- RUB 2,412,350.23 (equivalent to USD 37,222.17) on 29 June 2016.

The Company sold 100% of its shares in Stavropol Oils for a total consideration of USD 5,960,764.18 received as follows:

- USD 968,193.09 on 14 December 2015;
- USD 1,582,222.00 on 13 April 2016;
- RUB 222,001,056.22 (equivalent to USD 3,375,610.21) on 14 April 2016; and
- RUB 2,152,504.51 (equivalent to USD 34,738.88) on 29 June 2016.

On 24 June 2016, Eastern Agro Investments Limited has been liquidated.

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Income statement highlights:

Revenues

Our revenues stood at USD 1,988.5 million in FY2016, down 15%, primarily arising from the decrease in volumes sold, as we shifted some sales to Q1 FY2017 as well as decline in global prices for agricultural commodities, which were reflected in our revenues and cost of purchased commodities.

Gross profit

Gross profit came to USD 460.2 million in FY2016, down 11% from USD 517.1 million a year ago, reflecting respective change in revenues.

Other operating income

Our other operating income amounted to USD 44.6 million in FY2016 compared to USD 82.4 million a year earlier. Major portion 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 until 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 USD 5.6 million gain on operations in US dollars.

Distribution costs

Distribution costs have decreased in FY2016 and amounted to USD 158.3 million, down 20% y-o-y. Such notable decline was fueled by two major reasons: further depreciation of Ukrainian hryvnia against hard currencies (by 15% y-o-y), thus reducing the US value of our railway tariffs, and lower volumes of soft commodities handled. 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 an 8% y-o-y decline in headcount and further 15% y-o-y depreciation of Ukrainian hryvnia. As a percentage of revenues, G&A stood at 3%, flat y-o-y.

Operating profit

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

Financing costs

As a result of deleveraging of our business, the finance cost for the FY2016 declined by 12% y-o-y and amounted to USD 57.1 million.

Foreign exchange (gain)/loss

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 revaluation of our intragroup balances denominated in Ukrainian hryvnia.

All of the Group's subsidiaries use US dollar as their functional currency, except for farming, export terminals and silo services enterprises, which operate in Ukrainian hryvnia and Russian ruble. As a normal course of business, 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 a year ago, offset by revaluation of prepaid taxes' balances stemming to forex loss of USD 20.0 million in FY2016 and USD 78.2 million previous year.

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Other expenses

Other expenses stood at USD 16.6 million in FY2016, a 1.7x increase compared to USD 9.6 million a year ago mostly caused by a USD 6.6 million of one-off revaluation loss of our fixed assets.

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, stemming primarily from implementation of transfer pricing regulation in Ukraine. This does not include, our farming operations, which are exempt from income tax, according to Ukrainian legislation, as they are subject to a single agricultural tax, which is booked under cost of goods sold.

Net profit

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

The Group has three business lines: sunflower oil, grain and infrastructure, and farming. The performance was as following:

Sunflower oil:

- In 2015/16, Ukrainian crushing business has experienced EBITDA margin contraction, driven by two major factors: increasing market crushing capacities and farmers' unwillingness to sell oilseed stock. The former has resulted in an increasing demand for sunflower seeds, escalating completion for oil-bearing crop, while latter has caused a weak supply of sunflower seed during particular periods (October to January), which has led to margin squeeze through higher procurement prices during that periods. Therefore, EBITDA contribution by our sunflower oil division declined by 40% y-o-y, amounting 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 8% y-o-y.

Grain and infrastructure:

- Grain and infrastructure EBITDA stood at USD 107.1 million, lower 6% y-o-y. Our grain exports EBITDA margin stood firm at 6% in FY 2016, amounting to USD 46.3 million, down 22% y-o-y stemming from slow pace of selling activity by farmers throughout October to January and weaker profitability in Russia. Export terminal performance posted a record level of volumes transshipped of 5.3 million tons, while EBITDA contribution was USD 37.5 million, virtually unchanged compared a year ago, as some of the decline in transshipment fees was compensated by a decrease in fixed costs and administrative expenses caused by Ukrainian hryvnia depreciation. The silo services' EBITDA increased 28% to USD 23.4 million in FY 2016, as costs deflated, driven by lower prices of natural gas and the devaluation of national currency.

Farming:

- Our farming business' EBITDA posted a record level of USD 146.0 million stemming from combination of lower production costs and yield improvements, up 49% y-o-y. In FY2016 we continued to benefit from changes in technology and management system implemented couple of years ago. In particular, 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 yields 65% higher than Ukraine's average – 4.3 tons per hectare.

For a detailed explanation of operating and financial performance for sunflower oil operations, please refer to the annual report of Kernel Group available at kernel.ua.

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2. Allocation of results

The Company's financial year as of 30 June 2016 ends with a profit USD 11,750,920.75.

The board of directors of the Company intends to propose to the Annual General Meeting of the Shareholders of the Company the following allocation of this result, taking into account the annual dividends:

Profit as at 30 June 2016	USD	11,750,920.75
Result brought forward (before dividends)	USD	255,457,499.23
Dividends	USD	(19,920,852.50)
To carry forward	USD	247,287,567.48

3. The Company's business has developed normally during the financial year under review.

4. Details on corporate governance are available on the Company website <http://www.kernel.ua> and in the consolidated annual report of the Company for the year ended 30 June 2016, available at the Company website.

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5. Principal risks and uncertainties

Kernel management considers that the following factors, among others, could materially influence the financial results of the Group:

- Size of Ukraine's sunflower seed and grain harvest;
- Prolonged period of low global soft commodity prices;
- Sunflower oil price volatility;
- Export restrictions and barriers;
- Change in export duties or local taxation (such as VAT);
- Refunds of VAT;
- Fluctuations in exchange rate of Ukrainian hryvnia to US dollar;
- Access to short-term financing;
- Safety of production assets;
- Increased competition;
- Counterparty risk;
- Inventory safety;
- Disruption or limitation of natural gas or electricity supply;
- A prolonged period of weak economic growth, either globally or in the Group's key markets;
- Economic policy, political, social, and legal risks and uncertainties in certain countries in which Kernel Holding S.A. operates;
- The risk of legal actions and tax authorities' orders related to VAT refunds and corporate income tax payments; the introduction of VAT promissory notes; the risk of the detrimental impact or treatment by tax authorities of the law "On transfer pricing";
- The risk of key personnel resigning;
- Failure to manage the integration of newly acquired farming operations;
- Any loss or diminution in the services of Mr. Andriy Verevskyy, Kernel Holding S.A.'s Chairman of the Board;
- 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 an impairment of financial assets;
- The risk of fraud by the Group's farming operations' employees;
- The risk that significant capital expenditure and other commitments Kernel Holding S.A. has made in connection with acquisitions may limit its operational flexibility and add to its financing requirements;
- The risk of disruptions to Kernel Holding S.A.'s manufacturing operations;
- The risk of product liability claims;
- The risk of potential liabilities from investigations, litigation, and fines regarding antitrust matters;
- The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and in joint ventures; and
- The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage.

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Report of the board of directors to the shareholders' ordinary general meeting deliberating on the approval of the annual accounts to be held on 12 December 2016

6. Board of Directors

The board of Directors is composed of eight directors, of whom three are independent directors. All eight Directors were elected to the Board by the shareholders at general meetings of the shareholders:

(1) Mr. Andriy Verevskyy, chairman of the board of directors, re-elected for a five-year term at the general meeting of shareholders held on 10 December 2015. Mr. Verevskyy 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.

(2) Mr. Andrzej Danilczuk, independent non-executive director, re-elected for a one-year term at the general meeting of shareholders held on 10 December 2015. Mr. Danilczuk is a senior executive with over 20 years' experience in business development, trading and marketing of agri-commodities.

(3) Mr. Ton Schurink, independent non-executive director, re-elected for a one-year term at the general meeting of shareholders held on 10 December 2015. Mr. Schurink is a senior executive with extensive experience in trading commodities, risk management, barter, shipping, financial trading and trade and structured finance acquired during a 32-year career with Cargill.

(4) Mr. Sergei Shibaev, independent non-executive director, elected for a one-year term at the general meeting of shareholders held on 10 December 2015. Mr. Shibaev is a senior executive with broad international experience in finance and strategy acquired during a 30-year career in serving as a non-executive director chairing audit committees for the several leading corporations in Russia, Ukraine and Kazakhstan.

(5) Miss Anastasiia Usachova was re-elected to the Board for a one-year term by the shareholders at the general meeting of the shareholders held on 10 December 2015. Miss Usachova has served the Group since 2003, and today oversees the Group's financial reporting, auditing, budgeting, financial planning and risk assessment.

(6) Mrs. Viktoriia Lukianenko, chief legal officer of the company, re-elected for a one-year term at the general meeting of shareholders held on 10 December 2015.

(7) Mr. Konstantin Litvinskyi, chief operating officer of the company, elected for a three-year term at the general meeting of shareholders held on 10 December 2015. Mr. Litvinskyi joined Kernel in 2005 and serves as Chief Operations Officer.

(8) Mr. Yuriy Kovalchuk was elected to the Board for a three-year term by the shareholders at the general meeting of the shareholders held on 10 December 2015. Mr. Kovalchuk oversees investor relations and new investment opportunities for the Group.

7. Looking ahead:

For a detailed outlook for the financial year ending 30 June 2016, please refer to the annual report of Kernel group of companies which is available on web-site www.kernel.ua.

For additional subsequent events please refer to the Notes 16, 17 and 18 of these annual accounts.

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**Report of the board of directors to the shareholders' ordinary
general meeting deliberating on the approval of the annual accounts
to be held on 12 December 2016**

The Board of Directors

By:	2016
<u>Mr. Andriy Verevskyy</u>	
By:	2016
<u>Mr. Andrzej Danilczuk</u>	
By:	2016
<u>Mr. Ton Schurink</u>	
By:	2016
<u>Miss Anastasiia Usachova</u>	
By:	2016
<u>Mrs. Viktoriia Lukianenko</u>	
By:	2016
<u>Mr. Kostiantyn Litvinskyi</u>	
By:	2016
<u>Mr. Yuriy Kovalchuk</u>	
By:	2016
<u>Mr. Sergei Shibaev</u>	

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated 10 December 2015, we have audited the accompanying annual accounts of Kernel Holding S.A., which comprise the balance sheet as of 30 June 2016 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts 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 annual accounts 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 annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, 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 annual accounts 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 annual accounts.

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 annual accounts give a true and fair view of, the financial position of Kernel Holding S.A. as of 30 June 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.


Emphasis of matter

We draw your attention to Note 18 "Operating environment" to the annual accounts for the year ended, 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 Board of Directors report, which is the responsibility of the Board of Directors, is consistent with the annual accounts. Corporate Governance Statement, as published on the Company's website <http://www.kernel.ua>, on 30 June 2016, 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 annual accounts.

For Deloitte Audit, *Cabinet de révision agréé*



Sophie Mitchell, *Réviser d'entreprises agréé*
Partner

21 October 2016

KERNEL HOLDING S.A.

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Balance sheet as at 30 June 2016**Assets**

	Note	30.06.2016 USD	30.06.2015 USD
B. FORMATION EXPENSES	3	–	484,072.45
C. FIXED ASSETS		697,738,750.84	718,591,142.89
<i>III. Financial assets</i>	<i>4</i>	<i>697,738,750.84</i>	<i>718,591,142.89</i>
1. Shares in affiliated undertakings		697,738,701.84	718,591,093.89
5. Securities and other financial instruments held as fixed assets		49.00	49.00
D. CURRENT ASSETS		43,894,539.54	35,103,152.73
<i>II. Debtors</i>	<i>5</i>	<i>43,639,773.02</i>	<i>34,732,678.32</i>
1. Trade receivables		25,000.00	25,000.00
a) becoming due and payable within one year		25,000.00	25,000.00
2. Amounts owed by affiliated undertakings		37,451,886.53	28,726,335.76
a) becoming due and payable within one year		37,451,886.53	28,726,335.76
4. Other receivables		6,162,886.49	5,981,342.56
a) becoming due and payable within one year		186,886.49	5,342.56
b) becoming due and payable after more than one year		5,976,000.00	5,976,000.00
<i>IV. Cash at bank, cash in postal cheque accounts, cheques and cash in hand</i>		<i>254,766.52</i>	<i>370,474.41</i>
E. PREPAYMENTS		32,300.00	32,950.00
Total assets		741,665,590.38	754,211,318.07

Annual accounts for the year ended

30 June 2016

The accompanying notes form an integral part of the annual accounts

KERNEL HOLDING S.A.

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Balance sheet as at 30 June 2016**Liabilities**

	Note	30.06.2016 USD	30.06.2015 USD
A. CAPITAL AND RESERVES		728,182,298.63	736,352,230.38
<i>I. Subscribed capital</i>	6	2,104,120.11	2,104,120.11
<i>II. Share premiums and similar premiums</i>	7	478,580,199.03	478,580,199.03
<i>IV. Reserves</i>		210,412.01	210,412.01
1. Legal reserve	8,9	210,412.01	210,412.01
<i>V. Profit or loss brought forward</i>	9	255,457,499.23	268,176,646.71
<i>VI. Profit or loss for the financial year</i>	9	11,750,920.75	(12,719,147.48)
<i>VII. Interim dividends</i>	9	(19,920,852.50)	–
C. PROVISIONS	10	287,732.21	299,832.97
2. Provisions for taxation		207,732.21	205,979.65
3. Other provisions		80,000.00	93,853.32
D. NON SUBORDINATED DEBTS	11	13,195,559.54	17,559,254.72
4. Trade creditors		820,138.07	210,129.79
a) becoming due and payable within one year		820,138.07	210,129.79
6. Amounts owed to affiliated undertakings		12,209,039.58	17,204,224.44
a) becoming due and payable within one year		6,778,141.83	6,673,326.69
b) becoming due and payable after more than one year		5,430,897.75	10,530,897.75
8. Tax and social security debts		129,336.41	128,898.91
a) Tax debts		129,336.41	128,898.91
9. Other creditors		37,045.48	16,001.58
a) becoming due and payable within one year		37,045.48	16,001.58
Total liabilities		741,665,590.38	754,211,318.07

Annual accounts for the year ended

30 June 2016

The accompanying notes form an integral part of the annual accounts

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Profit and loss account for the year ended 30 June 2016**Charges**

	Note	2016 USD	2015 USD
2. Other external charges		3,326,797.83	2,382,330.23
4. Value adjustments		484,072.45	747,196.34
a) on formation expenses and on tangible and intangible fixed assets	3	484,072.45	747,196.34
5. Other operating charges	12	242,812.50	222,500.00
6. Value adjustments and fair value adjustments on financial fixed	4	0.00	7,781,937.00
8. Interest and other financial charges		452,284.25	1,027,324.74
a) concerning affiliated undertakings	11	311,807.80	1,016,786.27
b) other interest and similar financial charges		140,476.45	10,538.47
10. Extraordinary charges	4	14,547,059.71	369,588.40
11. Income tax		0.00	3,872.02
12. Other taxes not included in the previous caption		3,494.73	229,949.66
13. Profit for the financial year		11,750,920.75	–
Total charges		30,807,442.22	12,764,698.39

Annual accounts for the year ended

30 June 2016

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Profit and loss account for the year ended 30 June 2016**Income**

	Note	2016 USD	2015 USD
6. Income from financial fixed assets		30,637,937.00	–
a) derived from affiliated undertakings		30,637,937.00	–
8. Other interests and other financial income		13,436.60	15,421.83
b) other interest and similar financial income		13,436.60	15,421.83
10. Extraordinary income		156,068.62	30,129.08
12. Loss for the financial year		–	12,719,147.48
Total income		30,807,442.22	12,764,698.39

Annual accounts for the year ended

30 June 2016

The accompanying notes form an integral part of the annual accounts

Notes to the Annual accounts for the year ended 30 June 2016

Note 1 - General information

Kernel Holding S.A. (the "Company") was incorporated on 15 June 2005 and organized under the laws of Luxembourg in the form of a Société Anonyme ("S.A.") for an unlimited period of time.

Effective 12 April 2013, its registered office is established at 19, rue de Bitbourg, L-1273 Luxembourg.

The Company's financial year starts on 1 July and ends on 30 June of each year.

The Company object is the acquisition, the management, the enhancement and the disposal of participations in whichever form in domestic and foreign companies.

The Company may also contract loans and grant all kinds of support, loans, advances and guarantees to companies, in which it has a direct or indirect participation or which are members of the same group.

It may open branches in Luxembourg and abroad. Furthermore, the Company may acquire and dispose of all other securities by way of subscription, purchase, exchange, sale or otherwise.

It may also acquire, enhance and dispose of patents and licenses, as well as rights deriving therefrom or supplementing them.

In addition, the Company may acquire, manage, enhance and dispose of real estate located in Luxembourg or abroad.

The Company is the holding company for a group of entities which together form the Kernel Group. The subsidiaries of the Kernel Group own assets primarily in Ukraine and Russian Federation and operate across the agricultural value chain.

On the basis of the offering prospectus (the "Prospectus") approved on 25 October 2007 by the Commission de Surveillance du Secteur Financier, shares in the Company were offered to investors in the offering consisting of a public offering in Poland and an international offering by way of private placements to selected institutional investors in certain jurisdictions outside of Poland.

On 23 November 2007, the Company was listed on the Warsaw Stock Exchange ("WSE"). The total size of the Offering was PLN 546,402,000 comprising 22,766,750 shares, of which 16,671,000 were newly issued shares.

On 27 June 2008, an additional 5,400,000 ordinary bearer shares of the Company were admitted to trading on the main market of the WSE.

On 3 June 2010, the Company issued 4,450,000 new shares, thereby increasing the Company's share capital by USD 117,506.70, to a total amount of USD 1,932,681.54. Following the issuance of new shares, Kernel's share capital was divided into 73,191,000 shares without indication of a nominal value, giving right to 73,191,000 voting rights at the General Meeting of the Company.

On 5 January 2011, the Company issued 483,410 new shares without indication of a nominal value. All of the newly issued shares were subscribed to by a stock option beneficiary under the Management and Incentive Plan. The issued price was PLN 24 per share. As a result of the increase, the Company's share capital was increased by an amount of USD 12,764.92 and set at USD 1,945,446.46 divided into 73,674,410 shares without indication of a nominal value.

On 4 August 2011, the Company issued 6,009,000 new shares without indication of a nominal value. 5,400,000 newly issued shares have been subscribed by Namsen Limited, a company registered at 13, Agiou Prokopiou Street, Cyprus. The remaining newly issued shares have been subscribed by holders of stock options issued in connection with the Company's management incentive plan. As a result of the increase, the Company's share capital was set at USD 2,104,120.11 divided into 79,683,410 shares without indication of a nominal value.

As at 30 June 2016, the Company's shares are allocated as follows: 39.34% (2015: 39.21%) held by Namsen Limited, and 60.66% (2015: 60.79%) free-float.

The Company draws up consolidated financial statements which are published according to the provisions of the Luxembourg law and are available at its registered office.

Notes to the Annual accounts for the year ended 30 June 2016

Note 2 - Significant accounting policies

2.1 General principles

These annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements under the historical cost model. Accounting policies and valuation rules are, besides the ones laid down by the Law of 19 December 2002 and 10 December 2010, determined and applied by the Board of Directors.

The preparation of these annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the accounting policies. Changes in assumptions may have a significant impact on these annual accounts in the period in which the assumptions changed. Management believes that the underlying assumptions are appropriate and that these annual accounts therefore present the financial position and results fairly.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.2 Significant accounting policies

The main valuation rules applied by the Company are the following, in accordance with the principles described above.

2.2.1 Formation expenses

Formation expenses and capital increase expenses are amortized on a straight-line method over a period of 5 years.

2.2.2 Financial assets

Historical cost model

Valuation at the "lower of cost or market value"

Shares in affiliated undertakings are valued at the lower of purchase price including the expenses incidental thereto or the market value. Investments held as fixed assets ("Investments") shown under "Financial assets" are recorded at their nominal value. A value adjustment is recorded where the market value of the Investments is lower than the purchase price or nominal value. The probable market or recovery value estimated with due care and in good faith by the Board of Directors, without set off of individual gains and losses in value, for unlisted securities that are not traded on another regulated market.

Market value/recovery value corresponds to:

- The last available quote on the valuation day for securities listed on a stock exchange or dealt in on another regulated market;
- The probable market or recovery value estimated with care and in good faith by the Board of Directors, without compensation between individual gains and losses in value, except when several entities are forming one cash generating unit, for unlisted securities or securities that are not dealt in on another regulated market, for securities listed on a stock exchange or dealt in on another regulated market where the latest quote is not representative as well as for the loans shown under "Assets".

Notes to the Annual accounts for the year ended 30 June 2016

Note 2 - Significant accounting policies (continued)

2.2.3 Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.2.4 Cash at bank and in hand

Cash is valued at its nominal value.

2.2.5 Foreign currency translation

The accounts are expressed in United-States Dollars ("USD").

Transactions expressed in currencies other than USD are translated into USD at the exchange rate effective at the time of the transaction.

Formation expenses and fixed assets expressed in currencies other than USD are translated into USD at the exchange rate effective at the time of the transaction. At the balance sheet date, these assets remain translated at their historical exchange rates.

Cash at bank and in hand are translated at the exchange rate effective at the balance sheet date. Exchange losses and gains are recorded in the profit and loss account of the year.

Other assets and liabilities are translated separately respectively at the lower or at the higher of the value converted at the historical exchange rate or the value determined on the basis of the exchange rates effective at the balance sheet date. The unrealized exchange losses are recorded in the profit and loss account. The realized exchange gains are recorded in the profit and loss account at the moment of their realization.

Where there is an economic link between an asset and a liability, these are valued in total according to the method described above and the net unrealized loss is recorded in the profit and loss account and the net unrealized gains are not recognized.

Assets and liabilities items which are fair valued are converted at the exchange rates effective at the balance sheet date. Foreign exchange differences on those items which are accounted at fair value are recognized in the profit and loss account or revaluation reserves with the change in fair value.

2.2.6 Provisions

Provisions are intended to cover losses or debts, the nature of which is clearly defined and which, at the date of the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Provisions may also be created to cover charges which originate in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or the date on which they will arise.

Provisions for taxation

Current tax provision:

Provisions for taxation corresponding to the tax liability estimated by the Company for the financial years for which the tax returns have not yet been filed are recorded under the caption "Tax debts". The advance payments are shown in the assets of the balance sheet under the "Other receivables" item.

2.2.7 Debts

Debts are valued at their reimbursement value. Where the amount repayable on account is greater than the amount received, the difference is shown in the profit and loss account when the debt is issued.

Notes to the Annual accounts for the year ended 30 June 2016

Note 3 - Formation expenses

Formation expenses comprise expenses incurred for the capital increase and debenture loans fees.

	2016 USD	2015 USD
Gross book value – opening balance	16,375,335.05	16,375,335.05
Additions for the year	–	–
Disposals for the year	–	–
Transfers for the year	–	–
Gross book value – closing balance	16,375,335.05	16,375,335.05
Accumulated value adjustment – opening balance	(15,891,262.60)	(15,144,066.26)
Allocation for the year	–	(747,196.34)
Reversals for the year	(484,072.45)	–
Transfers for the year	–	–
Accumulated value adjustment – closing balance	(16,375,335.05)	(15,891,262.60)
Net book value – opening balance	484,072.45	1,231,268.79
Net book value – closing balance	–	484,072.45

Note 4 - Financial assets

For assets following the historical cost model the movements of the year are as follows:

	Share in affiliated undertakings USD	Securities and other financial instruments held as fixed assets USD	Total 2016 USD
Gross book value – opening balance	828,697,394.59	49.00	828,697,443.59
Additions for the year	200.00	–	200.00
Disposals for the year	(130,958,892.75)	–	(130,958,892.75)
Transfers for the year	–	–	–
Gross book value – closing balance	697,738,701.84	49.00	697,738,750.84
Accumulated value adjustment – opening balance	110,106,300.70	–	110,106,300.70
Allocation for the year	–	–	–
Reversals for the year	110,106,300.70	–	110,106,300.70
Transfers for the year	–	–	–
Accumulated value adjustment – closing balance	–	–	–
Net book value – opening balance	718,591,093.89	49.00	718,591,142.89
Net book value – closing balance	697,738,701.84	49.00	697,738,750.84

Notes to the Annual accounts for the year ended 30 June 2016

Note 4 - Financial assets (continued)

On September 2015, the Company contributed an amount of USD 200.00 into Kernel Capital LLC's capital. As at 30 June 2016, the total amount invested in Kernel Capital LLC by the Company amounts to USD 117,756,192.67.

The Company sold 100% of its shares in Ust-Labinsk Essential Oil Extraction Plant Florentina for a total amount of USD 5,982,749.58. As payment of the sale price, the Company received an amount of USD 882,136.18 on 11 December 2015, RUB 333,000,000.37 (equivalent to USD 5,063,391.23), on 14 April 2016 and RUB 2,412,350,23 (equivalent to USD 37,222.17) on 29 June 2016. A loss of USD 8,323,656.57 has been recognized in the profit and loss account of the Company.

The Company sold 100% of its shares in Stavropol Oils for a total amount of USD 5,960,764.18. As payment of the sale price, the Company received an amount of USD 968,193.09 on 14 December 2015, USD 1,582,222.00 on 13 April 2016, RUB 222,001,056.22 (equivalent to USD 3,375,610.21) on 14 April 2016 and RUB 2,152,504.51 (equivalent to USD 34,738.88) on 29 June 2016. A loss of USD 6,223,358.72 has been recognized in the profit and loss account of the Company.

On 24 June 2016, Eastern Agro Investments Limited has been liquidated. As of the date of liquidation, the cost of this investment was fully impaired for an amount of USD 89,848,443.49, which is included in the line "disposals for the year" for gross book value movements and "reversals for the year" for accumulated value adjustment movements in the disclosure above.

In the opinion of the management of the Company, the impairment booked in relation to the investment in Kernel Trade LLC is no longer applicable. As a result, on 30 June 2016, the USD 5,637,937.00 have been fully reversed.

Notes to the Annual accounts for the year ended 30 June 2016

Note 4 - Financial assets (continued)

Undertakings in which the Company holds a percentage in their share capital or in which it is a general partner are as follows:

Name of undertakings	Registered office	Ownership %	Last balance sheet date	Currency	Net equity at the balance sheet date	Currency	Result of the last financial year	Currency	Net Book Value
JERSTE B.V.	200, Prins Bernhardplein, 1097 JB Amsterdam, Netherlands	100.00%	30.06.2016	USD	135,095,693	USD	(190,030)	USD	135,748,280.96
Inerco Trade S.A.	Rue Jules Gachet 9, CH1260 Nyon, Switzerland	100.00%	30.06.2016	USD	129,138,271	USD	22,801,076	USD	3,532,673.50
Kernel Capital LLC	3 Tarasa Shevchenka lane, Kyiv, 01001 Ukraine	99.75%	30.06.2016	USD	41,166,000	USD	(76,000)	USD	117,756,192.67
Kernel Trade LLC	3 Tarasa Shevchenka lane, Kyiv, 01001 Ukraine	99.07%	30.06.2016	USD	150,564,000	USD	(27,176,000)	USD	231,929,995.64
Ukragrobusiness LLC	3 Tarasa Shevchenka lane, Kyiv, 01001 Ukraine	91.30%	30.06.2016	USD	315,000	USD	(4,000)	USD	896,416.35
Estron Corporation Ltd	29A, Annis Komninis, P.C. ,1061 Nicosia, Cyprus	100.00%	30.06.2016	USD	49,297,551	USD	(63,000)	USD	97,526,715.48
Etrecom Investments LTD	13, Agiou Prokopiou, 2406 Egkomi Cyprus	100.00%	30.06.2016	USD	(50,029)	USD	(76,442)	USD	1.38
Trading Company Russian Oils LLC	350000, Krasnodar, Red Army, Street, N°36 Russia	100.00%	30.06.2016	USD	6,551,000	USD	(4,269,000)	USD	14,911,618.61
Taman Grain Terminal Holding Limited	210, Makarios III Ave, Elli Court, 3030 Limassol-Cyprus	50.00%	30.06.2016	USD	188,196,497	USD	(188,630)	USD	94,906,807.25
MasloZernovoy complex Kernel LLC	Russia, 350000, Krasnodar region, Krasnodar city, street Krasnoarmeiskaia, building 36	100.00%	30.06.2016	USD	1,289,000	USD	(665,999)	USD	530,000.00
JV TransBulkTerminal LLC	Ukraine, 68000, Odesskaya district, city Illichivsk, 58, Sukhomlinskaya str.	1.00%	30.06.2016	USD	659,000	USD	(36,000)	USD	49.00

USD **697,738,750.84**

Notes to the Annual accounts for the year ended 30 June 2016

Note 5 – Debtors

Debtors are mainly composed of:

	Receivables within one year USD	Receivables after one year USD	Total 30.06.2016 USD	Total 30.06.2015 USD
Amounts owed by affiliated undertakings				
Dividends receivable - Etrecom Investments LTD	21,041,523.57	–	21,041,523.57	25,315,972.80
Receivable - Bandurskyi (Garantee on loan)	3,410,362.96	–	3,410,362.96	3,410,362.96
Trade debtors				
Receivable - Thompson Coburn	25,000.00	–	25,000.00	25,000.00
Other debtors				
Prepayment - Acquisition Krasnopavlivski Kombinat	13,000,000.00	–	13,000,000.00	–
Khliboproduktiv LLC and Agrarnyi Dim Im. Gorkogo LLC				
Receivable - Khmelnytskhhleboproduct - 24,9% *	–	3,124,794.37	3,124,794.37	3,124,794.37
Receivable - Stiomi - Holding 24,9% *	–	2,851,205.63	2,851,205.63	2,851,205.63
Advance Corporate Income Tax 2014	1,815.18	–	1,815.18	1,762.27
Advance Corporate Income Tax 2015	1,691.24	–	1,691.24	1,691.24
Advance Corporate Income Tax 2016	1,748.57	–	1,748.57	1,753.45
Advance Net Wealth Tax 2015	180,671.73	–	180,671.73	66.58
Advance Net Wealth Tax 2016	959.77	–	959.77	69.02
Total	37,663,773.02	5,976,000.00	43,639,773.02	34,732,678.32

* please refer to Note 17

Note 6 - Subscribed capital

As at 30 June 2016, the subscribed and fully paid-up capital of the Company amounts to USD 2,104,120.11 divided into 79,683,410 shares without indication of a nominal value.

The authorized share capital excluding the current issued share capital is fixed at USD 195,610.89 represented by 7,407,820 shares without indication of the nominal value.

Note 7 - Share premium and similar premiums

In 2016, the share premium remains at an amount of USD 478,580,199.03.

Note 8 - Legal reserve

Under Luxembourg law, the company is obliged to allocate to a legal reserve a minimum of 5% of its annual net profit until this reserve reaches 10% of the subscribed share capital. This reserve is not available for distribution.

Notes to the Annual accounts for the year ended 30 June 2016

Note 9 - Movements for the year on the reserves and profit/loss items

The movements for the year are as follows:

The allocation of prior year's results was approved by the General Shareholders' Meeting of 10 December 2015.

On 10 December 2015 the Board of Directors of Kernel Holding S.A. announced the approval of the dividend policy, adopting the dividend per share approach (DPS). Starting from the FY 2015 results announcement, Kernel Holding S.A. maintains a sustainable annual dividend of USD 0.25 per share. The dividends have been declared and paid in US dollars for a total amount of USD 19,920,852.50.

	Legal Reserve USD	Profit or loss brought forward USD	Interim dividend USD	Result for the financial year USD	Total USD
As at 30 June 2015	210,412.01	268,176,646.71	–	(12,719,147.48)	255,667,911.24
Movements for the year:					
• Allocation of prior year's result	–	(12,719,147.48)	–	12,719,147.48	–
• Profit for the year	–	–	–	11,750,920.75	11,750,920.75
• Dividend payments	–	–	(19,920,852.50)	–	(19,920,852.50)
As at 30 June 2016	210,412.01	255,457,499.23	(19,920,852.50)	11,750,920.75	247,497,979.49

Dividends as for the year ended 30 June 2016 are presented at Balance sheet in separate line, comparatively to the year ended 30 June 2015, where presented within "Profit or loss brought forward" in the amount of USD 19,920,852.50. This presentation change was performed in the year ended 30 June 2016 in order to align presentation more in line with Law requirements.

Note 10 - Provisions for taxation

Provisions for taxation are made up as follows:

	30.06.2016 USD	30.06.2015 USD
Provisions for taxation	207,732.21	205,979.65
Total	207,732.21	205,979.65

Other provisions are composed of advisory fees and others for an amount of USD 80,000.00 (USD 93,853.32 as at 30 June 2015).

Notes to the Annual accounts for the year ended 30 June 2016

Note 11 - Non-subordinated debts

Amounts due and payable for the accounts shown under "Non-subordinated debts" are as follows:

	Due and payable within one year USD	Due and payable after one year and within five USD	Total 30.06.2016, USD	Total 30.06.2015, USD
Trade creditors	820,138.07	–	820,138.07	210,129.79
Amounts owed to affiliated undertakings	6,778,141.83	5,430,897.75	12,209,039.58	17,204,224.44
Tax debts	129,336.41	–	129,336.41	128,898.91
Other creditors	37,045.48	–	37,045.48	16,001.58
Total	7,764,661.79	5,430,897.75	13,195,559.54	17,559,254.72

As at 30 June 2016, amounts owed to affiliated undertakings are composed as follows:

	Total 30.06.2016, USD	Total 30.06.2015, USD
Loan Restomon Limited - USD 95 Mio (principal amount)	5,430,897.75	10,530,897.75
Loan Restomon Limited - USD 95 Mio (accrued interest)	6,777,382.87	6,465,575.07
Other Payables	758.96	207,751.62
Total	12,209,039.58	17,204,224.44

The loans from Restomon Limited "Restomon" bear interest of 4% per annum. The total accrued interest is USD 311,807.80 (USD 1,016,786.27 as at 30 June 2015) as at 30 June 2016. The loan will mature on 30 July 2017.

Notes to the Annual accounts for the year ended 30 June 2016**Note 12 - Emoluments granted to the members of the management and supervisory bodies and commitments in respect of retirement pensions for former members of those bodies**

The emoluments granted to the members of the management and supervisory bodies in that capacity are broken down as follows:

	2016 USD	2015 USD
Directors' fees: amounts paid to the Directors during the year	242,812.50	222,500.00

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 (30 June 2015: USD 4,793 thousand).

Note 13 - Audit fees

Audit fees are made up as follows:

	2016 USD	2015 USD
Audit fees	131 379,74	133 373,65

Note 14 - Off balance sheet commitments

The financial commitments of the Company are as follows:

The Company is engaged as guarantor in the facility agreement dated 4 April 2008 existing between the limited liability Company "Bandurskyi Elevator" (Borrower) a company incorporated and existing under the laws of Ukraine with its registered office at 40 Tsentral'na Street, village of Bandurka, 55 247 Mykolayiv Oblast, Ukraine and the credit institution "Investkredit Bank AG" (Lender) organized and existing under the laws of the Republic of Austria with its registered office in Vienna.

Kernel Holding S.A. as guarantor guarantees all the obligations (including principal, interest, costs, fees and charges) at any time owned by the borrower "Bandurskyi Elevator" to the lender. During the 2011/2016, financial years, Kernel Holding S.A. has paid for more than USD 3.4 million to the lender on behalf of the borrower.

On 22 September 2011, Inerco Trade, a subsidiary of Kernel Holding S.A. entered into a USD 150 million two-year secured revolving agreement with European bank for trading financing (finance purchases, storage, transportation and transshipment of Commodities), amended on 22 June 2012 through an Amendment and Restatement Agreement increasing the amount to USD 210 million amended on 25 June 2013 through an Amendment and Restatement Agreement increasing the amount to USD 250 million. The loan is secured against corporate guarantees of Kernel Holding S.A. and another group company.

On 14 October 2011, Kernel Trade LLC, a subsidiary of Kernel Holding S.A. entered into a USD 7.6 million eight-year financial lease agreement with an Ukrainian bank for leasing of agricultural equipment and secured against corporate guarantees of Kernel Holding S.A.

Notes to the Annual accounts for the year ended 30 June 2016

Note 14 - Off balance sheet commitments (Continued)

On 7 December 2011, Poltava HPP PJSC/Kononivsky Elevator LLC, two of the subsidiaries of Kernel Group Company entered into a USD 25 million six-year loan agreement with an Ukrainian subsidiary of American bank for the financing of internal silo construction and secured against corporate guarantees of Kernel Holding S.A.

On 26 January 2012, Kernel Trade LLC, a subsidiary of Kernel Holding S.A. entered into a USD 100 million three-year loan agreement with European banks for the financing of Black Sea Industries acquisition and secured against corporate guarantees of Kernel Holding S.A. On 10 May 2016, Kernel Holding S.A. entered into a second amendment and restatement agreement and the loan has been extended until 5 April, 2018.

On 8 February 2012, Estron Corporation a subsidiary of Kernel Holding S.A. and Kernel Holding S.A. entered into a USD 108 million up to five-year facility agreement with European Banks for the financing of general corporate purpose of the Group and capital expenditures relating to the Transbulkterminal. Kernel Holding S.A. acts as co-borrower of this loan. On 5 February 2016, Kernel Holding S.A. entered into an amendment and restatement agreement and the loan has been extended until 8 February 2018.

On 23 November 2012, Kernel Trade LLC, a subsidiary of Kernel Holding S.A. entered into a USD 170 million five-year loan agreement with Alfa Bank for current operating purposes and refinancing of loans with Ukreximbank against guarantees of Kernel Holding S.A.

On 12 August 2013, the Company is reporting that its subsidiary entered into a USD 140 million facility agreement with a Russian bank. The loan consists of two tranches - a USD 100 million five-year tranche and a USD 40 million twelve-month tranche. The loan is a USD facility that will be drawn to partially refinance the acquisition costs and corporate debt of the 108,000 hectare farming business acquired in June 2013.

On 25 August 2015, the Company renewed its grain pre-export credit facility with a syndicate of European banks. A one year secured revolving facility with a limit of USD 230 million is used by the subsidiaries to fund the working capital needs of its grain export business in Ukraine.

On 17 December 2015, the Company entered into a preliminary sale and purchase agreement with Restomon Limited, in relation to the acquisition of two companies named Krasnopavlivskyi Kombinat Khliboproduktiv Limited Liability Company and Agrarnyi Dim Im. Gorkogo. The parties should enter into a sale purchase agreement until 25 June 2016. On 20 June 2016, the parties entered into an addendum to the preliminary sale and purchase agreement in order to replace 20 June 2016 by 25 June 2017.

On 7 June 2016 a guarantee was issued of Kernel Holding SA to Alfabank. The guarantee was issued as a collateral for financing the limit in the amount of UAH 126,718,230. The document was signed as of 25 April 2016.

The Company is committed to issue shares for share option plan. Please refer to note 12.

Note 15 - Tax Status

The Company is fully taxable under Luxembourg tax regulations.

Notes to the Annual accounts for the year ended 30 June 2016

Note 16 - Subsequent events

The following are the significant events after balance sheet date:

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 company 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 the Company. 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.

Note 17 – Contingencies

In April 2012, the Kernel Holding S.A. and its subsidiaries (the "Group") entered into a call option agreement to acquire Stiomi Holding, a farming company located in Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 30 June 2016, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the seller's obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them.

The arbitral tribunal was formed, the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit. At the Group level, the subsidiaries of the Group benefited from the prepayment made by acquiring land lease rights.

As of 30 June 2016, on the balance of Kernel Holding S.A. there were the prepayments made as part of the consideration discussed above in the total amount of USD 5,976 thousand (Note 5).

The Management believe that these prepayments will be recovered either resulting from lawsuit resolution or otherwise will be sold to other Company of the Group, which has received benefit from this prepayment.

Notes to the Annual accounts for the year ended 30 June 2016

Note 18 - Operating environment

The analysis below is presented from the perspective of Company and its subsidiaries, located mainly in Ukraine.

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.

For a detailed review of the operating environment, please refer to the annual report of Kernel group of companies which is available on web-site www.kernel.ua.