

KERNEL

Q1 FY2016

Condensed Consolidated Interim Financial Statements

for three months ended 30 September 2015

Management Discussion and Analysis

for the 3 months ended 30 September 2015

Key highlights:

- Revenue decreased 35% y-o-y to USD 377.7 million in Q1 FY2016, as sales volumes declined 22-24% y-o-y and international agricultural prices were lower than a year ago.
- EBITDA was USD 55.1 million in Q1 FY2016, down 32% y-o-y, as a result of lower sales volumes, normalization of the crush margin, and a higher contribution from the farming division.
- Net profit came to USD 23.9 million in Q1 FY2016, up 2% y-o-y, as financial costs fell significantly and our foreign exchange loss was almost 4x lower y-o-y because of a lower devaluation pace.
- Sunflower oil performance was above expectations, though both sales and margins declined from the abnormally high levels of a year ago. The availability of sunflower seed on the market during this quarter was low because of the end of the marketing season (September-August) and a lower harvest last year in Ukraine. As a result, production and sales volumes decreased, though the commencement of rapeseed crushing partially offset the decline. Consequently, the sunflower oil business' EBITDA was USD 25.9 million in Q1 FY2016, down 42% y-o-y. Full year oilseed crush is expected to be 2.7 million tons in FY2016, up from 2.5 million tons a year ago.
- The grain segment's export volumes went down 24% y-o-y to 0.9 million tons in Q1 FY2016 as the weak global price environment dampened farmers' selling activity in Ukraine. The grain and infrastructure segments' margins were comparable to last year's numbers, resulting in a total EBITDA contribution of USD 21.0 million in Q1 FY2016, down 28% y-o-y.
- The farming segment's EBITDA was up 49% y-o-y to USD 16.0 million. FY2016 corn and soybean yields are comparable to the previous year's levels despite Ukraine's average trend of a double-digit decline because of the drought in August. The sunflower seed yield is up 8% y-o-y. Overall, further improvements in farming technology and execution improved our premium to Ukraine's average.
- Net debt decreased to USD 386.8 million as of 30 September 2015 vs. USD 653.9 million a year ago, as we used strong cash flow generation in the course of FY2015 to strengthen our balance sheet.

USD million except ratios and EPS

	Q1 FY2016	Q1 FY2015	y-o-y
P&L highlights			
Revenue	377.7	579.2	(35%)
EBITDA ⁽¹⁾	55.1	80.5	(32%)
Net profit attributable to equity holders of Kernel Holding S.A.	23.9	23.4	2%
EBITDA margin	14.6%	13.9%	0.7pp
Net margin	6.3%	4.0%	2.3pp
EPS ⁽²⁾ , USD	0.30	0.29	2%
Cash flow highlights			
Operating profit before working capital changes	57.8	74.4	(22%)
Change in working capital	(85.2)	0.9	n/m
Cash (used in)/generated from operations	(27.4)	75.3	n/m
Net cash used in operating activities	(40.5)	46.0	n/m
Net cash used in investing activities	(7.3)	(11.6)	(37%)
Liquidity position and credit metrics			
Net interest-bearing debt	386.8	653.9	(41%)
Readily marketable inventories	275.3	328.8	(16%)
Adjusted net debt ⁽³⁾	111.6	325.2	(66%)
Shareholders' equity	894.4	1,022.5	(13%)
Net debt/EBITDA ⁽⁴⁾	1.0x	2.2x	(1.1x)
Adjusted net debt/EBITDA	0.3x	1.1x	(0.8x)
EBITDA/Interest ⁽⁵⁾	6.1x	3.9x	2.2x

Note: Differences are possible due to rounding.

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

2 EPS is measured in US Dollars per share based on 79.7 million shares for Q1 FY2016 and Q1 FY2015.

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

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

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

Segment Results and Discussion

for the 3 months ended 30 September 2015

Segment results summary

	Revenue, USD million			EBITDA, USD million			EBITDA margin		Volumes, thousand tons		
	Q1 FY2016	Q1 FY2015	y-o-y	Q1 FY2016	Q1 FY2015	y-o-y	Q1 FY2016	Q1 FY2015	Q1 FY2016	Q1 FY2015	y-o-y
Sunflower oil											
Sunflower oil sold in bulk	169.9	232.5	(27%)	22.5	40.9	(45%)	13%	18%	158.2	202.6	(22%)
Bottled sunflower oil	20.5	26.3	(22%)	3.4	3.8	(10%)	17%	14%	17.7 ⁽¹⁾	22.8 ⁽¹⁾	(22%)
Grain and infrastructure											
Grain	176.3	287.0	(39%)	10.4	17.7	(41%)	6%	6%	927.4	1,220.9	(24%)
Export terminals	9.2	10.7	(15%)	5.5	6.8	(20%)	60%	64%	1,167.7 ⁽²⁾	1,212.6 ⁽²⁾	(4%)
Silo services	8.5	9.2	(8%)	5.1	4.5	15%	60%	48%			
Farming											
Farming	56.2	55.3	2%	16.0	10.7	49%	28%	19%			
Sugar	—	20.2	n/m	—	2.9	n/m	—	14%			
Unallocated corporate expenses				(7.8)	(6.8)	14%					
Revenues reconciliation	(62.8)	(62.0)	1%								
Total	377.7	579.2	(35%)	55.1	80.5	(32%)	15%	14%			

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

1 Million liters.

2 Including 572,875 tons transhipped through the Taman port in Q1 FY2016 and 543,050 tons in Q1 FY2015 (Kernel's share in the joint venture).

Sunflower oil sales in bulk segment

- Oilseed crush was down 17% y-o-y to 417,902 tons in Q1 FY2016 as a result of the lower availability of sunflower seed at the end of the marketing season (September-August). During the quarter, the Company commenced rapeseed crushing at several of its multi-seed crushing plants, utilizing capacity available at the end of the sunflower seed marketing season. Full year crush is expected at 2.7 million tons of oilseed in FY2016, up from 2.5 million tons a year ago.
- As a result of lower production, sunflower oil sales in bulk declined 22% y-o-y to 158,150 tons in Q1 FY2016. International sunflower oil prices were lower y-o-y, resulting in the segment's revenue decreasing 27% y-o-y to USD 169.9 million in Q1 FY2016.
- The crushing margin amounted to USD 142/ton in Q1 FY2016, lower than the levels seen in the previous year as the crushing margin typically declines toward the end of the marketing season (the high margin in the same period a year ago was an exception).
- As a result, the segment's EBITDA amounted to USD 22.5 million in Q1 FY2016 compared to USD 40.9 million in Q1 FY2015, as margins and volumes normalized.

Bottled sunflower oil

- Bottled oil sales amounted to 17.7 million liters in Q1 FY2016, down 22% y-o-y on lower domestic sales. The segment's revenue declined 22% y-o-y to USD 20.5 million in Q1 FY2016.
- The bottled oil segment's EBITDA margin was at a healthy 17% in Q1 FY2016, up from 14% a year ago and at a premium to sales of sunflower oil in bulk.
- The segment's total EBITDA amounted to USD 3.4 million in Q1 FY2016, compared to USD 3.8 million in Q1 FY2015.

Segment Results and Discussion

for the 3 months ended 30 September 2015

Grain

- Grain sales decreased 24% y-o-y to 927,446 tons in Q1 FY2016, as weak the international pricing environment and devaluation expectations dampened farmers' selling activity in Ukraine.
- The segment's revenue decreased 39% y-o-y to USD 176.3 million in Q1 FY2016 as a result of a drop in volumes and international prices that were lower y-o-y.
- The grain segment's EBITDA margin was at a healthy 6% in Q1 FY2016, flat y-o-y.
- As a result, the segment's EBITDA amounted to USD 10.4 million in Q1 FY2016 compared to USD 17.7 million a year ago.

Export terminals and silo services

- The export terminal segment's throughput was down 4% y-o-y to 1.2 million tons in Q1 FY2016, as a result of lower grain exports. The segment's EBITDA margin was at a healthy USD 9 per ton in Q1 FY2016 (vs. USD 10 per ton a year ago).
- The export terminals segment's total EBITDA was down 20% y-o-y to USD 5.5 million in Q1 FY2016 (this reflects only Ukrainian operations, as the contribution from the Taman joint venture is accounted for according to the equity method below operating profit). The net contribution from the Taman joint venture was USD 1.3 million in Q1 FY2016 vs. USD 4.2 million, as better operating performance was outweighed by a foreign exchange loss caused by 16% ruble devaluation during Q1 FY2016.
- The silo services segment's revenue declined 8% y-o-y to USD 8.5 million in Q1 FY2016. The segment's EBITDA amounted to USD 5.1 million in Q1 FY2016, 15% above the levels seen a year ago.

Farming

- The segment's revenue amounted to USD 56.2 million in Q1 FY2016, with EBITDA at USD 16.0 million in Q1 FY2016, compared to USD 10.7 million a year ago. Both sales and profits from the farming division were seasonally low in the first quarter.
- 97% of acreage planted for FY2016 was harvested as of this report's publication. The drought in August negatively impacted corn and soybean crop yields in the western regions of Ukraine. Consequently, the FY2016 corn net yield of 7.3 tons per hectare and soybean of 1.8 tons per hectare are up only marginally y-o-y, as operational improvements are offset by unfavorable weather.
- The sunflower seed net yield is up 8% y-o-y to 2.7 tons per hectare, as sunflower seed is more resistant to droughts. The winter wheat net yield is down 5% y-o-y to 5.1 tons per hectare, while the rapeseed net yield is 4.3 tons per hectare, 65% above Ukraine's average (not cultivated last year).
- Overall, FY2016 crop yields show a 25% acreage-weighted premium to Ukraine's average crop yields.
- FY2017 winter crops (23% of total acreage) are in good condition as of this report's publication.

Harvest update

	Acreage, thousand hectares			Net crop yield ⁽¹⁾ , tons/hectare			Net tonnage ⁽¹⁾ , thousand tons		
	FY2016	FY2015	y-o-y	FY2016	FY2015	y-o-y	FY2016	FY2015	y-o-y
Corn	160.7	183.8	(13%)	7.3	7.1	3%	1,165	1,315	(11%)
Wheat	72.5	30.7	2.4x	5.1	5.4	(6%)	369	165	1.2x
Sunflower	62.0	69.5	(11%)	2.7	2.5	8%	170	172	(1%)
Soybean	67.0	66.5	1%	1.8	1.8	0%	123	121	2%
Rapeseed	9.6	—	n/m	4.3	—	n/m	42	—	n/m
Other ⁽²⁾	14.5	32.1	(55%)						
Total	386.3	382.6	1%				1,869	1,772	5%

1 Net crop yields and tonnage are based on 93% of corn acreage harvested and 100% for other crops, and based on estimated losses during drying and cleaning. 1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean.

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

Financial Highlights

for the 3 months ended 30 September 2015

Income statement highlights

- Revenue decreased 35% y-o-y to USD 377.7 million in Q1 FY2016 as a result of a 22-24% decrease in sales volumes in key segments and international agricultural prices that were lower y-o-y.
- The net change in fair value of biological assets and agricultural produce (IAS 41 effect) amounted to USD 2.1 million (vs. a negative USD 1.6 million a year ago). The amount reflected the positive revaluation of corn in fields as well as the expensing of a portion of the fair value component booked in the previous financial year.
- Gross profit decreased 34% y-o-y to USD 73.5 million in Q1 FY2016, with the decline explained by lower operating performance, as discussed above, and a drop in distribution and G&A costs caused by Ukrainian hryvnia and Russian ruble devaluation.
- Other operating income of USD 3.2 million in Q1 FY2015 decreased 64% y-o-y, as the market exchange rate aligned with the official currency exchange rate (the difference between which previously caused gross profit reclassification into other operating income).
- Distribution costs were USD 24.1 million in Q1 FY2015, down 46% y-o-y because of a 22-24% decrease in sales volumes and decrease in railway tariffs caused by devaluation of the Ukrainian hryvnia. Distribution costs stood at 6.4% of revenue in Q1 FY2016 compared to 7.7% a year ago.
- General and administrative expenses totaled USD 13.1 million in Q1 FY2016 versus USD 15.0 million in Q1 FY2015, a decrease of 13% y-o-y, primarily due to depreciation of the Ukrainian hryvnia.
- Profit from operating activities was USD 39.6 million in Q1 FY2016, down 34% y-o-y and reflected segment performance as discussed above.
- Net finance costs decreased 39% y-o-y to USD 11.2 million in Q1 FY2016, as the Company's indebtedness significantly decreased over the last year and the Company used its cash flow to strengthen its balance sheet.
- Foreign exchange losses of USD 4.7 million in Q1 FY2016 reflected the Russian ruble devaluing by 16% against the US dollar in Q1 FY2016, which caused the revaluation of outstanding VAT receivables.
- The share of profit from the Taman joint venture was USD 1.3 million in Q1 FY2016 compared to USD 4.2 million in Q1 FY2015, as better operating performance was outweighed by a foreign exchange loss.
- The net profit attributable to the shareholders of Kernel Holding S.A. stood at USD 23.9 million in Q1 FY2016, up 2% y-o-y, as a lower interest and foreign exchange loss compensated for lower operating performance.

Cash flow highlights

- Operating profit before working capital changes was USD 57.8 million in Q1 FY2016 versus USD 74.4 million in Q1 FY2015, with the change explained by the same factors as movements in EBITDA.
- Working capital seasonally increased by USD 85.2 million in Q1 FY2016 (last year it was atypically unchanged), as the Company accelerated purchases of raw materials after farmers started harvesting autumn crops.
- Net cash used in investing activities was USD 7.3 million in Q1 FY2016 versus USD 11.6 million in Q1 FY2015.
- All of the above factors translated into the net repayment of USD 4.7 million of borrowings in Q1 FY2016 (vs. USD 45.2 million in Q1 FY2015).

Credit metrics highlights

- Net debt decreased to USD 386.8 million as of 30 September 2015 versus USD 653.9 as of 30 September 2014, as the Company used operating cash flow to strengthen its balance sheet. Readily marketable inventories (USD 275.3 million) and biological assets (USD 62.9 million at cost, primarily crops in fields) covered 87% of net debt as of 30 September 2015 compared to 62% a year ago.
- Net debt to EBITDA decreased to 1.0x as of 30 September 2015 versus 2.2x as of 30 September 2014 as a result of strong operating cash flow during the last year. Net debt adjusted for readily marketable inventories to EBITDA decreased to 0.3x as of 30 September 2015 versus 1.1x year ago for the same reason.

Credit metrics

USD million except ratios	30 Sep 2015	30 Sep 2014
Gross interest-bearing debt	463.0	706.4
Cash	76.1	52.5
Net interest-bearing debt	386.8	653.9
Readily marketable inventories	275.3	328.8
Adjusted net financial debt ⁽¹⁾	111.6	325.2
Shareholders' equity ⁽²⁾	894.4	1,022.5
Net debt / EBITDA ⁽³⁾	1.0x	2.2x
Adjusted net debt / EBITDA ⁽³⁾	0.3x	1.1x
EBITDA / Interest ⁽⁴⁾	6.1x	3.9x

1 Adjusted net financial debt is the net debt less readily marketable inventories.

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

3 Net debt/EBITDA and Adjusted net debt/EBITDA are calculated based on 12-month trailing EBITDA.

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

Condensed Consolidated Interim Financial Statements

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Selected Financial Data

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	USD thousand		PLN thousand		EUR thousand	
	30 September 2015	30 September 2014	30 September 2015	30 September 2014	30 September 2015	30 September 2014
I. Revenue	377,722	579,162	1,316,210	1,824,824	315,738	436,978
II. Profit from operating activities	39,568	60,369	137,879	190,211	33,075	45,548
III. Profit before income tax	27,754	25,134	96,712	79,192	23,200	18,964
IV. Profit for the period from continuing operations	24,071	24,078	83,878	75,865	20,121	18,167
V. Net cash (used in)/generated by operating activities	(40,535)	46,003	(141,249)	144,947	(33,883)	34,709
VI. Net cash used in investing activities	(7,343)	(11,636)	(25,587)	(36,663)	(6,138)	(8,779)
VII. Net cash used in financing activities	(5,268)	(47,286)	(18,357)	(148,989)	(4,404)	(35,677)
VIII. Total net cash flow	(53,146)	(12,919)	(185,193)	(40,705)	(44,425)	(9,747)
IX. Total assets	1,488,269	1,866,534	5,602,589	6,154,523	1,335,721	1,474,002
X. Current liabilities	489,205	579,598	1,841,612	1,911,108	439,061	457,709
XI. Non-current liabilities	104,052	267,849	391,704	883,179	93,387	211,520
XII. Issued capital	2,104	2,104	7,921	6,938	1,888	1,662
XIII. Total equity	895,012	1,019,087	3,369,273	3,360,236	803,273	804,773
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)	0.30	0.29	1.05	0.93	0.25	0.22
XVI. Diluted number of shares	81,020,112	79,683,410	81,020,112	79,683,410	81,020,112	79,683,410
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	0.30	0.29	1.03	0.93	0.25	0.22
XVIII. Book value per share (in USD/PLN/EUR)	11.22	12.83	42.25	42.31	10.07	10.13
XIX. Diluted book value per share (in USD/PLN/EUR)	11.04	12.83	41.56	42.31	9.91	10.13

Condensed Consolidated Interim Statement of Financial Position

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 September 2015	As of 30 June 2015	As of 30 September 2014
Assets				
Current assets				
Cash and cash equivalents	6	76,144	129,121	52,477
Trade accounts receivable, net		57,865	56,135	72,598
Prepayments to suppliers and other current assets, net	15	73,648	60,647	77,914
Corporate income tax prepaid		15,300	16,600	16,638
Taxes recoverable and prepaid, net		78,135	88,246	110,632
Inventory	7	340,148	158,756	411,388
Biological assets	8	62,926	146,571	79,423
Assets classified as held for sale	9	2,423	2,482	8,235
Total current assets		706,589	658,558	829,305
Non-current assets				
Property, plant and equipment, net	11	526,600	535,177	624,800
Intangible assets, net		49,459	52,572	90,038
Goodwill		118,857	119,442	134,772
Investments in joint ventures	10	47,995	57,037	102,339
Deferred tax assets		12,663	15,524	11,299
Corporate income tax prepaid		15,025	13,940	30,131
Available-for-sale financial assets		—	—	18,296
Other non-current assets	15	11,081	13,368	25,554
Total non-current assets		781,680	807,060	1,037,229
Total assets		1,488,269	1,465,618	1,866,534
Liabilities and equity				
Current liabilities				
Trade accounts payable	15	39,134	27,384	38,880
Advances from customers and other current liabilities	15	75,335	63,380	74,959
Short-term borrowings	12	303,318	298,005	396,127
Current portion of long-term borrowings	13	71,418	69,335	66,180
Liabilities directly associated with assets classified as held for sale		—	—	3,452
Total current liabilities		489,205	458,104	579,598
Non-current liabilities				
Long-term borrowings	13	77,463	88,901	226,974
Obligations under finance lease		5,149	6,277	10,919
Deferred tax liabilities		19,795	19,613	18,211
Other non-current liabilities		1,645	1,879	11,745
Total non-current liabilities		104,052	116,670	267,849
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital		2,104	2,104	2,104
Share premium reserve		463,879	463,879	463,879
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve		5,169	4,793	3,176
Revaluation reserve		39,456	39,456	39,456
Translation reserve		(605,746)	(586,283)	(400,366)
Retained earnings		949,563	925,661	874,341
Total equity attributable to Kernel Holding S.A. equity holders		894,369	889,554	1,022,534
Non-controlling interest		643	1,290	(3,447)
Total equity		895,012	890,844	1,019,087
Total liabilities and equity		1,488,269	1,465,618	1,866,534
Book value		894,369	889,554	1,022,534
Number of shares	2	79,683,410	79,683,410	79,683,410
Book value per share (in USD)		11.22	11.16	12.83
Diluted number of shares		81,020,112	79,779,975	79,683,410
Diluted book value per share (in USD)		11.04	11.15	12.83

On behalf of the Board
Andriy Verevsky
 Chairman of the Board

Anastasiia Usachova
 Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	30 September 2015	30 September 2014
Revenue		377,722	579,162
Net change in fair value of biological assets and agricultural produce		2,119	(1,647)
Cost of sales	15	(306,297)	(465,982)
Gross profit		73,544	111,533
Other operating income, net		3,163	8,696
Operating expenses			
Distribution costs	15	(24,085)	(44,862)
General and administrative expenses	15	(13,054)	(14,998)
Profit from operating activities		39,568	60,369
Finance costs, net		(11,237)	(18,491)
Foreign exchange loss, net	14	(4,661)	(17,202)
Other income/(expenses), net	15	2,783	(3,767)
Share of gain of joint ventures	10	1,301	4,225
Profit before income tax		27,754	25,134
Income tax expenses		(3,683)	(1,056)
Profit for the period from continuing operations		24,071	24,078
Discontinued operations			
Loss for the period from discontinued operations		—	(1,772)
Profit for the period		24,071	22,306
Profit for the period attributable to:			
Equity holders of Kernel Holding S.A.		23,902	23,422
Non-controlling interest		169	(1,116)
Earnings per share			
From continuing and discontinued operations			
Weighted average number of shares	2	79,683,410	79,683,410
Profit per ordinary share (in USD)		0.30	0.29
Diluted number of shares		81,020,112	79,683,410
Diluted profit per ordinary share (in USD)		0.30	0.29
From continuing operations			
Weighted average number of shares		79,683,410	79,683,410
Profit per ordinary share (in USD)		0.30	0.32
Diluted number of shares		81,020,112	79,683,410
Diluted profit per ordinary share (in USD)		0.30	0.32

On behalf of the Board

Andriy Verevskyi
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	30 September 2015	30 September 2014
Profit for the period	24,071	22,306
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(20,279)	(33,905)
Other comprehensive loss, net	(20,279)	(33,905)
Total comprehensive income/(loss) for the period	3,792	(11,599)
Total comprehensive income/(loss) attributable to:		
Equity holders of Kernel Holding S.A.	4,439	(9,253)
Non-controlling interest	(647)	(2,346)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders							Total	Non-controlling interest	Total equity
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings			
Balance as of 30 September 2014	2,104	463,879	39,944	3,176	39,456	(400,366)	874,341	1,022,534	(3,447)	1,019,087
Profit/(Loss) for the period	—	—	—	—	—	—	54,849	54,849	(10,714)	44,135
Other comprehensive (loss)/income	—	—	—	—	—	(64,666)	—	(64,666)	2,210	(62,456)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(64,666)	54,849	(9,817)	(8,504)	(18,321)
Distribution of dividends	—	—	—	—	—	—	(19,921)	(19,921)	—	(19,921)
Effect of changes of non-controlling interest	—	—	—	—	—	—	(11,047)	(11,047)	10,383	(664)
Recognition of share-based payments	—	—	—	149	—	—	—	149	—	149
Balance as of 31 December 2014	2,104	463,879	39,944	3,325	39,456	(465,032)	898,222	981,898	(1,568)	980,330
Profit/(Loss) for the period	—	—	—	—	—	—	7,194	7,194	(204)	6,990
Other comprehensive (loss)/income	—	—	—	—	—	(129,947)	—	(129,947)	242	(129,705)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(129,947)	7,194	(122,753)	38	(122,715)
Balance as of 31 March 2015	2,104	463,879	39,944	3,325	39,456	(594,979)	905,416	859,145	(1,530)	857,615
Profit for the period	—	—	—	—	—	—	21,465	21,465	637	22,102
Other comprehensive income	—	—	—	—	—	8,696	—	8,696	963	9,659
Total comprehensive income for the period	—	—	—	—	—	8,696	21,465	30,161	1,600	31,761
Effect of changes of non-controlling interest	—	—	—	—	—	—	(1,220)	(1,220)	1,220	—
Recognition of share-based payments	—	—	—	1,468	—	—	—	1,468	—	1,468
Balance as of 30 June 2015	2,104	463,879	39,944	4,793	39,456	(586,283)	925,661	889,554	1,290	890,844
Profit for the period	—	—	—	—	—	—	23,902	23,902	169	24,071
Other comprehensive loss	—	—	—	—	—	(19,463)	—	(19,463)	(816)	(20,279)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(19,463)	23,902	4,439	(647)	3,792
Recognition of share-based payments	—	—	—	376	—	—	—	376	—	376
Balance as of 30 September 2015	2,104	463,879	39,944	5,169	39,456	(605,746)	949,563	894,369	643	895,012

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

	Notes	30 September 2015	30 September 2014
Operating activities:			
Profit before income tax		27,754	24,442
Adjustments for:			
Amortization and depreciation		15,547	20,091
Finance costs, net		11,237	18,491
Movement in allowance for doubtful receivables		1,096	146
Other accruals		788	540
(Gain)/Loss on disposal of property, plant and equipment		(68)	678
Net foreign exchange loss		4,908	12,587
Net change in fair value of biological assets and agricultural produce		(2,119)	1,647
Share of profit of joint ventures		(1,301)	(4,225)
Operating profit before working capital changes		57,842	74,397
Changes in working capital:			
Change in trade accounts receivable		479	26,328
Change in prepayments and other current assets		(13,496)	(25,647)
Change in restricted cash balance		(169)	—
Change in taxes recoverable and prepaid		5,087	9,314
Change in biological assets		82,561	101,925
Change in inventories		(183,870)	(113,168)
Change in trade accounts payable		9,764	4,395
Change in advances from customers and other current liabilities		14,437	(2,199)
Cash (used in)/generated by operations		(27,365)	75,345
Finance costs paid		(11,096)	(21,463)
Income tax paid		(2,074)	(7,879)
Net cash (used in)/generated by operating activities		(40,535)	46,003
Investing activities:			
Purchase of property, plant and equipment		(7,263)	(9,300)
Proceeds from disposal of property, plant and equipment		545	551
Purchase of intangible and other non-current assets		(625)	(2,887)
Net cash used in investing activities		(7,343)	(11,636)
Financing activities:			
Proceeds from borrowings		46,798	99,212
Repayment of borrowings		(51,509)	(144,442)
Net cash used in financing activities		(4,711)	(45,230)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(557)	(2,056)
Net decrease in cash and cash equivalents		(53,146)	(12,919)
Cash and cash equivalents, at the beginning of the period	6	124,121	65,401
Cash and cash equivalents, at the end of the period	6	70,975	52,482

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

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

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

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

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

These condensed consolidated interim financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 18 November 2015.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

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

The shares were distributed as follows:

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

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

On 23 November 2007, Kernel Holding S.A. was listed on the Warsaw Stock Exchange (WSE). The total size of the initial public offering was PLN 546,402 thousand, comprising 22,766,750 shares, of which 16,671,000 were newly issued shares. Prior to the IPO, the capital of Kernel Holding S.A. consisted of 46,670,000 shares without indication of 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.

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 September 2015, a total of 7,407,820 options were issued, of which 3,232,820 were vested. 657,820 options (all vested) have a strike price of PLN 24.00, 3,000,000 options (out of which 2,575,000 are vested) have a strike price of PLN 75.00 per share, and 3,750,000 options (out of which none are vested) have a strike price of PLN 29.61. Weighted average remaining contractual life was 12 years. These options granted under the Company's management incentive scheme carry no rights to dividends and no voting rights.

The fair value of the share-based options was USD 5,169 thousand as of 30 September 2015 and USD 376 thousand was recognized as an expense (part of payroll and payroll related expenses) during the three months ended 30 September 2015 with a corresponding increase in equity over the vesting period (30 September 2014: USD 3,176 thousand and USD 0 thousand, respectively).

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

On 13 October 2015, the Company received a notification from Cascade Investment Fund that the fund had 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.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

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

These Condensed Consolidated Interim Financial Statements for the three months ended 30 September 2015 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and do not include all of the information and disclosures required in the annual consolidated financial statements. The accounting policies and methods of computation adopted in the preparation of the Condensed Consolidated Interim Financial Statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2015.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2015.

The adoption of these standards and amendments did not have a material effect on the Condensed Consolidated Interim Financial Statements of the Group.

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 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 the 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 September 2015	Average rate for the 3 months ended 30 September 2015	Closing rate as of 30 June 2015	Closing rate as of 30 September 2014	Average rate for the 3 months ended 30 September 2014
USD/UAH	21.5275	21.7219	21.0154	12.9492	12.5772
USD/EUR	0.8907	0.8989	0.8975	0.7897	0.7545
USD/RUB	66.2367	62.9784	55.5240	39.3866	36.1909
USD/PLN	3.7754	3.7646	3.7645	3.2973	3.1508

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

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

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

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
Export terminals	Grain handling and transshipment services in the ports of Ilyichevsk and Mykolaiv.
Farming	Agricultural farming. Production of 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 Company ceased operating in the sugar segment from 1 July 2015.

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

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

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

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

Reclassifications

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment

Key data by operating segment for the three months ended 30 September 2015:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	Continuing operations
Revenue (external)	20,482	169,879	66	8,666	176,333	2,296	—	—	377,722
Intersegment sales	—	—	9,091	47,497	—	6,207	—	(62,795)	—
Total revenue	20,482	169,879	9,157	56,163	176,333	8,503	—	(62,795)	377,722
Net change in fair value of biological assets and agricultural produce	—	—	—	2,119	—	—	—	—	2,119
Other operating income	8	878	—	2,453	(280)	104	—	—	3,163
Profit/(Loss) from operating activities	2,691	18,305	4,696	7,268	10,433	4,194	(8,019)	—	39,568
Finance costs, net									(11,237)
Foreign exchange loss, net									(4,661)
Other income, net									2,783
Share of gain of joint ventures									1,301
Income tax expense									(3,683)
Profit for the period from continuing operations									24,071
Total assets	69,489	662,600	111,123	364,511	192,454	80,237	5,432	—	1,485,846
Capital expenditures	21	1,729	301	4,422	—	710	4	—	7,187
Amortization and depreciation	711	4,208	760	8,685	—	938	245	—	15,547
Liabilities	1,672	41,737	795	34,483	24,357	5,814	484,399	—	593,257

During the three months ended 30 September 2015, two Company's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 93% of total external sales.

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

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

	Revenue from external customers	Non-current assets
	3 months ended 30 September 2015	As of 30 September 2015
Ukraine	291,193	704,753
Russian Federation	86,529	76,927
Total	377,722	781,680

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment (continued)

Key data by operating segment for the three months ended 30 September 2014:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	26,265	232,471	56	10,816	286,956	2,366	21,877	—	—	(1,645)	579,162
Intersegment sales	—	—	10,664	44,472	—	6,841	—	—	(61,977)	—	—
Total revenue	26,265	232,471	10,720	55,288	286,956	9,207	21,877	—	(61,977)	(1,645)	579,162
Net change in fair value of biological assets and agricultural produce	—	—	—	(1,647)	—	—	—	—	—	—	(1,647)
Other operating income	—	2,404	228	5,865	134	65	39	—	—	(39)	8,696
Profit/(Loss) from operating activities	3,367	36,243	6,056	(1,562)	17,688	2,878	2,927	(7,214)	—	(14)	60,369
Finance costs, net											(18,491)
Foreign exchange loss, net											(17,202)
Other expenses, net											(3,767)
Share of gain of joint ventures											4,225
Income tax expense											(1,056)
Profit for the period from continuing operations											24,078
Total assets	79,405	768,006	184,940	478,047	216,781	124,384	5,286	1,450	—	—	1,858,299
Capital expenditures	105	1,203	—	5,658	—	4,763	—	227	—	—	11,956
Amortization and depreciation	403	4,631	790	12,270	—	1,584	—	413	—	—	20,091
Liabilities	1,991	38,678	744	43,235	25,568	1,122	1,248	731,409	—	—	843,995

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

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

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

	Revenue from external customers 3 months ended 30 September 2014	Non-current assets As of 30 September 2014
Ukraine	422,013	908,056
Russian Federation	157,149	129,173
Total	579,162	1,037,229

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

5. Acquisition and Disposal of Subsidiaries

No entities were acquired or disposed during the three months periods ended 30 September 2014 and 2015.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

6. Cash and Cash Equivalents

	As of 30 September 2015	As of 30 September 2014
Cash with banks in USD	71,437	39,598
Cash with banks in UAH	3,920	11,952
Cash with banks in other currencies	783	913
Cash on hand	4	14
Total	76,144	52,477
Less restricted and blocked cash on security bank accounts	(5,169)	—
Cash and bank balances included in the group of assets held for sale	—	5
Cash for the purposes of cash flow statement	70,975	52,482

7. Inventory

	As of 30 September 2015	As of 30 September 2014
Agricultural products	110,312	93,415
Raw materials	88,255	85,877
Finished products	55,061	71,901
Goods for resale	46,864	95,729
Work in progress	12,908	14,473
Fuel	2,064	4,090
Packaging materials	694	1,108
Other inventories	23,990	44,795
Total	340,148	411,388

As of 30 September 2015 and 2014, raw materials were represented mainly by sunflower seed stock in the amount of USD 86,554 thousand and USD 85,749 thousand, respectively. As of 30 September 2015, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 41,692 thousand (as of 30 September 2014: 55,585 USD thousand). As of 30 September 2015, inventories with a carrying amount of USD 177,755 thousand (as of 30 September 2014: USD 203,376 thousand) were pledged by the Group as collateral against short-term loans obtained from banks (Note 12).

8. Biological Assets

The decrease in the amount of biological assets as of 30 September 2015 compared to 30 June 2015 was caused by crop harvesting.

9. Assets Classified as Held for Sale

For the three months ended 30 September 2015, there were no material changes in the assets classified as held for sale.

As of 30 September 2015, according to management's plan to dispose all sugar plants and exit the sugar business, the property, plant and equipment of the remaining sugar plant was still classified as assets held for sale and its operations were classified as discontinued for the year ended 30 September 2015.

As of 30 September 2015, the net value of assets classified as held for sale equaled USD 2,423 thousand (30 September 2014: USD 4,783 thousand).

10. Investments in Joint Ventures

For the three months ended 30 September 2015, the share of the gain of joint ventures (Taman) equaled USD 1,301 thousand (30 September 2014: USD 4,225 thousand). The Group's total share of the total comprehensive loss comprised USD 10,343 thousand (30 September 2014: comprehensive income of USD 39 thousand). The difference between the share of the loss of joint ventures and share of total comprehensive loss was represented mainly by a change in translation reserve.

The aforementioned result includes depreciation and amortization expenses in the amount of USD 484 thousand (30 September 2014: USD 680 thousand) and interest expenses in the amount of USD 588 thousand (30 September 2014: USD 813 thousand).

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

11. Property, Plant and Equipment, net

During the three months ended 30 September 2015, the Group acquired property, plant and equipment in the amount of USD 7,187 thousand (30 September 2014: USD 11,956 thousand). These purchases were related mainly to the reconstruction of one oil plant and purchases of agricultural vehicles and equipment for the farming segment.

The decrease in property, plant and equipment in the amount of USD 2,482 thousand resulted from the depreciation of Ukrainian hryvnia during the three months ended 30 September 2015 (30 September 2014: USD 15,138 thousand).

As of 30 September 2015, property, plant and equipment with a carrying amount of USD 125,377 thousand (as of 30 September 2014: USD 186,887 thousand) were pledged by the Group as collateral against short-term and long-term bank borrowings (Note 12 and 13).

12. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 September 2015	As of 30 September 2014
Bank credit lines	300,819	392,758
Interest accrued on short-term borrowings	1,102	1,457
Interest accrued on long-term borrowings	1,397	1,912
Total	303,318	396,127

The balances of short-term borrowings as of 30 September 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.25%	USD	August 2016	76,000
European bank	Libor + 5.5%	USD	February 2016	45,000
Russian bank	Libor + 9.35%	USD	February 2016	38,000
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2016	33,700
European bank	Libor + 6.25%	USD	April 2016	30,000
European bank	Libor + 6.0%	USD	June 2016	28,000
Ukrainian subsidiary of European bank	10.0%	USD	March 2016	25,000
Russian bank	Libor + 7.5%	USD	December 2015	18,869
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	6,250
Total bank credit lines				300,819
Interest accrued on short-term borrowings				1,102
Interest accrued on long-term borrowings				1,397
Total				303,318

The balances of short-term borrowings as of 30 September 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.0%	USD	August 2015	104,000
European bank	Libor + 5.75%	USD	June 2015	59,500
European bank	Libor + 6.25%	USD	April 2015	55,000
European bank	Libor + 7.5%	USD	December 2014	50,886
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2015	38,808
Ukrainian subsidiary of European bank	10.0%	USD	February 2015	35,600
European bank	Libor + 4.0%	USD	June 2015	27,000
Ukrainian subsidiary of European bank	Libor + 10.5%	USD	December 2014	13,000
European bank	Libor + 5.5%	USD	April 2015	8,964
Total bank credit lines				392,758
Interest accrued on short-term borrowings				1,457
Interest accrued on long-term borrowings				1,912
Total				396,127

As of 30 September 2015, the overall maximum credit limit for short-term bank credit lines amounted to USD 700,718 thousand (as of 30 September 2014: USD 843,564 thousand).

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for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

12. Short-term Borrowings (continued)

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 September 2015	As of 30 September 2014
Inventory (Note 7)	177,755	203,376
Property, plant and equipment (Note 11)	123,185	76,696
Intangible assets	—	—
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
Total	300,940	280,072

As of 30 September 2015, the following controlling stakes of Subsidiaries were pledged to secure short-term borrowings: nine agricultural companies, three sunflower oil plants, one export terminal and two holding companies (as of 30 September 2014: twenty agricultural companies and one sunflower oil plant).

13. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 September 2015	As of 30 September 2014
Long-term bank borrowings	148,881	293,154
Current portion of long-term borrowings	(71,418)	(66,180)
Total	77,463	226,974

The balances of long-term borrowings as of 30 September 2015 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 7.6%	USD	August 2018	135,000
European bank	Libor + 1.65%	USD	March 2020	13,881
Total				148,881

The balances of long-term borrowings as of 30 September 2014 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	120,000
European bank	Libor + 5.5%	USD	February 2016	63,000
Russian bank	Libor + 8.35%	USD	February 2016	43,000
Ukrainian subsidiary of European bank	Libor + 7.5%	USD	December 2015	37,689
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	12,500
European bank	Libor + 1.65%	USD	March 2020	16,965
Total				293,154

Long-term borrowings as of 30 September 2015 included credit lines from banks with an overall maximum credit limit of USD 148,881 thousand (as of 30 September 2014: USD 318,154 thousand).

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 September 2015	As of 30 September 2014
Property, plant and equipment	2,192	110,191
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
Total	2,192	110,191

As of 30 September 2015, stakes in Subsidiaries were pledged to secure long-term borrowings including controlling stakes in one agricultural company and a 50% stake in a joint venture (as of 30 September 2014: two export terminals, three sunflower oil plants, one agricultural company and a 50% stake in a joint venture).

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14. Foreign Exchange Loss, net

Foreign exchange loss, net was related to the following balances:

	For the 3 months ended 30 September 2015	For the 3 months ended 30 September 2014
VAT recoverable and prepaid	(5,370)	(7,140)
Borrowings nominated in foreign currencies	(948)	(373)
Cash and cash equivalents nominated in foreign currencies	(327)	(1,327)
Corporate income tax prepaid	(277)	(3,898)
Obligations under finance leases	372	(565)
Revaluation of balances nominated in foreign currencies	1,269	(7,363)
Other	620	3,464
Total	(4,661)	(17,202)

In the note 'Foreign Exchange Loss, net' to the condensed consolidated interim financial statements as of 30 September 2014, the foreign exchange loss on borrowings nominated in foreign currencies, obligations under finance leases and revaluation of balances nominated in foreign currencies was previously included in the line 'Other'.

15. 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 September 2015	Total category as per consolidated statement of financial position as of 30 September 2015	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	26,833	73,648	14,581	60,647
Other non-current assets	1,969	11,081	4,909	13,368
Trade accounts payable	338	39,134	722	27,384
Advances from customers and other current liabilities	15,705	75,335	15,898	63,380

As of 30 September 2015 and 30 June 2015, the Group did not create an allowance for trade accounts receivable, prepayments made and other current assets from related parties.

Prepayments to suppliers and other current assets as of 30 September 2015 included an amount of USD 12,228 thousand due to Namsen Limited.

Advances from customers and other current liabilities as of 30 September 2015 and 30 June 2015 included an interest-free financial liability in the amount of USD 7,043 thousand due to Namsen Limited.

As of 30 September 2015 and 30 June 2015, advances from customers and other current liabilities included USD 6,000 thousand in bonuses payable to the management.

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

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for the three months ended 30 September 2015 (in thousands of US dollars, unless otherwise stated)

15. Transactions with Related Parties (continued)

Transactions with related parties were as follows:

	Amount of operations with related parties, for the three months ended 30 September 2015	Total category per consolidated statement of profit or loss for the three months ended 30 September 2015	Amount of operations with related parties, for the three months ended 30 September 2014	Total category per consolidated statement of profit or loss for the three months ended 30 September 2014
Cost of sales	(2)	(306,297)	(191)	(465,982)
General, administrative expenses and distribution costs	(5,488)	(37,139)	(10,348)	(59,860)
Finance costs, net	24	(11,237)	52	(18,491)
Other income/(expenses), net	4	2,783	107	(3,767)

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

For the three months ended 30 September 2015, distribution expenses included USD 4,086 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC a joint venture in which Kernel Holding S.A. owns 50% (30 September 2014: USD 9,422 thousand). All other transactions occurred with related parties under common control.

As of 30 September 2015, the Board consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by the Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the three months ended 30 September 2015 amounted to USD 116 thousand (for the three months ended 30 September 2014: 8 Directors, USD 66 thousand). The non-executive directors also are refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable travel expenses.

Four directors employed by the Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 14 people, amounted to USD 672 thousand for the three months ended 30 September 2015 (for the three months ended 30 September 2014: USD 608 thousand).

Remuneration of the Board of Directors and management team was included in the above mentioned line general, administrative expense and distribution cost.

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.

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16. Commitments and Contingencies

Taxation and Legal Issues

The Group is involved in litigation in connection with a case of contaminated Ukrainian oil that occurred in April 2008. The Group estimates that it could be required to pay USD 3,700 thousand if the ruling is in favor of the counterparty. Management believes that no significant settlement will arise out of the lawsuit and no respective provision is required in the Group's financial statements as of the reporting date.

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 30 September 2015, 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 the fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the seller's obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 30 September 2015, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for a total amount of USD 65,962 thousand (30 June 2015: USD 76,922 thousand), from which USD 34,458 thousand was related to VAT recoverability (30 June 2015: USD 44,561 thousand) and USD 31,504 thousand related to corporate income tax (30 June 2015: USD 32,361 thousand).

As of 30 September 2015, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 32,199 thousand (30 June 2015: USD 43,159 thousand) of the aforementioned amount. Of this amount, USD 17,077 thousand was 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.

Ukraine's tax environment is characterized by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine 'On Amending the Tax Code of Ukraine and Certain Laws of Ukraine', which has been effective since 1 January 2015, except for certain provisions which will take effect at a later date.

Management believes that the Company has been in compliance with all requirements of effective tax legislation and currently is assessing the possible impact of the introduced amendments.

Starting from 1 September 2013, the Tax Code of Ukraine introduced new rules, based on OECD transfer pricing guidelines, for determining and applying fair market prices, which significantly changed transfer pricing (TP) regulations in Ukraine.

The Company imports goods and services, which may potentially be in the scope of the new Ukrainian TP regulations. The Company has submitted a controlled transaction report within the required deadline. Management believes that the Company is in compliance with TP requirements.

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16. Commitments and Contingencies (continued)

Operating Environment

In 2014, Ukraine was in political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Political unrest and separatist movements in Eastern Ukraine evolved into armed conflict and full-scale military activities in certain parts of Luhansk and Donetsk regions, effectively resulting in the loss of control over these territories by the Government of Ukraine. These events led to a significant deterioration in the relationship between Ukraine and the Russian Federation.

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

The armed conflict and inability to implement substantial and effective economic reforms have led to a significant fall in the gross domestic product, decline in international trade, deterioration in the state's finances and significant devaluation of the Ukrainian hryvnia against major foreign currencies. The ratings of Ukrainian sovereign debt have been downgraded by all international rating agencies with a negative outlook for the future. All these factors have had a negative effect on Ukrainian companies and banks, hampering their ability to obtain funding from domestic and international financial markets. In addition, Ukraine has a large external debt refinancing requirement in the next few years, while its foreign reserves have reached a critically low level.

The National Bank of Ukraine (NBU) introduced a range of measures aimed at limiting the outflow of foreign currencies from the country, inter alia, the mandatory sale of 75% of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on the usage of foreign currencies for settlement purposes, limitations on remittances abroad, and limitations on individuals for foreign currency purchases and bank withdrawals. In addition, the Government of Ukraine has been taking efforts to attract significant external financing, primarily from the International Monetary Fund, as well as negotiating terms and conditions with external creditors as to curtailing and restructuring terms of repayment of the principal amounts of external debt.

Stabilization of the economic and political situation depends, to a large extent, upon the success of the Ukrainian Government and the NBU's efforts, yet further economic and political developments, as well as the impact of these factors on the Group, its customers and contractors are currently difficult to predict.

Capital Commitments

As of 30 September 2015, the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 5,579 thousand (30 September 2014: USD 1,056 thousand) for the supply of equipment and services.

Contractual Commitments on Sales

As of 30 September 2015, the Group had entered into commercial contracts for the export of 1,542,771 tons of grain and 757,591 tons of sunflower oil and meal, corresponding to amounts of USD 294,165 thousand and USD 294,625 thousand, respectively, at prices as of 30 September 2015.

As of 30 September 2014, the Group had entered into commercial contracts for the export of 1,168,394 tons of grain and 479,515 tons of sunflower oil and meal, corresponding to amounts of USD 260,011 thousand and USD 246,191 thousand, respectively, at prices as of 30 September 2014.

17. Subsequent Events

In October 2015, Cascade Investment Fund notified that it had acquired shares in Kernel Holding S.A., as a result of which it had crossed the threshold of 5% of the overall number of votes at the general shareholders' meeting of the Company. As of 13 October 15, Cascade Investment Fund holds 3,984,345 shares in the Company, representing 5.0% of the share capital and entitling it to 3,984,345 votes at the Company's general shareholders' meeting, equal to 5.0% of the total number of votes.

In November 2015, the Board of Directors approved the agenda for the annual and extraordinary general meetings of shareholders to be held on 10 December 2015. Among other items, the board proposes an ordinary dividend payout of USD 0.25 per share.