

KERNEL

H1FY2017

**Condensed Consolidated Interim
Financial Statements**

for the six months ended 31 December 2016



Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2016

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Management Discussion and Analysis

for the three and six months ended 31 December 2016

Key highlights

- In Q2 FY2017 revenue increased 6% y-o-y to US\$ 659 million owing primarily to accelerated sales volumes across business lines.
- EBITDA stood at US\$ 130 million in Q2 FY2017, lower 10% y-o-y stemming from high competition among sunflower oil producers for sunflower seeds and changes in sales pattern in farming, however offset by a robust performance of grain and infrastructure business.
- In Q2 FY2017, sunflower oil segment's performance continued to be under pressure from an increased competition and farmers' reluctance to sell their crops, driven by receding demand for the off-farm storage, due to good quality of harvested sunflower seeds, and anticipation of farm-gate price increases. Consequently, EBITDA contribution amounted to US\$ 35 million as compared to US\$ 42 million a year ago. Nevertheless, revenues increased to US\$369 million, 5% y-o-y, as we experienced growth in sales volumes.
- Grain and infrastructure business overall EBITDA contribution in Q2 FY2017 has reached its historical highs – US\$ 48 million, up 24% y-o-y, with silos services being the largest contributor. Double-digit growth in transshipment volumes in Ukraine was weakened by sluggish performance in Tama, resulting in a negligible decline in overall volumes - down 2% y-o-y. Overall, EBITDA contribution from export terminals in Q2 FY2017 grew 16% y-o-y to US\$ 14 million.
- The farming segment's earnings in H1 FY2017 remained comparable to its previous year results with EBITDA at US\$ 134 million vs. US\$ 136 million in H1 FY2016. However, in relative terms, EBITDA margin for H1 FY2017 stood at a record level of 49% vs. 40% a year ago, fueled by 15% increase in crop yields, low cost base due to devaluation of local currency and application of pre-harvesting hedging policy, enabling to contract output at higher than current prices. Although, revenues have decreased from US\$ 342 million in H1 FY2017 to US\$ 271 million owing to changes in sale pattern.
- In Q2 FY2017 net profit attributable to equity holders of Kernel Holding S.A. remained relatively stable in comparison to the previous year at US\$95 mil-

lion, down 18% y-o-y in Q2 FY2017, reflecting decreased non-operating forex gains and lower VAT benefits received, as a result of recent changes in legislation.

Corporate and regulatory

- On 31 January 2017, Kernel Holding S.A. has announced the completion of a hallmark transaction for both Ukraine and the Company, by issuing a five-year US\$ 500 million, 8.75% Eurobond. The issue has been rated at B+ by Fitch, and B by S&P, two and one notches above the Ukrainian sovereign respectively.
- On 24 January 2017, Kernel Holding S.A. has received a notification from TFI PZU SA regarding the acquisition of 85,024 shares in the Company on 20 January 2017, which resulted in crossing the 10% threshold of the overall number of votes at the general shareholders meeting of the Company. Therefore, as of 20 January 2017, TFI PZU Funds hold 8,151,113 shares in the Company, representing 10.10% of the share capital and entitling to 8,151,113 votes at the Company's general shareholders meeting, equal to 10.10% of the total number of votes. Before the acquisition and as per TFI PZU Funds previous notification received on 20 June 2016, TFI PZU Funds held 4,119,128 shares in the Company, representing 5.17% of the share capital of the Company.
- On 12 December 2016, the annual general meeting of shareholders approved a dividend payout of US\$ 0.25 per share. The Board set ex and payout dates for the dividend 20 April 2017 and 27 April 2017 respectively
- On 12 December 2016, the annual general meeting of shareholders approved the appointment of Mrs. Nathalie Bachich as Non-executive Director. Mrs. Bachich has over 15 years of financial advisory services experience working in leading European financial institutions covering Western Europe, Asia and Central & Eastern Europe. Mrs. Bachich is British and is a graduate of St Catherine's College, Oxford.

| USD million except ratios and EPS | Q2 FY2017 | Q2 FY2016 | y-o-y | H1 FY2017 | H1 FY2016 | y-o-y |
|--|-----------|-----------|---------|-----------|-----------|---------|
| P&L highlights | | | | | | |
| Revenue | 659.3 | 620.8 | 6.2% | 1,043.3 | 998.5 | 4.5% |
| EBITDA ⁽¹⁾ | 130.2 | 145.2 | (10.3%) | 202.2 | 200.1 | 1.0% |
| Net profit attributable to equity holders of Kernel Holding S.A. | 95.4 | 116.5 | (18.1%) | 159.5 | 140.4 | 13.6% |
| EBITDA margin | 19.7% | 23.4% | (3.7pp) | 19.4% | 20.0% | 0.6pp |
| Net margin | 14.5% | 18.8% | (4.3pp) | 15.3% | 14.1% | (1.2pp) |
| EPS ⁽²⁾ , USD | 1.19 | 1.46 | (18.5%) | 2.00 | 1.76 | 13.4% |
| Cash flow highlights | | | | | | |
| Operating profit before working capital changes | 129.0 | 163.1 | (20.9%) | 170.3 | 221.0 | (22.9%) |
| Change in working capital | (305.0) | (216.9) | 40.6% | (359.4) | (291.1) | 23.5% |
| Cash used in operations | (176.1) | (53.8) | 3.3x | (189.1) | (70.1) | 2.7x |
| Net cash used in operating activities | (187.9) | (71.2) | 2.6x | (217.6) | (100.7) | 2.2x |
| Net cash used in investing activities | (37.6) | (5.4) | 7.0x | (50.4) | (23.8) | 2.1x |
| Liquidity and credit metrics | | | | | | |
| Net interest-bearing debt | | | | 554.1 | 465.8 | 19.0% |
| Readily marketable inventories | | | | 571.5 | 392.2 | 45.7% |
| Adjusted net debt ⁽³⁾ | | | | (17.4) | 73.6 | n/m |
| Shareholders' equity | | | | 1,088.8 | 921.0 | 18.2% |
| Net debt/EBITDA ⁽⁴⁾ | | | | 1.6x | 1.2x | 0.4x |
| Adjusted net debt/EBITDA ⁽³⁾ | | | | (0.1x) | 0.2x | (0.2x) |
| EBITDA/Interest ⁽⁵⁾ | | | | 6.3x | 6.2x | 0.1x |

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

2 EPS is measured in US Dollars per share based on 79.9 million shares for Q2 FY2017 and 79.7 million shares for Q2 FY2016.

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

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

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

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

Management Discussion and Analysis

for the three and six months ended 31 December 2016

Segment results summary

| USD million except ratios and EPS | Revenue, USD million | | | EBITDA, USD million | | | Volumes, thousand tons | | | EBITDA margin | |
|-----------------------------------|----------------------|--------------|-------------|---------------------|--------------|----------------|------------------------|-----------|--------|---------------|--------------|
| | Q2 FY2017 | Q2 FY2016 | y-o-y | Q2 FY2017 | Q2 FY2016 | y-o-y | Q2 FY2017 | Q2 FY2016 | y-o-y | Q2 FY2017 | Q2 FY2016 |
| Sunflower oil | | | | | | | | | | | |
| Sunflower oil sold in bulk | 331.4 | 316.9 | 4.6% | 29.6 | 35.4 | (16.4%) | 341.1 | 297.0 | 14.8% | 8.9% | 11.2% |
| Bottled sunflower oil | 37.2 | 34.0 | 9.4% | 5.2 | 7.0 | (25.7%) | 36.2 | 31.0 | 16.8% | 14.0% | 20.6% |
| | 368.6 | 350.9 | 5.0% | 34.8 | 42.4 | (17.9%) | | | | 9.4% | 12.1% |
| Grain and infrastructure | | | | | | | | | | | |
| Grain | 277.1 | 258.5 | 7.2% | 11.0 | 11.2 | (1.8%) | 1,531.9 | 1,322.9 | 15.8% | 4.0% | 4.3% |
| Export terminals | 16.4 | 17.4 | (5.7%) | 13.5 | 11.6 | 16.4% | 1,662.1 | 1,695.7 | (2.0%) | 82.3% | 66.7% |
| Silo services | 32.2 | 22.7 | 41.9% | 23.0 | 15.5 | 48.4% | | | | 71.4% | 68.3% |
| | 325.7 | 298.6 | 9.1% | 47.5 | 38.3 | 24.0% | | | | 14.6% | 12.8% |
| Farming | 124.8 | 285.3 | (56.3%) | 55.8 | 113.1 | (50.7%) | | | | 44.7% | 39.6% |
| Unallocated corporate expenses | | | | (6.6) | (9.8) | (32.7%) | | | | | |
| Reconciliation | (159.8) | (313.9) | (49.1%) | (1.3) | (38.8) | | | | | | |
| Total | 659.3 | 620.9 | 6.2% | 130.2 | 145.2 | (10.3%) | | | | 19.7% | 23.4% |

| USD million except ratios and EPS | Revenue, USD million | | | EBITDA, USD million | | | Volumes, thousand tons | | | EBITDA margin | |
|-----------------------------------|----------------------|--------------|-------------|---------------------|--------------|-------------|------------------------|-----------|-------|---------------|--------------|
| | H1 FY2017 | H1 FY2016 | y-o-y | H1 FY2017 | H1 FY2016 | y-o-y | H1 FY2017 | H1 FY2016 | y-o-y | H1 FY2017 | H1 FY2016 |
| Sunflower oil | | | | | | | | | | | |
| Sunflower oil sold in bulk | 483.6 | 486.8 | (0.7%) | 40.2 | 57.9 | (30.6%) | 508.4 | 455.2 | 11.7% | 8.3% | 11.9% |
| Bottled sunflower oil | 60.5 | 54.5 | 11.0% | 7.2 | 10.4 | (30.8%) | 57.6 | 48.7 | 18.3% | 11.9% | 19.1% |
| | 544.1 | 541.3 | 0.5% | 47.4 | 68.3 | (30.6%) | | | | 8.7% | 12.6% |
| Grain and infrastructure | | | | | | | | | | | |
| Grain | 476.8 | 434.8 | 9.7% | 15.3 | 21.6 | (29.2%) | 2,712.8 | 2,250.3 | 20.6% | 3.2% | 5.0% |
| Export terminals | 28.9 | 26.6 | 8.6% | 24.0 | 17.0 | 41.2% | 3,055.5 | 2,863.4 | 6.7% | 83.0% | 63.9% |
| Silo services | 42.7 | 31.2 | 36.9% | 30.1 | 20.6 | 46.1% | 2,931.7 | 2,691.9 | 8.9% | 70.5% | 66.0% |
| | 548.4 | 492.6 | 11.3% | 69.4 | 59.2 | 17.2% | | | | 12.7% | 12.0% |
| Farming | 271.2 | 341.5 | (20.6%) | 133.6 | 135.7 | (1.5%) | | | | 49.3% | 39.7% |
| Unallocated corporate expenses | | | | (16.0) | (17.6) | (9.1%) | | | | | |
| Reconciliation | (320.4) | (376.6) | (14.9%) | (32.2) | (45.5) | | | | | | |
| Total | 1,043.3 | 998.5 | 4.5% | 202.2 | 200.1 | 1.0% | | | | 19.4% | 20.0% |

Note: Differences are possible due to rounding. Segment revenue includes intra-segment sales reflected in the item 'Reconciliation'. Segment EBITDA includes unrealized profits, arisen upon intra-group sales of agricultural products by the farming segment, which remain unsold to the third parties as of the end of the reporting period. Q2 FY2016 excludes adjustments for discontinued operations.

1 million liters

2 including 416,883 transhipped through Taman port in Q2 FY2017 and 558,268 in Q2 FY2016 (Kernel's share in the joint venture)

3 including 890,662 transhipped through Taman port in Q2 FY2017 and 1,131,143 in Q2 FY2016 (Kernel's share in the joint venture)

Sunflower oil sold in bulk

- Oilseeds crushing volumes stood negligibly unchanged at 908 thousand tons in Q2 FY2017, down 1% y-o-y, with all crushing plants operating nearly at full capacity utilization.
- Revenue was up 5%, y-o-y to US\$ 331 million in Q2 FY2017, amid accelerated sales volumes, up 15% y-o-y and lower sunflower oil prices, while EBITDA decreased 16% to US\$ 30 million, as margins continued to be under pressure y-o-y, reflecting greater competition for sunflower seeds in Ukraine and farmers' unwillingness to sell their stock in anticipation of farm-gate price increases.
- EBITDA margins amounted to US\$ 87 per ton of oil sold in Q2 FY2017 recovering from US\$63 per ton in Q1 FY2017, however well below US\$ 119 per ton achieved a year ago. The market conditions remained supportive for the farmers, as dry weather conditions during harvest allowed crop growers to extend an on-farm sunflower seeds storage, thus evening the pace of new harvest selling across the whole season at virtually no incremental cost. Admittedly, an improved financial position of the farmers also

shifts new harvest selling beyond Q2 FY2017, thus leading to an increased competition during the reporting period. Moreover, high volatility of local currency during second half of November and December, combined with anticipation of domestic price elevation and ebbing edible oil market, led to EBITDA margin squeeze in Q2 FY2017.

Bottled sunflower oil

- Bottled oil sales delivered healthy 17% y-o-y growth, amounting to 36 million liters in Q2 FY2017, owing to growth in exports. As a result, the revenues surged by 9% y-o-y to US\$ 37 million.
- The bottled oil segment's EBITDA margin was at US\$ 144 per thousand liters, lower 36% y-o-y, mirroring the performance of the sunflower oil sold in bulk.
- Total EBITDA contribution amounted to US\$ 5 million in Q2 FY2017, as compared to US\$ 7 million during last year.

Management Discussion and Analysis

for the three and six months ended 31 December 2016

Grain marketing

- Grain export volumes increased to a record of 1.5 million tons in Q2 FY2017, up 16% y-o-y, with growth being driven by robust performance of our own farming division and record exports from Ukraine.
- Revenues in Q2 FY2017 stood at US\$ 277 million, up 7% y-o-y, reflecting the weakness in international grain prices. Record harvest in Ukraine led to overutilization of our silo capacities, translated into higher storage costs for grain exporters, decreasing EBITDA per ton from US\$ 8.4 in Q2 FY2016 to US\$ 7.2 in Q2 FY2017. The grain segment's EBITDA margin was at a healthy level of 4% in Q2 FY2017, comparable to the 4% average level in Q2 FY2016 and higher than 2% experienced in Q1 FY2017.
- As a consequence, grain exports EBITDA contribution came to US\$ 11.0 million in Q2 FY2017, negligibly unchanged with US\$11.2 million a year ago.

Export terminals and silo services

- Export terminals segment's throughput remained marginally flat, down 2% y-o-y, at 1.7 million tons in Q2 FY2017, reflecting 10% y-o-y growth in Ukraine echoing greater grain and sunflower meal exports, offset by a weaker performance in Taman.
- While segment's revenues decreased to US\$ 16 million as compared to US\$ 17 million, on account of lower transshipment fees in Q2 FY2017, the decreasing operating costs fueled EBITDA increase by 16% y-o-y to US\$ 14 million in Q2 FY2017. Net contribution from Taman joint venture amounted to a loss of US\$ 1 million as opposed to a gain of US\$ 0.9 million a year ago.
- In H1 FY2017, silo services segment has delivered an astounding operating results of US\$ 43 million in revenues, up 37% y-o-y, and EBITDA of US\$ 30 million, up 46% y-o-y, as above-average rainfall during November – December 2016 significantly increased the demand for grain drying services, the most profitable service provided by our silo division, and increased third party farmers' use of the off-farm storage, primarily for corn.

FY2017 harvest results

| | Acreage, thousand hectares | | | Net crop yield ⁽¹⁾ , tons/hectare | | | Net tonnage ⁽¹⁾ , thousand tons | | |
|----------------------|----------------------------|--------------|---------------|--|--------|---------|--|----------------|--------------|
| | FY2017 | FY2016 | y-o-y | FY2017 | FY2016 | y-o-y | FY2017 | FY2016 | y-o-y |
| Corn | 138.2 | 160.7 | (14.0%) | 8.9 | 7.2 | 23.6% | 1,230.0 | 1,157.0 | 6.3% |
| Wheat | 82.4 | 72.5 | 13.7% | 5.8 | 5.1 | 13.7% | 477.9 | 369.8 | 29.2% |
| Sunflower | 81.4 | 62.0 | 31.3% | 3.0 | 2.8 | 7.1% | 244.2 | 173.6 | 40.7% |
| Soybean | 58.2 | 66.9 | (13.0%) | 2.9 | 1.8 | 61.1% | 168.8 | 120.4 | 40.2% |
| Rapeseed | 2.6 | 9.6 | (72.9%) | 3.0 | 4.4 | (31.8%) | 7.8 | 42.2 | (81.5%) |
| Other ⁽¹⁾ | 18.5 | 14.5 | 27.6% | | | | | | |
| Total | 381.3 | 386.2 | (1.3%) | | | | 2,128.7 | 1,863.0 | 14.3% |

Note: based on the factual harvest results as of the date of this report publication.

1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean.

1 Other acreage includes barley, rye, oats, forage crops and excl. fallow land.

Farming

- In H1 FY2017, the segment's revenues stood at US\$ 271 million, down 21% y-o-y owing to changes in sale pattern y-o-y.
- The total grain and oilseed harvest increased 15% y-o-y to 2.1 million tons in FY2017, as a result of a double-digit growth in crop yields for major crops, following changes in our cultivation and production technologies and supportive weather conditions. As a result, the segment's EBITDA stood at US\$ 133 million in H1 FY2017 with a record EBITDA margin of 49% vs. 40% a year ago.
- Winter crop plantings (24% of total acreage) are in a normal condition as of the date of this report publication.
- H1 FY2017 operating income includes US\$ 35 million of gain vs. US\$ 5 million a year ago, attributable to revaluation of our crops in fields and agricultural produce at the moment of harvest. This gain was driven by the combination of 15% weighted-average growth in crop yields.

EBITDA Reconciliation

- H1 FY2017 EBITDA included US 32 million of unrealized profits arisen upon intra-group sales of agricultural products, which remained unsold to the 3rd parties as of the end of the reporting period.

Management Discussion and Analysis

for the three and six months ended 31 December 2016

Income statement highlights

- Revenue increased 6% y-o-y to US\$ 659 million in Q2 FY2017 on account of accelerated sales volumes across segments and overall weaker international commodity prices.
- The net change in fair value of biological assets and agricultural produce (IAS 41) was US\$ 2 million in Q2 FY2017, a 45% decrease from previous year. The amount reflected the positive revaluation of winter wheat and corn in fields, revaluation of agricultural produce at the moment of harvesting and the expensing of the portion of the fair value component booked in previous periods.
- Gross profit in Q2 FY2017 stood at US\$ 157 million vs. US\$ 166 million a year ago, stemming from strong performance of farming division offset by a challenging environment in sunflower oil division.
- In Q2 FY2017, other operating income decreased 38% y-o-y to US\$ 21 million, because of decreased VAT benefits due to recent changes in legislation and lower operating forex gains.
- Distribution costs in Q2 FY2017 stood at US\$ 49 million, down 10% y-o-y reflecting lower carriage and freight costs amid local currency devaluation. As a percentage of revenues, distribution costs amounted to 7.4% in Q2 FY2017 compared to 8.9% a year ago.
- General administrative expenses totaled to US\$ 13 million, down 17% y-o-y, as costs associated with business trips and insurances have decreased for Q2 FY2017. Consequently, general administrative expenses stood at 1.9% vs. 2.5% of total revenues in Q2 FY2017.
- Profit from operating activities was US\$ 116 million as compared to US\$ 130 million earned in previous year, thus reflecting segments' performance as discussed above.
- Net financial costs plummeted by 16% y-o-y to US\$ 15 million due to incurred lower commitment and arrangement fees associated with trade financing facilities.
- In Q2 FY2017, net foreign exchange gain of US\$ 1 million as compared to US\$ 17 million a year ago mostly reflected in non-cash gains recognized after revaluing intra-group balances in local currency, offset by losses associated with local currency-denominated balances – VAT recoverable and prepaid in amount of US\$ 9 million.
- As a result of the aforementioned factors, net profit attributable to the shareholders of Kernel Holding S.A. reached US\$ 95 million, down 18% y-o-y.

Cash flow highlights

- Operating profit before working capital changes was US\$ 129 million in Q2 FY2017 versus US\$ 163 million a year ago, reflecting challenged performance of sunflower oil division.
- Working capital increased by US\$ 305 million in Q2 FY2017 (vs. US\$ 206 million a year ago), as inventories are normally higher at the end of December, corresponding to the harvest completion echoing record production in Ukraine.
- Net cash used in investing activities was US\$ 38 million in Q2 FY2017 as compared to US\$ 16 million previous year, owing to US\$ 29 million investments in treasury operations and cash management.
- All of the above factors translated into a seasonal drawing from outstanding credit facilities, increasing net borrowings by US\$212 million in Q2 FY2017, vs. US\$ 118 million in Q2 FY2016.

Credit metrics highlights

- Net debt increased 19% y-o-y to US\$ 554 million in Q2 FY2017 in line with the usually required levels of working capital needs in December. All of the net indebtedness as of 31 December 2016 was fully covered by profitably presold readily marketable inventories such as corn, wheat, sunflower oil and seeds with a total value of US\$572 million.

Credit metrics

| USD million except ratios | 31 Dec 2016 | 31 Dec 2015 | y-o-y |
|---|----------------|-------------|---------|
| Gross interest-bearing debt | 623.0 | 581.9 | 7.1% |
| Cash and cash equivalents | 68.9 | 116.1 | (40.6%) |
| Net interest-bearing debt | 554.1 | 465.8 | 19.0% |
| Readily available inventories | 571.5 | 392.2 | 45.7% |
| Adjusted net interest-bearing debt ⁽¹⁾ | (17.4) | 73.6 | n/m |
| Shareholders' equity ⁽²⁾ | 1,088.8 | 921.0 | 18.2% |
| Net debt/EBITDA ⁽³⁾ | 1.6x | 1.2x | 0.4x |
| Adjusted net debt/EBITDA ⁽³⁾ | (0.1x) | 0.2x | (0.2x) |
| EBITDA/Interest ⁽⁴⁾ | 6.3x | 6.2x | 0.1x |

1 for details a for Adjusted net debt calculation, please refer to 'Alternative Performance Measures' section of this report on page 11.

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

3 for details a for Net debt calculation, please refer to 'Alternative Performance Measures' section of this report on page 11.

4 for details a for EBITDA/Interest calculation, please refer to 'Alternative Performance Measures' section of this report on page 11.

Note: Differences are possible due to rounding

Principal Risks and Uncertainties

for the six months ended 31 December 2016

Kernel's management identifies eleven principal risks that could materially influence the Company's operations and financial results:

Industry-related risks

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

Legislative risks

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

Operational risks

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

For a detailed disclosure of the possible impact of each of the key risks and our management approach, please refer to pages 31-34 of the annual report for the year ended 30 June 2016, available at kernel.ua.

Other risks identified by the Company's management include:

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

Significant Events

for the six months ended 31 December 2016

On 30 August 2016, Kernel reported it renewed its 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 grain export business in Ukraine.

On 12 December 2016, Kernel Holding S.A. convened its annual general meeting of shareholders, which adopted the following resolutions with immediate effect:

- To approve the management report of the board of directors of the Company and the report of the independent auditor of the Company for the financial year ended 30 June 2016.
- To approve in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2016, with a resulting consolidated net profit attributable to equity holders of the Company of two hundred twenty-five million one hundred and fifty thousand US dollars (USD 225,150,000.-).
- To approve in their entirety the Parent Company's annual accounts (unconsolidated) for the financial year ended on 30 June 2016, with a resulting net profit for Kernel Holding S.A. as parent company of the Kernel Holding S.A. group of eleven million seven hundred fifty thousand nine hundred twenty US dollars and seventy-five cents (USD 11,750,920.75.-).
- To approve the proposal of the board of directors to (i) to carry forward the net profit of the Parent Company annual accounts (non-consolidated) of eleven million seven hundred fifty thousand nine hundred twenty US dollars and seventy-five cents (USD 11,750,920.75.-) and (ii) after allocation to the legal reserve of the Company, to declare a dividend at twenty five cents per ordinary share (USD 0.25.-) for the financial year ended on 30 June 2016. The General Meeting delegates to the board of directors to set up record and payment dates for the dividends distribution.
- To grant discharge to the directors of the Company for their management duties and the exercise of their mandates in the course of the financial year ended on 30 June 2016.
- To renew the mandates of directors Mr. Andrzej Danilczuk, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mrs. Viktoriia Lukianenko, Mr. Yuriy Kovalchuk, and Mr. Kostiantyn Lytvynskyi for a one-year term ending on the date of the general meeting of shareholders to be held in 2017.
- To acknowledge the resignation of Mr. Ton Schurink as independent director of the board of directors with effect as of 9 November 2016 and decides to grant discharge to Mr. Ton Schurink for the exercise of his duties and mandate until 9 November 2016.
- To approve the proposal of the board of directors to appoint Mrs. Nathalie Bachich as new independent director of the Company, decides to appoint as new independent director of the Company Mrs. Nathalie Bachich born on 24th November 1973 in London, England, United Kingdom, residing at 7 York Avenue, East Sheen, London SW14 7Q for a one-year term mandate, which shall terminate on the of the general meeting of shareholders held in 2017.
- To approve the independent directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2017, for a total gross annual amount of two hundred sixty thousand US dollars (USD 260,000.-).
- To approve the executive directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2017, for a total gross annual amount of two hundred forty thousand US dollars (USD 240,000.-) including two hundred thousand US dollars (USD 200,000.-) to be paid to the chairman of the board of directors.
- To grant discharge to the independent auditor of the Company, Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 for the financial year ended on 30 June 2016.
- To reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company for a one-year term mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2017.

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

Alternative Performance Measures

for the three and six months ended 31 December 2016

To comply with ESMA Directive on AMPs, Kernel Holding S.A. (hereinafter 'the Group', 'the Company') presents this additional disclosure, which enhances the comparability, reliability and comprehension of its financial information.

The Group presents its results in accordance with generally accepted accounting principles (IFRS), but nonetheless, management considers that certain supplemental non-IFRS measures, such as EBITDA, EBITDA margin, fixed assets investments, investing cash flows, free cash flows, funds from operations, working capital, gross interest-bearing debt, net interest-bearing debt, readily marketable inventories and adjusted net interest-bearing debt (together, the 'Alternative Performance Measures') provide investors with a supplemental tool to assist in evaluating current business performance.

The Group believes the Alternative Performance Measures are frequently useful for securities analysts, investors and other interested parties in the evaluating of companies in the Group's industry. The Alternative Performance Measures have limitations as analytical tools, and investors should not consider any of them in isolation or any combination of them together as a substitute for analysis of the Company's operating results as reported under IFRS. Other companies in the industry may calculate these Alternative Performance Measures differently or may use them for different purposes than Kernel Holding S.A., limiting their usefulness as comparative measures. Each of the Alternative Performance Measures is defined below.

EBITDA and EBITDA margin

The Group uses EBITDA as a key measure of operating performance and which is defined as profit/(loss) from continued operations adding back income tax expenses, share of gain of joint ventures, other expenses, net foreign exchange gain/(loss), net finance costs, and amortization and depreciation. The Group defines EBITDA margin as EBITDA divided by revenue during the reporting period.

Kernel Holding S.A. views EBITDA and EBITDA margin as key measures of the Group's performance. The Group uses EBITDA and EBITDA margin in its public reporting, including with respect to the listing of its equity on the Warsaw Stock Exchange. The Group believes that these measures better reflect the Group and its subsidiaries' core operating activities and provide both management and investors with information regarding operating performance, which is more useful for evaluating the financial position of the Group and its subsidiaries than traditional EBITDA measures, to the exclusion of external factors unrelated to their performance.

The following table reconciles profit from continued operations to EBITDA for the periods indicated:

| | 3 months ended 31 December 2016 | 3 months ended 31 December 2015 | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit for the period from continuing operations | 97,032 | 124,416 | 161,298 | 152,865 |
| <i>add back:</i> Income tax | (3,031) | 175 | (6,706) | (2,347) |
| Financial costs, net | (14,703) | (17,505) | (25,891) | (27,815) |
| Foreign exchange gain, net | 1,002 | 17,474 | 16,093 | 14,758 |
| Other (expenses)/income, net | (2) | (6,932) | 5,495 | (5,138) |
| Share of (losses)/profit of joint venture | (2,316) | 858 | (2,318) | 2,159 |
| Amortization and depreciation | (13,751) | (14,882) | (27,610) | (30,069) |
| EBITDA | 129,833 | 145,228 | 202,235 | 201,317 |

EBITDA and EBITDA margin have limitations as analytical tools, and investors should not consider these measures in isolation or in any combination with other Supplemental Non-IFRS Measures as a substitute for analysis if the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA and EBITDA margin do not reflect the impact of financial costs, which significance reflect macroeconomic conditions and have little effect on the Group's operating performance,
- EBITDA and EBITDA margin do not reflect the impact of taxes on Group's operating performance,
- EBITDA and EBITDA margin do not reflect the impact of depreciation and amortization on the Group's performance. The assets of the Group, which are being depreciated, depleted and/or amortized, will need to be replaced in the future and such depreciation and amortization expense may approximate the cost of replacing these assets in the future. By excluding this expense from EBITDA and EBITDA margin, such measures do not reflect the Group's future cash requirements for these replacements,
- EBITDA and EBITDA margin do not reflect the impact of share of gain of joint ventures, which are accounted under equity method,
- EBITDA and EBITDA margin do not reflect the impact of foreign exchange gain/(loss), which the Group does not consider to be part of its core operating performance because the Group is not involved in any foreign currency transactions apart from those arising from differences between functional currencies in the normal course of business,
- EBITDA and EBITDA margin do not reflect the impact of other expenses; as such expenses are not a part of Group's operations.

Alternative Performance Measures

for the three and six months ended 31 December 2016

Working Capital

The Group uses working capital as a measure of its efficiency and short-term liquidity and which is defined as current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term bank borrowings, current portion of long-term borrowings and current portion of obligations under finance lease).

Fixed Assets Investments

The Group uses fixed assets investments as a measure of its expenditures on fixed assets maintenance and which is defined as Net cash used in investing activities less purchase of intangible assets and other non-current assets, less acquisition of subsidiaries, less disposal of subsidiaries, less amount advanced for subsidiaries and less purchase of financial assets.

The following table reconciles total current assets to working capital for the periods indicated:

| | As of 31 December 2016 | As of 31 December 2015 |
|--|---------------------------|---------------------------|
| Total current assets | 1,155,051 | 887,366 |
| <i>less:</i> Cash and cash equivalents | 68,906 | 116,098 |
| Assets classified as held for sale | — | 2,150 |
| Total current liabilities | 721,506 | 634,752 |
| <i>plus:</i> Short-term borrowings | 492,867 | 467,719 |
| Current portion of long-term borrowings | 76,460 | 36,418 |
| Current portion of obligations under finance lease | 3,865 | 5,053 |
| Working capital | 937,831 | 643,556 |

The following table reconciles net cash used in investing activities to fixed assets investments for the periods indicated:

| | 3 months ended 31 December 2016 | 3 months ended 31 December 2015 | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net cash used in investing activities | (37,567) | (5,418) | (50,441) | (23,761) |
| <i>add back:</i> Purchase of intangible and other non-current assets | (208) | 114 | (397) | (511) |
| Disposal of subsidiaries | 1,045 | 993 | 2,439 | 993 |
| Acquisition of subsidiaries | (2,962) | (11,000) | — | (11,000) |
| Amounts advanced for subsidiaries | 5,273 | 3,167 | 5,273 | 3,167 |
| Purchases of financial assets | (36,324) | — | (36,324) | — |
| Fixed assets investments | (4,391) | 1,308 | (21,432) | (16,410) |

The following table reconciles net cash used in investing activities to investing cash flows for the periods indicated:

| | 3 months ended 31 December 2016 | 3 months ended 31 December 2015 | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net cash used in investing activities | (37,567) | (5,418) | (50,441) | (23,761) |
| <i>less:</i> Purchase of property, plant and equipment | (5,029) | 668 | (22,504) | (17,595) |
| Proceeds from disposal of property, plant and equipment | 638 | 640 | 1,072 | 1,185 |
| Investing cash flows | (33,176) | (6,726) | (29,009) | (7,351) |

Alternative Performance Measures

for the three and six months ended 31 December 2016

Funds from Operations

The Group uses as a measure of the cash generation of its core business operations and which is defined as profit/(loss) from continuing operations adding back income tax expenses, share of gain/(loss) in joint ventures, net other expenses, the foreign exchange gain/(loss), net finance costs, amortization and depreciation, less cash used in purchase of property, plant and equipment cash from proceeds from disposal of property, plant and equipment, finance costs paid, income tax paid, results from discontinued operations, movements in allowance for doubtful receivables, loss/(gain) from changes in fair value of biological assets, other accruals net non-realizable foreign exchange gain/(loss) and other.

Free Cash Flows

The Group uses as a measure of the cash generation of its core business operations and which is defined as profit/(loss) from continuing operations adding back income tax expenses, share of gain/(loss) in joint ventures, net other expenses, the foreign exchange gain/(loss), net finance costs, amortization and depreciation, less cash used in investing activities, finance costs paid, income tax paid, dividends paid, changes in working capital, less results from discontinued operations, movements in allowance for doubtful receivables, loss/(gain) from changes in fair value of biological assets, other accruals net non-realizable foreign exchange gain/(loss) and other.

The following table reconciles profit from continuing operations to funds from operations for the periods indicated:

| | 3 months ended 31 December 2016 | 3 months ended 31 December 2015 | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net profit from continuing operations | 97,032 | 124,416 | 161,298 | 152,865 |
| <i>add back:</i> Income tax | (3,031) | 175 | (6,706) | (2,347) |
| Financial costs, net | (14,703) | (17,505) | (25,891) | (27,815) |
| Foreign exchange gain, net | 1,002 | 17,474 | 16,093 | 14,758 |
| Other (expenses)/income, net | (2) | (6,932) | 5,495 | (5,138) |
| Share of (losses)/profit of joint venture | (2,316) | 858 | (2,318) | 2,159 |
| Amortization and depreciation | (13,751) | (14,882) | (27,610) | (30,069) |
| EBITDA | 129,833 | 145,228 | 202,235 | 201,317 |
| <i>less:</i> Purchase of property, plant and equipment | (5,029) | 668 | (22,504) | (17,595) |
| Proceeds from disposal of property, plant and equipment | 638 | 640 | 1,072 | 1,185 |
| Finance costs paid | (11,553) | (17,224) | (25,429) | (28,320) |
| Income tax paid | (255) | (195) | (3,129) | (2,269) |
| <i>less: Other non-cash items, incl.:</i> | (874) | 17,891 | (31,890) | 19,644 |
| Result from discontinued operations | — | (6,037) | — | (10,677) |
| Movement in allowance for doubtful receivables | 345 | 206 | 2,685 | 1,302 |
| Net change in fair value of biological assets and agriproduce | (1,682) | (3,057) | (35,065) | (5,176) |
| Net non-realizable foreign exchange loss | 739 | 22,408 | 819 | 22,128 |
| Other accruals | 713 | 5,670 | 1,250 | 6,440 |
| Other | (989) | (1,299) | (1,579) | 5,627 |
| Funds from operations | 112,760 | 147,008 | 120,355 | 173,962 |

The following table reconciles profit from continuing operations to free cash flows for the periods indicated:

| | 3 months ended 31 December 2016 | 3 months ended 31 December 2015 | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit for the period from continuing operations | 97,032 | 124,416 | 161,298 | 152,865 |
| <i>add back:</i> Income tax | (3,031) | 175 | (6,706) | (2,347) |
| Financial costs, net | (14,703) | (17,505) | (25,891) | (27,815) |
| Foreign exchange gain, net | 1,002 | 17,474 | 16,093 | 14,758 |
| Other (expenses)/income, net | (2) | (6,932) | 5,495 | (5,138) |
| Share of (losses)/profit of joint venture | (2,316) | 858 | (2,318) | 2,159 |
| Amortization and depreciation | (13,751) | (14,882) | (27,610) | (30,069) |
| EBITDA | 129,833 | 145,228 | 202,235 | 201,317 |
| <i>less:</i> Cash used in investing activities | (37,567) | (5,418) | (50,441) | (23,761) |
| Finance costs paid | (11,553) | (17,224) | (25,429) | (28,320) |
| Income tax paid | (255) | (195) | (3,129) | (2,269) |
| Changes in working capital | (305,036) | (216,895) | (359,406) | (291,102) |
| <i>less: Other non-cash items, incl.:</i> | (874) | 17,891 | (31,890) | 19,644 |
| Result from discontinued operations | — | (6,037) | — | (10,677) |
| Movement in allowance for doubtful receivables | 345 | 206 | 2,685 | 1,302 |
| Net change in fair value of biological assets and agriproduce | (1,682) | (3,057) | (35,065) | (5,176) |
| Net non-realizable foreign exchange loss | 739 | 22,408 | 819 | 22,128 |
| Other accruals | 713 | 5,670 | 1,250 | 6,440 |
| Other | (989) | (1,299) | (1,579) | 5,627 |
| Free cash flows | (225,452) | (76,613) | (268,060) | (124,491) |

Alternative Performance Measures

for the three and six months ended 31 December 2016

Readily Marketable Inventories

The Group uses Readily marketable inventories (hereinafter 'RMI'), as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements. The Group defines RMI as agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil, which the Group treats as readily convertible into cash because of their commodity characteristics and widely available markets and international pricing mechanisms, carried at cost. Usually, approximately 90% of the Group's key inventories can be traded and approximately 75% of its subsequent year crop to be harvested is directly hedged with futures and forward contracts as well as options, prior to harvesting.

Factors, which the Group considers when classifying inventory as RMI include whether there is an ascertainable price for the inventory established via international pricing mechanism, there are widely available and liquid mar-

kets for the inventory, the pricing and margins on the inventory are hedged through forward sales and can be identified and appropriately valued, there is stable and/or predictable end-user demand for the inventory and the inventory is not perishable in short-term.

Interest-bearing Debt

The Group defines interest-bearing debt as the measure of its leverage and indebtedness, which consists of gross interest-bearing debt, net interest-bearing debt and adjusted interest bearing debt. The Group defines gross interest-bearing debt as the sum of short-term borrowings, current portion of long-term borrowings, long-term borrowings and present value of lease obligations. Moreover, the Group defines net interest-bearing debt as gross interest-bearing debt less cash and cash equivalents. Additionally, the Group defines adjusted net interest-bearing debt, as net interest-bearing debt less readily marketable inventories.

The following table shows the Group's key inventories considered eligible for RMI by type and the amounts of such inventory that the Group treats as RMI as at the periods indicated:

| | As of 31 December 2016 | As of 31 December 2015 |
|---|---------------------------|---------------------------|
| Sunflower oil & meal | 121,362 | 126,216 |
| Sunflower seed | 219,249 | 105,993 |
| Grains | 230,901 | 159,966 |
| Other | 44,584 | 50,925 |
| Total | 616,096 | 443,100 |
| <i>of which:</i> Readily marketable inventories | 571,512 | 392,175 |

The following table presents the calculations for gross, net and adjusted interest-bearing debts as at the periods indicated:

| | As of 31 December 2016 | As of 31 December 2015 |
|---|---------------------------|---------------------------|
| Short-term interest bearing debt | 569,327 | 504,137 |
| Long-term interest bearing debt | 46,177 | 69,129 |
| Obligations under finance lease | 7,544 | 8,628 |
| Gross interest-bearing debt | 623,048 | 581,894 |
| <i>less:</i> Cash and cash equivalents | 68,906 | 116,098 |
| Net interest-bearing debt | 554,142 | 465,796 |
| <i>less:</i> Readily marketable inventories | 571,512 | 392,175 |
| Adjusted net financial debt | (17,370) | 73,621 |

Management Statement

for the three and six months ended 31 December 2016

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') and its subsidiaries (hereinafter together - the 'Group') for the six months ended 31 December 2016, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial statements' (hereinafter, 'IAS 34') and give a true and fair view of the financial position, cash flows, changes in equity and profit or loss and other comprehensive income, and that the directors' report on the operations of the Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Deloitte Audit S.a.r.l. has been appointed in accordance with applicable laws and performed the review as an independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the six months ended 31 December 2016, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

27 February 2017

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Statement of Management Responsibilities

for the three and six months ended 31 December 2016

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

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') presented in this Interim Report and established in conformity with IAS 34 give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2016;
- the interim accounts of the Company presented in this Interim Report and established in conformity with Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2016;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

27 February 2017

On behalf of the Board

Andriy Verevsky

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Kernel Holding S.A. as of 31 December 2016, and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows for the six-month period then ended, and the notes to the condensed consolidated interim financial statements as at 31 December 2016 ("the condensed consolidated interim financial information"). The Board of Directors is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

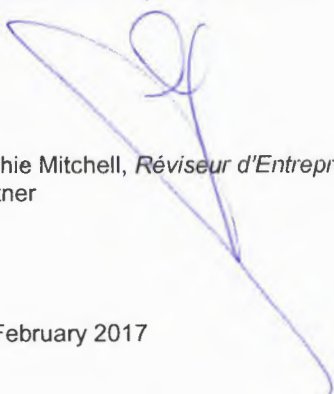
Conclusion

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

Other matter

The accompanying condensed consolidated interim financial information for the three-month ended 31 December 2016 and 2015, were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

For Deloitte Audit, *Cabinet de révision agréé*


Sophie Mitchell, *Réviseur d'Entreprises Agréé*
Partner

27 February 2017

Selected Financial Data

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | USD | | PLN | | EUR | |
|--|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| I. Revenue | 1,043,344 | 998,549 | 4,144,893 | 3,822,945 | 951,008 | 904,785 |
| II. Profit from operating activities | 174,625 | 171,248 | 693,733 | 655,623 | 159,171 | 155,168 |
| III. Profit before income tax | 168,004 | 155,212 | 667,429 | 594,229 | 153,136 | 140,638 |
| IV. Profit for the period from continuing operations | 161,298 | 152,865 | 640,789 | 585,244 | 147,023 | 138,511 |
| V. Net cash used in operating activities | (217,619) | (100,730) | (864,535) | (385,645) | (198,360) | (91,271) |
| VI. Net cash used in investing activities | (50,441) | (23,761) | (200,387) | (90,969) | (45,977) | (21,530) |
| VII. Net cash generated by financing activities | 272,396 | 111,468 | 1,082,148 | 426,755 | 248,289 | 101,001 |
| VIII. Total net cash flow | 4,336 | (13,023) | 17,226 | (49,859) | 3,952 | (11,800) |
| IX. Total assets | 1,920,548 | 1,647,976 | 8,026,547 | 6,428,919 | 1,814,342 | 1,508,557 |
| X. Current liabilities | 721,506 | 634,752 | 3,015,390 | 2,476,231 | 681,607 | 581,052 |
| XI. Non-current liabilities | 107,070 | 90,605 | 447,478 | 353,459 | 101,149 | 82,940 |
| XII. Issued capital | 2,131 | 2,104 | 8,906 | 8,208 | 2,013 | 1,926 |
| XIII. Total equity | 1,091,972 | 922,619 | 4,563,679 | 3,599,229 | 1,031,586 | 844,565 |
| XIV. Number of shares | 80,701,230 | 79,683,410 | 80,701,230 | 79,683,410 | 80,701,230 | 79,683,410 |
| XV. Profit per ordinary share (in USD/PLN/EUR) | 2.00 | 1.76 | 7.94 | 6.74 | 1.82 | 1.60 |
| XVI. Diluted number of shares | 82,011,841 | 81,243,196 | 82,011,841 | 81,243,196 | 82,011,841 | 81,243,196 |
| XVII. Diluted profit per ordinary share (in USD/PLN/EUR) | 1.94 | 1.73 | 7.73 | 6.61 | 1.77 | 1.57 |
| XVIII. Book value per share (in USD/PLN/EUR) | 13.49 | 11.56 | 56.38 | 45.09 | 12.74 | 10.58 |
| XIX. Diluted book value per share (in USD/PLN/EUR) | 13.28 | 11.34 | 55.50 | 44.22 | 12.55 | 10.38 |

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | Notes | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|--|-------|------------------------|--------------------|------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 6 | 68,906 | 60,372 | 116,098 |
| Trade accounts receivable, net | 7 | 125,426 | 75,207 | 88,732 |
| Prepayments to suppliers and other current assets, net | 20 | 81,248 | 52,983 | 57,899 |
| Corporate income tax prepaid | 19 | 6,519 | 7,400 | 9,316 |
| Taxes recoverable and prepaid, net | 8 | 199,636 | 130,378 | 150,040 |
| Inventory | 9 | 616,096 | 200,213 | 443,100 |
| Biological assets | 10 | 27,970 | 190,312 | 20,031 |
| Assets classified as held for sale | | — | 3,602 | 2,150 |
| Other financial assets | 22 | 29,250 | — | — |
| Total current assets | | 1,155,051 | 720,467 | 887,366 |
| Non-current assets | | | | |
| Property, plant and equipment, net | 11 | 522,626 | 538,728 | 507,492 |
| Intangible assets, net | | 31,512 | 36,818 | 44,136 |
| Goodwill | | 120,124 | 121,912 | 111,194 |
| Investments in joint ventures | 12 | 49,846 | 52,164 | 44,044 |
| Deferred tax assets | | 12,817 | 20,161 | 13,333 |
| Corporate income tax prepaid | 19 | 11,455 | 8,056 | 13,647 |
| Other non-current assets | 20 | 17,117 | 11,049 | 26,764 |
| Total non-current assets | | 765,497 | 788,888 | 760,610 |
| Total assets | | 1,920,548 | 1,509,355 | 1,647,976 |
| Liabilities and equity | | | | |
| Current liabilities | | | | |
| Trade accounts payable | 20 | 41,685 | 41,910 | 34,196 |
| Advances from customers and other current liabilities | 20 | 110,494 | 76,945 | 96,419 |
| Short-term borrowings | 13 | 492,867 | 179,615 | 467,719 |
| Current portion of long-term borrowings | 14 | 76,460 | 74,835 | 36,418 |
| Total current liabilities | | 721,506 | 373,305 | 634,752 |
| Non-current liabilities | | | | |
| Long-term borrowings | 14 | 46,177 | 81,841 | 69,129 |
| Obligations under finance leases | | 3,679 | 2,275 | 3,575 |
| Deferred tax liabilities | | 18,897 | 17,143 | 16,606 |
| Other non-current liabilities | 20 | 38,317 | 37,736 | 1,295 |
| Total non-current liabilities | | 107,070 | 138,995 | 90,605 |
| Equity attributable to Kernel Holding S.A. equity holders | | | | |
| Issued capital | 2 | 2,131 | 2,104 | 2,104 |
| Share premium reserve | | 471,796 | 463,879 | 463,879 |
| Additional paid-in capital | | 39,944 | 39,944 | 39,944 |
| Equity-settled employee benefits reserve | | 7,315 | 6,582 | 5,749 |
| Revaluation reserve | | 43,815 | 43,815 | 39,456 |
| Translation reserve | | (745,002) | (691,885) | (676,229) |
| Retained earnings | | 1,268,767 | 1,130,890 | 1,046,101 |
| Total equity attributable to Kernel Holding S.A. equity holders | | 1,088,766 | 995,329 | 921,004 |
| Non-controlling interests | | 3,206 | 1,726 | 1,615 |
| Total equity | | 1,091,972 | 997,055 | 922,619 |
| Total liabilities and equity | | 1,920,548 | 1,509,355 | 1,647,976 |
| Book value | | 1,088,766 | 995,329 | 921,004 |
| Number of shares | 2 | 80,701,230 | 79,683,410 | 79,683,410 |
| Book value per share (in USD) | | 13.49 | 12.49 | 11.56 |
| Diluted number of shares | | 82,011,841 | 81,384,851 | 81,243,196 |
| Diluted book value per share (in USD) | | 13.28 | 12.23 | 11.34 |

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 six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | Notes | 6 months ended 31 December 2016 | 3 months ended 31 December 2016 | 6 months ended 31 December 2015 | 3 months ended 31 December 2015 |
|--|--------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Revenue | 15 | 1,043,344 | 659,281 | 998,549 | 620,827 |
| Net change in fair value of biological assets and agricultural produce | 10 | 35,065 | 1,682 | 5,176 | 3,057 |
| Cost of sales | 16, 20 | (826,617) | (503,826) | (763,309) | (457,615) |
| Gross profit | | 251,792 | 157,137 | 240,416 | 166,269 |
| Other operating income, net | 17 | 30,708 | 21,044 | 37,240 | 34,079 |
| Operating expenses | | | | | |
| Distribution costs | 20 | (81,195) | (49,271) | (78,128) | (54,509) |
| General and administrative expenses | 20 | (26,680) | (12,828) | (28,280) | (15,493) |
| Profit from operating activities | | 174,625 | 116,082 | 171,248 | 130,346 |
| Finance costs, net | 20 | (25,891) | (14,703) | (27,815) | (17,505) |
| Foreign exchange gain, net | 18 | 16,093 | 1,002 | 14,758 | 17,474 |
| Other income/(expenses), net | 20 | 5,495 | (2) | (5,138) | (6,932) |
| Share of (loss)/gain of joint ventures | 12 | (2,318) | (2,316) | 2,159 | 858 |
| Profit before income tax | | 168,004 | 100,063 | 155,212 | 124,241 |
| Income tax (expenses)/benefits | 19 | (6,706) | (3,031) | (2,347) | 175 |
| Profit for the period from continuing operations | | 161,298 | 97,032 | 152,865 | 124,416 |
| Discontinued operations | | | | | |
| Loss for the period from discontinued operations | | — | — | (11,048) | (6,670) |
| Profit for the period | | 161,298 | 97,032 | 141,817 | 117,746 |
| Profit for the period attributable to: | | | | | |
| Equity holders of Kernel Holding S.A. | | 159,502 | 95,364 | 140,361 | 116,459 |
| Non-controlling interests | | 1,796 | 1,668 | 1,456 | 1,287 |
| Earnings per share | | | | | |
| From continuing and discontinued operations | | | | | |
| Weighted average number of shares | | 79,832,764 | 79,982,118 | 79,683,410 | 79,683,410 |
| Profit per ordinary share (in USD) | | 2.00 | 1.19 | 1.76 | 1.46 |
| Diluted number of shares | | 82,011,841 | 82,124,488 | 81,243,196 | 81,447,615 |
| Diluted profit per ordinary share (in USD) | | 1.94 | 1.16 | 1.73 | 1.43 |
| From continuing operations | | | | | |
| Weighted average number of shares | | 79,832,764 | 79,982,118 | 79,683,410 | 79,683,410 |
| Profit per ordinary share (in USD) | | 2.00 | 1.19 | 1.90 | 1.55 |
| Diluted number of shares | | 82,011,841 | 82,124,488 | 81,243,196 | 81,447,615 |
| Diluted profit per ordinary share (in USD) | | 1.94 | 1.16 | 1.86 | 1.51 |

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | 6 months ended 31 December 2016 | 3 months ended 31 December 2016 | 6 months ended 31 December 2015 | 3 months ended 31 December 2015 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Profit for the period | 161,298 | 97,032 | 141,817 | 117,746 |
| Other comprehensive loss | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations | (53,433) | (22,995) | (75,925) | (65,989) |
| Share of other comprehensive loss of joint ventures | — | — | (15,152) | (4,809) |
| Other comprehensive loss, net | (53,433) | (22,995) | (91,077) | (70,798) |
| Total comprehensive income for the period | 107,865 | 74,037 | 50,740 | 46,948 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of Kernel Holding S.A. | 106,385 | 72,519 | 50,415 | 45,976 |
| Non-controlling interests | 1,480 | 1,518 | 325 | 972 |

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | Attributable to Kernel Holding S.A. shareholders | | | | | | | | | |
|--|--|-----------------------|----------------------------|--|---------------------|---------------------|-------------------|------------------|---------------------------|------------------|
| | Issued capital | Share premium reserve | Additional paid-in capital | Equity-settled employee benefits reserve | Revaluation reserve | Translation reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| 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 | — | — | — | — | — | — | 140,361 | 140,361 | 1,456 | 141,817 |
| Other comprehensive loss | — | — | — | — | — | (89,946) | — | (89,946) | (1,131) | (91,077) |
| Total comprehensive (loss)/income for the period | — | — | — | — | — | (89,946) | 140,361 | 50,415 | 325 | 50,740 |
| Distribution of dividends (Note 2) | — | — | — | — | — | — | (19,921) | (19,921) | — | (19,921) |
| Recognition of share-based payments | — | — | — | 956 | — | — | — | 956 | — | 956 |
| Balance as of 31 December 2015 | 2,104 | 463,879 | 39,944 | 5,749 | 39,456 | (676,229) | 1,046,101 | 921,004 | 1,615 | 922,619 |
| Profit for the period | — | — | — | — | — | — | 84,789 | 84,789 | 238 | 85,027 |
| Other comprehensive income/(loss) | — | — | — | — | 4,359 | (15,656) | — | (11,297) | (127) | (11,424) |
| Total comprehensive income/(loss) for the period | — | — | — | — | 4,359 | (15,656) | 84,789 | 73,492 | 111 | 73,603 |
| Recognition of share-based payments | — | — | — | 833 | — | — | — | 833 | — | 833 |
| Balance as of 30 June 2016 | 2,104 | 463,879 | 39,944 | 6,582 | 43,815 | (691,885) | 1,130,890 | 995,329 | 1,726 | 997,055 |
| Profit for the period | — | — | — | — | — | — | 159,502 | 159,502 | 1,796 | 161,298 |
| Other comprehensive loss | — | — | — | — | — | (53,117) | — | (53,117) | (316) | (53,433) |
| Total comprehensive (loss)/income for the period | — | — | — | — | — | (53,117) | 159,502 | 106,385 | 1,480 | 107,865 |
| Distribution of dividends (Note 2) | — | — | — | — | — | — | (20,175) | (20,175) | — | (20,175) |
| Recognition of share-based payments (Note 2) | — | 1,687 | — | 733 | — | — | (1,450) | 970 | — | 970 |
| Increase of share capital (Note 2) | 27 | — | — | — | — | — | — | 27 | — | 27 |
| Issued capital (Note 2) | — | 6,230 | — | — | — | — | — | 6,230 | — | 6,230 |
| Balance as of 31 December 2016 | 2,131 | 471,796 | 39,944 | 7,315 | 43,815 | (745,002) | 1,268,767 | 1,088,766 | 3,206 | 1,091,972 |

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

| | Notes | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|-------|------------------------------------|------------------------------------|
| Operating activities: Profit before income tax | | 168,004 | 144,874 |
| Adjustments for: | | | |
| Amortization and depreciation | | 27,610 | 30,786 |
| Finance costs, net | | 25,891 | 29,469 |
| Movement in allowance for doubtful receivables | | 2,685 | 1,302 |
| Other accruals | | 1,250 | 6,440 |
| (Gain)/Loss on disposal of property, plant and equipment | | (220) | 212 |
| Net foreign exchange (gain)/loss | | (15,274) | 9,842 |
| Write-offs and impairment loss | | 1,830 | 6,198 |
| Net change in fair value of biological assets and agricultural produce | 10 | (35,065) | (5,176) |
| Share of loss/(gain) of joint ventures | 12 | 2,318 | (2,159) |
| Gain on sales of subsidiaries | 5 | (7,008) | (827) |
| Net gain arising on financial assets classified as held for trading | | (1,676) | — |
| Operating profit before working capital changes | | 170,345 | 220,961 |
| Changes in working capital: | | | |
| Change in trade accounts receivable | | (49,919) | (29,721) |
| Change in prepayments and other current assets | | (20,045) | (614) |
| Change in restricted cash balance | | (20) | — |
| Change in taxes recoverable and prepaid | | (78,780) | (77,854) |
| Change in biological assets | | 170,124 | 116,503 |
| Change in inventories | | (407,376) | (324,708) |
| Change in trade accounts payable | | (268) | 11,305 |
| Change in advances from customers and other current liabilities | | 26,878 | 13,987 |
| Cash used in operations | | (189,061) | (70,141) |
| Finance costs paid | | (25,429) | (28,320) |
| Income tax paid | | (3,129) | (2,269) |
| Net cash used in operating activities | | (217,619) | (100,730) |
| Investing activities: | | | |
| Purchase of property, plant and equipment | | (22,504) | (17,595) |
| Proceeds from disposal of property, plant and equipment | | 1,072 | 1,185 |
| Purchase of intangible and other non-current assets | | (397) | (511) |
| Disposal of subsidiaries | | 2,439 | 993 |
| Acquisition of subsidiaries | | — | (11,000) |
| Purchases of financial assets | | (36,324) | — |
| Amount advanced for subsidiaries | | 5,273 | 3,167 |
| Net cash used in investing activities | | (50,441) | (23,761) |
| Financing activities: | | | |
| Proceeds from borrowings | | 322,180 | 281,102 |
| Repayment of borrowings | | (55,387) | (167,845) |
| Proceeds from share premium reserve increase | | 6,230 | — |
| Issued capital | | 27 | — |
| Net cash generated by financing activities | | 273,050 | 113,257 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | (654) | (1,789) |
| Net increase/(decrease) in cash and cash equivalents | | 4,336 | (13,023) |
| Cash and cash equivalents, at the beginning of the period | | 60,269 | 124,121 |
| Cash and cash equivalents, at the end of the period | | 64,605 | 111,098 |

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 six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

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

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

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

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

As of 31 December 2016, 30 June 2016 and 31 December 2015, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

| Subsidiary | Principal activity | Country of incorporation | Group's effective ownership interest as of | | |
|-----------------------------------|---|--------------------------|--|---------------------|------------------|
| | | | 31 December 2016 | 30 June 2016 | 31 December 2015 |
| 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% |
| Prydniprovskiy OEP LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Stavropol oil CJSC | | Russian Federation | 0.0% ⁽¹⁾ | 0.0% ⁽¹⁾ | 100.0% |
| Ust-Labinsk Florentina OEP LLC | | Russian Federation | 0.0% ⁽¹⁾ | 0.0% ⁽¹⁾ | 100.0% |
| Estron Corporation Ltd | Provision of grain, oil and meal handling and transshipment services. | Cyprus | 100.0% | 100.0% | 100.0% |
| Poltava HPP PJSC | Grain elevators. Provision of grain and oilseed cleaning, drying and storage services. | Ukraine | 94.0% | 94.0% | 94.0% |
| Kononivsky Elevator LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Unigrain-Agro (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% |
| Vyshneve-Agro ALLC ⁽²⁾ | | 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% | 100.0% |

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 27 February 2017.

¹ Disposed in March 2016.

² The company was renamed on 15 August 2016 from Agrofirma Kuybyshevo LLC into Vyshneve-Agro ALLC.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2016 (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' or the 'Company'). The issued capital of the Company as of 31 December 2016 consisted of 80,701,230 ordinary electronic shares and as of 31 December 2015 79,683,410 ordinary electronic shares without indication of a nominal value, providing 80,701,230 and 79,683,410 voting rights, respectively.

The shares were distributed as follows:

| | As of 31 December 2016 | | As of 31 December 2015 | |
|---|--------------------------------|----------------|--------------------------------|----------------|
| | Shares allotted and fully paid | Share owned | Shares allotted and fully paid | Share owned |
| Equity holders | | | | |
| Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder') | 31,345,878 | 38.84% | 31,347,152 | 39.34% |
| Free float | 49,355,352 | 61.16% | 48,336,258 | 60.66% |
| Total | 80,701,230 | 100.00% | 79,683,410 | 100.00% |

As of 31 December 2016 and 2015, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

In December 2016, with purpose to exercise vested options granted to the management (657,820 vested options with a strike price of PLN 24.00 and 360,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 1,017,820 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital is set at USD 2,131 thousand divided into 80,701,230 shares without indication of nominal value and share premium reserve increased by USD 6,230 thousand.

As of 31 December 2016, the fair value of the share-based options granted to the management was USD 7,315 thousand and USD 970 thousand was recognized as an expense (part of payroll and payroll related expenses) during the six months ended 31 December 2016, with a corresponding increase in equity over the vesting period (31 December 2015: USD 5,749 thousand and USD 956 thousand, respectively) and USD 237 thousand decrease in the fair value of the share-based options was recognized as a result of exercised share-based options.

On 12 December 2016, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share amounting to USD 20,175 thousand.

On 24 January 2017, the Company received a notification from Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna, acting for and on behalf of investment funds under management:

- PZU Fundusz Inwestycyjny Otwarty Parasolowy,
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji,
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum,
- PZU Fundusz Inwestycyjny Zamknięty Akcji Focus,
- PZU Fundusz Inwestycyjny Zamknięty Dynamiczny,

hereinafter referred to as the 'TFI PZU Funds', that it had acquired 85,024 shares in Kernel Holding S.A., as a result of which it had crossed on 20 January 2017 the threshold of 10%. As of 20 January 2017, TFI PZU Funds owned 8,151,113 shares in the Company, representing 10.10% of the share capital.

3. Basis of Presentation of Financial Statements

These Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2016 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 during 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 2016.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2016. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Functional and presentation currency

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

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at 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 fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in 'Other comprehensive income' and accumulated in the 'Translation reserve'.

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

| Currency | Closing rate as of 31 December 2016 | Average rate for the 6 months ended 31 December 2016 | Closing rate as of 30 June 2016 | Average rate for the year ended 30 June 2016 | Closing rate as of 31 December 2015 | Average rate for the 6 months ended 31 December 2015 |
|----------|-------------------------------------|--|---------------------------------|--|-------------------------------------|--|
| USD/UAH | 27.1909 | 25.6328 | 24.8544 | 23.8630 | 24.0007 | 22.2855 |
| USD/EUR | 0.9447 | 0.9115 | 0.8994 | 0.9011 | 0.9154 | 0.9061 |
| USD/RUB | 60.6569 | 63.8465 | 64.2575 | 67.3438 | 72.8827 | 64.4609 |
| USD/PLN | 4.1793 | 3.9727 | 3.9803 | 3.8706 | 3.9011 | 3.8285 |

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

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

Operating segments

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

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

The operating segments' activities are as follows:

| Operating segments | Activities |
|----------------------------|--|
| Bottled sunflower oil | Production, refining, bottling, marketing and distribution of bottled sunflower oil. |
| Sunflower oil sold in bulk | Production and sales of sunflower oil sold in bulk (crude and refined) and meal. |
| Export terminals | Grain handling and transshipment services in the ports of Chornomorsk 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. |
| Other | Income and expenses unallocated to other segments, which are related to the administration of the Holding. |

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Seasonality of operations

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

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

4. Key Data by Operating Segment

Key data by operating segment for the six months ended 31 December 2016:

| | Bottled sunflower oil | Sunflower oil sold in bulk | Export terminals | Farming | Grain | Silo services | Other | Re- conciliation | Discontinued operations | Continuing operations |
|---|--------------------------|----------------------------------|---------------------|----------------|----------------|------------------|-----------------|---------------------|----------------------------|--------------------------|
| Revenue (external) | 60,540 | 483,640 | 396 | 14,418 | 476,781 | 7,569 | — | — | — | 1,043,344 |
| Intersegment sales | — | — | 28,460 | 256,736 | — | 35,154 | — | (320,350) | — | — |
| Total revenue | 60,540 | 483,640 | 28,856 | 271,154 | 476,781 | 42,723 | — | (320,350) | — | 1,043,344 |
| Net change in fair value of biological assets and agricultural produce | — | — | — | 35,065 | — | — | — | — | — | 35,065 |
| Other operating (loss)/income, net | (7) | (661) | 4 | 25,866 | 4,643 | 863 | — | — | — | 30,708 |
| Profit/(Loss) from operating activities | 6,274 | 33,019 | 22,480 | 117,672 | 15,347 | 28,663 | (16,663) | (32,167) | — | 174,625 |
| Finance costs, net | | | | | | | | | | (25,891) |
| Foreign exchange gain, net | | | | | | | | | | 16,093 |
| Other income, net | | | | | | | | | | 5,495 |
| Share of loss of joint ventures | | | | | | | | | | (2,318) |
| Income tax expense | | | | | | | | | | (6,706) |
| Profit for the period from continuing operations | | | | | | | | | | 161,298 |
| Total assets | 79,687 | 972,067 | 115,115 | 245,597 | 367,505 | 52,755 | 87,822 | — | — | 1,920,548 |
| Capital expenditures | 355 | 1,812 | 1,256 | 12,403 | — | 1,048 | 646 | — | — | 17,520 |
| Amortization and depreciation | 911 | 7,160 | 1,504 | 15,879 | — | 1,463 | 693 | — | — | 27,610 |
| Liabilities | 6,966 | 50,839 | 2,226 | 41,540 | 12,744 | 3,192 | 711,069 | — | — | 828,576 |

During the six months ended 31 December 2016, one of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 95% of total external sales.

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

The Group changed the presentation of operating profit in segment reporting with purpose to reflect more precisely the farming segment profitability on intersegment sales. Thus, the amount USD 32,167 thousand, shown in reconciliation of operating profit, reflects unrealized profit, arisen upon intragroup sales of agricultural products by the farming segment, which remained unsold to the third parties as of the end of the reporting period. The corresponding amendments were made to the segment disclosure for six months ended 31 December 2015.

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

| | Revenue from external customers | Non-current assets |
|--------------------|------------------------------------|---------------------------|
| | 6 months ended 31 December 2016 | As of 31 December 2016 |
| Ukraine | 923,015 | 702,793 |
| Russian Federation | 120,329 | 49,887 |
| Total | 1,043,344 | 752,680 |

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

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for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment (continued)

Key data by operating segment for the six months ended 31 December 2015:

| | Bottled sunflower oil | Sunflower oil sold in bulk | Export terminals | Farming | Grain | Silo services | Other | Re- conciliation | Discontinued operations | Continuing operations |
|---|--------------------------|----------------------------------|---------------------|----------------|----------------|------------------|-----------------|---------------------|----------------------------|--------------------------|
| Revenue (external) | 54,485 | 486,787 | 96 | 16,650 | 434,848 | 5,827 | — | — | (144) | 998,549 |
| Intersegment sales | — | — | 26,484 | 324,821 | — | 25,341 | — | (376,646) | — | — |
| Total revenue | 54,485 | 486,787 | 26,580 | 341,471 | 434,848 | 31,168 | — | (376,646) | (144) | 998,549 |
| Net change in fair value of biological assets and agricultural produce | — | — | — | 5,176 | — | — | — | — | — | 5,176 |
| Other operating income, net | 91 | 3,096 | 9 | 32,503 | 1,383 | 216 | — | — | (58) | 37,240 |
| Profit/(Loss) from operating activities | 8,963 | 49,599 | 15,518 | 118,569 | 21,587 | 18,756 | (18,059) | (45,479) | 1,794 | 171,248 |
| Finance costs, net | | | | | | | | | | (27,815) |
| Foreign exchange gain, net | | | | | | | | | | 14,758 |
| Other expenses, net | | | | | | | | | | (5,138) |
| Share of gain of joint ventures | | | | | | | | | | 2,159 |
| Income tax expense | | | | | | | | | | (2,347) |
| Profit for the period from continuing operations | | | | | | | | | | 152,865 |
| Total assets | 62,348 | 919,838 | 107,738 | 230,965 | 243,856 | 59,985 | 21,096 | — | — | 1,645,826 |
| Capital expenditures | 37 | 3,352 | 565 | 6,990 | — | 1,105 | 128 | — | — | 12,177 |
| Amortization and depreciation | 1,417 | 8,342 | 1,521 | 17,146 | — | 1,868 | 492 | — | (717) | 30,069 |
| Liabilities | 622 | 38,516 | 1,520 | 38,793 | 13,433 | 1,022 | 631,451 | — | — | 725,357 |

During the six months ended 31 December 2015, one of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 94% of total external sales.

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

The amount USD 45,479 thousand, shown in reconciliation of operating profit, reflects unrealized profit, arisen upon intragroup sales of agricultural products by the farming segment, which remained unsold to the third parties as of the end of the reporting period.

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

| | Revenue from external customers | Non-current assets |
|--------------------|---------------------------------------|------------------------------|
| | 6 months ended 31 December 2015 | As of 31 December 2015 |
| Ukraine | 820,563 | 685,305 |
| Russian Federation | 177,986 | 61,972 |
| Total | 998,549 | 747,277 |

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

5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the six months ended 31 December 2016.

During the six months ended 31 December 2016, the Group disposed of three grain elevators located in Mykolaiv, Poltava and Kharkiv regions. The net assets of the disposed entities as of the date of disposal were equal to USD 265 thousand and the cash consideration received and receivable was USD 3,181 thousand (out of which USD 826 thousand remained outstanding as of 31 December 2016).

During the six months ended 31 December 2016, the Group disposed of one of its export terminals located in Mykolaiv region. The net assets of the disposed entities as of the date of disposal were equal to USD 3,408 thousand and the cash consideration received was USD 7,500 thousand.

No entities were acquired during the six months ended 31 December 2015.

During the six months ended 31 December 2015, the Company disposed of one of its grain elevators located in Mykolaiv region. The net assets of the disposed entity as of the date of disposal were equal to USD 166 thousand and the cash consideration received was USD 993 thousand.

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for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

6. Cash and Cash Equivalents

| | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|--|------------------------------|--------------------------|------------------------------|
| Cash with banks in USD | 42,779 | 55,825 | 105,714 |
| Cash with banks in UAH | 24,195 | 2,729 | 9,171 |
| Cash with banks in other currencies | 1,930 | 1,814 | 1,205 |
| Cash on hand | 2 | 4 | 8 |
| Total | 68,906 | 60,372 | 116,098 |
| Less restricted and blocked cash on security bank accounts | (123) | (103) | (5,000) |
| Less bank overdrafts (Note 13) | (4,178) | — | — |
| Cash and cash equivalents for the purposes of cash flow statement | 64,605 | 60,269 | 111,098 |

7. Trade Accounts Receivable, net

The increase in trade accounts receivable to USD 125,426 thousand as of 31 December 2016 from USD 75,207 thousand as of 30 June 2016 was mainly caused by an increase in export sales of grain and sunflower bulk oil at the end of the period.

8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid increased to USD 199,636 thousand as of 31 December 2016 from USD 130,378 thousand as of 30 June 2016 mostly due to an increase in VAT recoverable and prepaid as a result of growth in export sales.

9. Inventory

| | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|-----------------------|------------------------------|--------------------------|------------------------------|
| Raw materials | 237,227 | 21,012 | 113,366 |
| Agricultural products | 134,891 | 4,551 | 102,785 |
| Finished products | 120,379 | 129,442 | 125,055 |
| Goods for resale | 101,328 | 39,068 | 70,518 |
| Work in progress | 16,358 | — | 24,486 |
| Fuel | 1,718 | 1,899 | 1,519 |
| Packaging materials | 900 | 647 | 899 |
| Other inventories | 3,295 | 3,594 | 4,472 |
| Total | 616,096 | 200,213 | 443,100 |

As of 31 December 2016, raw materials were represented mainly by sunflower seeds in the amount of USD 218,622 thousand (as of 30 June 2016 and 31 December 2015: USD 13,113 thousand and USD 101,380 thousand, respectively).

As of 31 December 2016, finished goods mostly consisted of sunflower oil in bulk in the amount of USD 95,997 thousand (as of 30 June 2016 and 31 December 2015: USD 120,192 thousand and USD 106,720 thousand, respectively).

As of 31 December 2016, inventory balances in the amount of USD 406,350 thousand (as of 30 June 2016 and 31 December 2015: USD 110,427 thousand and USD 315,183 thousand, respectively) were pledged as security for short-term borrowings (Note 13).

10. Biological Assets

Current biological assets as of 31 December 2016 consisted of 94,947 hectares of winter crops sowed in the amount of USD 13,770 thousand and 16,071 hectares of not harvested corn in the amount of USD 12,482 thousand (30 June 2016: 381,379 hectares of crops in the amount of USD 188,410 thousand; 31 December 2015: 89,867 hectares of winter crops in the amount of USD 17,883 thousand) and 8,367 heads of current livestock in the amount of USD 1,718 thousand (30 June 2016: 8,907 heads in the amount of USD 1,902 thousand; 31 December 2015: 8,889 heads of current livestock in the amount of USD 2,148 thousand).

Net change in the fair value of biological assets and agricultural produce reflects the revaluation of crops in fields and agricultural produce balances to its fair value as of 31 December 2016 and 2015. The considerable positive effect of the revaluation of biological assets and agricultural produce introduced in the Interim Condensed Consolidated Interim Statement of Profit or Loss was due to increase of crop yields as a result of improvement in the cultivation technology.

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10. Biological Assets (continued)

The following table represents the changes in the carrying amounts of biological assets (crops in fields) during the six months ended 31 December 2016 and 30 June 2016:

| | Capitalized expenditures | Effect of biological transformation | Fair value of biological assets |
|---|--------------------------|-------------------------------------|---------------------------------|
| As of 31 December 2015 | 11,459 | 6,424 | 17,883 |
| Increase due to purchases and subsequent expenditures capitalized in biological assets (2016 harvest) | 142,656 | — | 142,656 |
| Gain arising from changes in fair value attributable to physical changes and to changes in the market price | — | 27,318 | 27,318 |
| Exchange difference | — | 553 | 553 |
| As of 30 June 2016 | 154,115 | 34,295 | 188,410 |
| Decrease due to harvest (2016 harvest) | (148,338) | (27,256) | (175,594) |
| Increase due to purchases and subsequent expenditures capitalized in biological assets (2017 harvest) | 11,737 | — | 11,737 |
| Gain arising from changes in fair value attributable to physical changes and to changes in the market price | — | 2,138 | 2,138 |
| Exchange difference | — | (439) | (439) |
| As of 31 December 2016 | 17,514 | 8,738 | 26,252 |

11. Property, Plant and Equipment, net

During the six months ended 31 December 2016, the Group acquired property, plant and equipment in the amount of USD 17,065 thousand (31 December 2015: USD 12,177 thousand). Acquired property was mainly represented by agricultural vehicles and equipment for the farming segment.

The decrease in property, plant and equipment in the amount of USD 9,090 thousand resulted from the depreciation of the Ukrainian hryvnia during the six months ended 31 December 2016 (31 December 2015: USD 12,849 thousand).

During the six months ended 31 December 2016 depreciation of property, plant and equipment amounted USD 23,220 thousand (31 December 2015: USD 25,457 thousand).

As of 31 December 2016, property, plant and equipment with a carrying amount of USD 171,466 thousand (30 June 2016 and 31 December 2015: USD 104,777 thousand and USD 115,279 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 13 and 14).

As of 31 December 2016, property, plant and equipment with a carrying amount of USD 28,504 thousand (as of 30 June 2016 and 31 December 2015: USD 29,403 thousand and nil, respectively) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region.

As of 31 December 2016, 30 June 2016 and 31 December 2015, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 14,592 thousand, USD 12,688 thousand and USD 15,190 thousand, respectively. Additions during the six months ended 31 December 2016 totaled USD 4,810 thousand (31 December 2015: USD nil thousand).

12. Investments in Joint Ventures

For the six months ended 31 December 2016, the share of loss of joint venture (Taman) equaled USD 2,318 thousand (for the six months ended 31 December 2015: gain USD 2,159 thousand). The difference between the share of gain of joint venture and share of total comprehensive loss for the six months ended 31 December 2015, was represented mainly by a change in translation reserve.

The aforementioned result includes depreciation and amortization expenses in the amount of USD 1,057 thousand (for the six months ended 31 December 2015: USD 997 thousand) and interest expenses in the amount of USD 915 thousand (for the six months ended 31 December 2015: USD 1,167 thousand).

Since 1 July 2016 the Group's joint venture (Taman) has changed its functional currency from RUB to USD as the result of changes in the sales contracts terms, in particular use of USD as a currency in which service fees are denominated.

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13. Short-term Borrowings

The balances of short-term borrowings were as follows:

| | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|---|------------------------------|--------------------------|------------------------------|
| Bank credit lines | 486,052 | 177,446 | 465,051 |
| Bank overdrafts (Note 6) | 4,178 | — | — |
| Interest accrued on short-term borrowings | 1,364 | 822 | 1,710 |
| Interest accrued on long-term borrowings | 1,273 | 1,347 | 958 |
| Total | 492,867 | 179,615 | 467,719 |

The balances of short-term borrowings as of 31 December 2016 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---------------|----------|----------------|----------------|
| European bank | Libor + 5.9% | USD | August 2017 | 229,426 |
| European bank | Libor + 5.65% | USD | June 2017 | 154,619 |
| Ukrainian subsidiary of European bank | Libor + 5.8% | USD | September 2017 | 50,000 |
| Ukrainian subsidiary of European bank | 12.5% | UAH | January 2017 | 16,834 |
| Ukrainian subsidiary of European bank | 18.5% | UAH | March 2017 | 13,109 |
| Ukrainian subsidiary of European bank | 4.0% | USD | January 2017 | 7,870 |
| Ukrainian subsidiary of European bank | 13.25% | UAH | March 2017 | 7,355 |
| Ukrainian subsidiary of European bank | 6.5% | USD | March 2017 | 5,000 |
| European bank | 5.0% | USD | February 2017 | 4,178 |
| Ukrainian subsidiary of European bank | 12.25% | UAH | January 2017 | 1,839 |
| Total bank credit lines | | | | 490,230 |
| Interest accrued on short-term borrowings | | | | 1,364 |
| Interest accrued on long-term borrowings | | | | 1,273 |
| Total | | | | 492,867 |

The balances of short-term borrowings as of 30 June 2016 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---------------|----------|----------------|----------------|
| European bank | Libor + 6.25% | USD | August 2016 | 84,119 |
| Ukrainian subsidiary of European bank | Libor + 5.8% | USD | September 2016 | 47,500 |
| Ukrainian subsidiary of European bank | 10.0% | USD | July 2016 | 25,000 |
| European bank | Libor + 5.65% | USD | June 2017 | 14,264 |
| Ukrainian subsidiary of European bank | 7.5% | USD | March 2017 | 5,000 |
| Ukrainian subsidiary of American bank | Libor + 4.5% | USD | July 2016 | 1,563 |
| Total bank credit lines | | | | 177,446 |
| Interest accrued on short-term borrowings | | | | 822 |
| Interest accrued on long-term borrowings | | | | 1,347 |
| Total | | | | 179,615 |

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13. Short-term Borrowings (continued)

The balances of short-term borrowings as of 31 December 2015 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---------------|----------|----------------|----------------|
| European bank | Libor + 6.25% | USD | August 2016 | 197,000 |
| European bank | Libor + 6.0% | USD | June 2016 | 97,500 |
| Ukrainian subsidiary of European bank | Libor + 5.8% | USD | September 2016 | 47,500 |
| European bank | Libor + 5.5% | USD | February 2016 | 41,400 |
| Ukrainian subsidiary of European bank | 10.0% | USD | March 2016 | 31,500 |
| European bank | Libor + 6.25% | USD | April 2016 | 25,000 |
| Ukrainian subsidiary of European bank | 20.0% | UAH | February 2016 | 12,916 |
| Russian bank | Libor + 9.35% | USD | February 2016 | 4,897 |
| Ukrainian subsidiary of American bank | Libor + 4.5% | USD | July 2016 | 4,688 |
| Ukrainian subsidiary of European bank | 6.8% | USD | February 2016 | 2,650 |
| Total bank credit lines | | | | 465,051 |
| Interest accrued on short-term borrowings | | | | 1,710 |
| Interest accrued on long-term borrowings | | | | 958 |
| Total | | | | 467,719 |

As of 31 December 2016, undrawn short-term bank credit lines amounted to USD 140,079 thousand (as of 30 June 2016: USD 114,315 thousand and as of 31 December 2015: USD 286,683 thousand).

Short-term borrowings from banks were secured as follows:

| (Assets pledged) | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|------------------------------------|------------------------------|--------------------------|------------------------------|
| Cash and cash equivalents | 123 | 103 | 5,000 |
| Inventory | 406,350 | 110,427 | 315,183 |
| Property, plant and equipment | 115,238 | 46,890 | 113,369 |
| Controlling stakes in Subsidiaries | — | — | Not quantifiable |
| Total | 521,711 | 157,420 | 433,552 |

As of 31 December and 30 June 2016, stakes in Subsidiaries were not pledged to secure short-term borrowings (as of 31 December 2015: three sunflower oil plants, one export terminal and one holding company).

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14. Long-term Borrowings

The balances of long-term borrowings were as follows:

| | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|---|------------------------------|--------------------------|------------------------------|
| Long-term bank borrowings | 122,637 | 156,676 | 105,547 |
| Current portion of long-term borrowings | (76,460) | (74,835) | (36,418) |
| Total | 46,177 | 81,841 | 69,129 |

The balances of long-term borrowings as of 31 December 2016 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---------------|---------------|----------|---------------|----------------|
| European bank | Libor + 8.0% | USD | August 2018 | 57,567 |
| European bank | Libor + 7.5% | USD | February 2018 | 40,367 |
| European bank | Libor + 7.3% | USD | April 2018 | 15,000 |
| European bank | Libor + 1.65% | USD | March 2020 | 9,703 |
| Total | | | | 122,637 |

The balances of long-term borrowings as of 30 June 2016 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---------------|---------------|----------|---------------|----------------|
| European bank | Libor + 8.0% | USD | August 2018 | 73,978 |
| European bank | Libor + 7.5% | USD | February 2018 | 51,633 |
| European bank | Libor + 7.3% | USD | April 2018 | 20,000 |
| European bank | Libor + 1.65% | USD | March 2020 | 11,065 |
| Total | | | | 156,676 |

The balances of long-term borrowings as of 31 December 2015 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---------------|---------------|----------|-------------|----------------|
| European bank | Libor + 8.0% | USD | August 2018 | 91,667 |
| European bank | Libor + 1.65% | USD | March 2020 | 13,880 |
| Total | | | | 105,547 |

As of 31 December 2016, 30 June 2016 and 31 December 2015, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were secured as follows:

| (Assets pledged) | As of 31 December 2016 | As of 30 June 2016 | As of 31 December 2015 |
|------------------------------------|------------------------------|--------------------------|------------------------------|
| Property, plant and equipment | 56,228 | 57,887 | 1,910 |
| Controlling stakes in Subsidiaries | Not quantifiable | Not quantifiable | Not quantifiable |
| Total | 56,228 | 57,887 | 1,910 |

As of 31 December 2016, stakes in Subsidiaries were pledged to secure long-term borrowings including controlling stakes in one agricultural company, one sunflower oil plant, one export terminal and one holding company (as of 30 June 2016: one agricultural company, one sunflower oil plant, one export terminal and one holding company and 31 December 2015: one agricultural company).

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15. Revenue

Revenue was as follows:

| | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|--|---------------------------------------|---------------------------------------|
| Revenue from sunflower oil sold in bulk, sunflower meal and cake | 492,901 | 496,948 |
| Revenue from grain sales | 476,781 | 434,848 |
| Revenue from bottled sunflower oil | 51,279 | 44,180 |
| Revenue from farming | 14,418 | 16,650 |
| Revenue from grain silo services | 7,569 | 5,827 |
| Revenue from transshipment services | 396 | 96 |
| Total | 1,043,344 | 998,549 |

16. Cost of Sales

Cost of sales was as follows:

| | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|---------------------------------------|---------------------------------------|
| Cost of goods for resale and raw materials used | 760,898 | 695,149 |
| Amortization and depreciation | 26,341 | 28,985 |
| Rental payments | 17,216 | 16,363 |
| Payroll and payroll related costs | 16,426 | 17,254 |
| Other operating costs | 5,736 | 5,558 |
| Total | 826,617 | 763,309 |

17. Other operating income, net

Other operating income, net was as follows:

| | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|--|---------------------------------------|---------------------------------------|
| VAT benefits | 25,621 | 23,376 |
| Gain on operations with commodity futures | 3,434 | 8,312 |
| Contracts wash-out (price difference settlement) | 2,631 | 365 |
| (Loss)/Gain on sale of hard currency | (138) | 4,318 |
| Other operating (loss)/income | (840) | 869 |
| Total | 30,708 | 37,240 |

18. Foreign Exchange Gain, net

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

| | 6 months ended 31 December 2016 | 6 months ended 31 December 2015 |
|---|---------------------------------------|---------------------------------------|
| Borrowings nominated in foreign currencies | 13,699 | 17,420 |
| Revaluation of balances nominated in foreign currencies | 9,518 | 9,895 |
| VAT recoverable and prepaid | (8,950) | (15,607) |
| Cash and cash equivalents nominated in foreign currencies | (1,733) | (600) |
| Corporate income tax prepaid | (1,161) | (3,271) |
| Obligations under financial leases | 128 | 875 |
| Other | 4,592 | 6,046 |
| Total | 16,093 | 14,758 |

During the period under review, the Ukrainian hryvnia devalued by 9% against the US dollar (12% during the six months ended 31 December 2015) and the Russian ruble revalued by 6% against the US dollar (devalued by 24% during the six months ended 31 December 2015). The Company's subsidiaries operate with different functional currencies (namely, the US dollar and Ukrainian hryvnia) and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's enterprises if they had different functional currencies.

19. Income Tax

The difference between the income tax charge reported in the accompanying Condensed Consolidated Interim Financial Statement of Profit or Loss and income before tax, multiplied by the respective statutory tax rates, is mainly due to the non-deductibility of certain expenses for income tax purposes and the effect of the farming companies of the Group, which are subject to a fixed agricultural tax regime and are not subject to corporate income tax. As of 31 December 2016, the Group prepaid USD 17,974 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (as of 30 June 2016 and 31 December 2015: USD 15,456 thousand and USD 22,963 thousand, respectively). The increase was mostly connected to the ordinary operating activities together with an opposite effect as a result of the devaluation of the Ukrainian hryvnia, related to foreign exchange losses recognized (see Note 18).

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20. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

| | Related party balances | Total category as per consolidated statement of financial position | Related party balances | Total category as per consolidated statement of financial position |
|--|------------------------|--|------------------------|--|
| | As of 31 December 2016 | | As of 30 June 2016 | |
| Prepayments to suppliers and other current assets, net | 19,159 | 81,248 | 14,999 | 52,983 |
| Other non-current assets | 257 | 17,117 | 268 | 11,049 |
| Trade accounts payable | — | 41,685 | 3,219 | 41,910 |
| Advances from customers and other current liabilities | 17,983 | 110,494 | 16,021 | 76,945 |
| Other non-current liabilities | 13,030 | 38,317 | 13,030 | 37,736 |

As of 31 December 2016 and 30 June 2016, the Group did not create an allowance for prepayments to suppliers and other current and non-current assets from related parties.

As of 31 December 2016, prepayments to suppliers and other current assets include payment made to Namsen Limited in the amount of USD 6,890 thousand as part of settlement of liabilities due to Namsen Limited, which will become legally enforceable for offset subsequently to issue of financial statements (30 June 2016: USD 1,890 thousand).

As of 31 December 2016, USD 7,836 thousand in dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (30 June 2016: 0 - declared dividends to Namsen Limited in the amount of USD 7,811 thousand for FY 2015 were paid in April 2016). As of 31 December 2016, advances from customers and other current liabilities included USD 1,031 thousand in bonuses payable to the management (30 June 2016: USD 6,088 thousand).

Advances from customers and other current liabilities as of 31 December 2016 and 30 June 2016 included an interest-free financial liability in the amount of USD 7,043 thousand due to Namsen Limited.

Other non-current liabilities as of 31 December 2016 and 30 June 2016 included 4% interest-bearing financial liability in the amount of USD 9,977 thousand due to Namsen Limited.

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

All remaining outstanding balances with related parties, which are presented in the table above, were represented by amounts due to companies under common control.

Transactions with related parties were as follows:

| | Amount of operations with related parties | Total category per consolidated income statement | Amount of operations with related parties | Total category per consolidated income statement |
|---|---|--|---|--|
| | 6 months ended 31 December 2016 | | 6 months ended 31 December 2015 | |
| Cost of sales | (36) | (826,617) | (33) | (763,309) |
| General, administrative and distribution expenses | (8,459) | (107,875) | (15,577) | (106,408) |
| Finance costs, net | (300) | (25,891) | 48 | (27,815) |
| Other income/(expenses), net | 119 | 5,495 | 6 | (5,138) |

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

For the six months ended 31 December 2016, distribution expenses included USD 5,995 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the six months ended 31 December 2015: USD 8,842 thousand).

All other transactions occurred with related parties under common control.

As of 31 December 2016, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the six months ended 31 December 2016 amounted to USD 269 thousand (31 December 2015: 8 directors, USD 233 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 10 people, amounted to USD 1,185 thousand for the six months ended 31 December 2016 (31 December 2015: 10 people, USD 1,344 thousand).

Members of the Board of Directors and management team are not granted any pensions, retirement or similar benefits by the Group. The management of the Group has been provided with options to purchase shares of the Holding (Note 2).

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21. Commitments and Contingencies

Taxation and legal issues

The Group was involved in litigation in connection with a case of contaminated Ukrainian oil that occurred in April 2008. In January 2016, a court decision was issued in favor of the counterparty. A respective provision in the amount of USD 2,400 thousand was recognized as of 31 December 2015 in Other current liabilities and remained outstanding in the amount of USD 2,481 thousand as of 31 December 2016.

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 December 2016, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect to claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 31 December 2016, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for a total amount of USD 38,321 thousand (30 June 2016: USD 50,742 thousand), from which USD 20,083 thousand related to VAT recoverability (30 June 2016: USD 25,996 thousand) USD 17,966 thousand related to corporate income tax (30 June 2016: USD 19,817 thousand) and USD 272 thousand related to other tax issues (30 June 2016: USD 4,929 thousand).

As of 31 December 2016, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 17,556 thousand (30 June 2016: USD 28,282 thousand) of the aforementioned amount. Of this amount, USD 4,882 thousand related to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2016: USD 20,143 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 administration, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties and interest, and these amounts could be material.

Starting from 1 January 2016, the approach to special VAT regime for the agricultural industry in Ukraine in a part of VAT payments has been changed. According to the Law 'On amending the Tax Code of Ukraine and certain legislative acts of Ukraine in terms of ensuring the balanced budget receipts in 2016', agricultural producers are entitled to retain only a portion of VAT on agricultural operations.

Thus, as a result of the new legislation, the Group's agricultural farms, engaged in growing crops, will retain only 15% of the net VAT liability versus 100% retained previously.

Special tax treatment of agricultural enterprises should continue to apply only up to 1 January 2017. Starting from 1 January 2017, 100% of net VAT liabilities will be paid to the Government.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2016 (in thousands of US dollars, unless otherwise stated)

21. Commitments and Contingencies (continued)

Operating environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity and volatility of financial markets. In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In 2016, average inflation amounted to 13.9% comparing to 48.7% in 2015. Despite the fact that the cumulative inflation in Ukraine for the three latest years slightly exceeded 100%, management believes that the Ukrainian economy is not hyperinflationary due to slowing down of inflation during 2016 and lack of qualitative characteristics of the hyperinflationary economic environment.

The economic situation began to stabilize in 2016, which resulted in GDP growth around 1% and stabilization of Ukrainian Hryvnia. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 65% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

Capital commitments

As of 31 December 2016, the Group had commitments under contracts with a group of suppliers for a total amount of USD 5,567 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal (31 December 2015: USD 8,472 thousand mostly for the purchase of agricultural equipment).

Contractual commitments on sales

As of 31 December 2016, the Group had entered into commercial contracts for the export of 1,357,361 tons of grain and 740,936 tons of sunflower oil and meal, corresponding to an amount of USD 264,260 thousand and USD 291,153 thousand, respectively, in contract prices as of the reporting date.

As of 31 December 2015, the Group had entered into commercial contracts for the export of 1,103,114 tons of grain and 503,644 tons of sunflower oil and meal, corresponding to amounts of USD 199,486 thousand and USD 240,411 thousand, respectively, in contract prices as of the reporting date.

22. Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for the year ended 30 June 2016. Management considers that the carrying amounts of financial assets and financial liabilities recognized in the condensed consolidated interim financial statements approximate their fair values as of 31 December 2016 and 2015. The estimation of the fair value of borrowings was made using level 2 inputs according to IFRS 13, in accordance with valuation pricing models based on discounted cash flow analysis and observable interest rates available on the market within the six months ended 31 December 2016 and 2015.

As of 31 December 2016, other financial assets included financial assets classified as at fair value through profit or loss, which are presented by government bonds in the amount of USD 25.8 million classified as held for trading since they had been acquired principally for trading purposes in the near time (as of 30 June 2016 and 31 December 2015: nil, respectively). After the reporting date the financial instruments have been sold.

Financial assets at fair value through profit or loss are stated at fair value, with any gain or losses arising on remeasurement recognized in profit or loss and included in the 'Other income/(expenses),net' line item. Fair value was determined by using the fair value measurement in the three hierarchy levels, whereas Level 1 is prescribed by IFRS 13 Fair value remeasurement through quoted bid prices on an active market.

23. Subsequent Events

Kernel Holding S.A. delivered fixed income investor meetings in Europe and the US with respect to a USD-denominated Reg S / 144A 5-year fixed-rate benchmark notes offering. The Group has issued USD 500,000 thousand aggregate principal amount of 8.75% Notes due 31 January 2022 (the 'Notes'). The Notes have been rated B+ by Fitch, and B by S&P, two and one notches above Ukrainian sovereign, respectively.

Long-term borrowings in the amount of USD 101,200 thousand and short-term borrowings in the amount of USD 485,840 thousand were repaid after the reporting date and USD 44,549 thousand has been withdrawn per existing credit lines.

As of 20 January 2017, TFI PZU Funds hold 8,151,113 shares in the Company, representing 10.10% of the share capital and entitling it to 8,151,113 votes at the Company's general shareholders' meeting, equal to 10.10% of the total number of votes.