

KERNEL

H1

FY2018

Condensed Consolidated Interim Financial Statements

for the six months ended
31 December 2017



Management Discussion and Analysis

for the three and six months ended 31 December 2017

Key highlights

- The **revenue** of Kernel Holding S.A. (hereinafter "Kernel", the "Company") in Q2 FY2018 declined by 19% y-o-y, to US\$ 536 million, following the change of quarterly pattern of sunflower oil sales and significantly reduced volumes of grain exported from Russia due to the assignment of Taman terminal transshipment quota to a third party.
- Company's **EBITDA** for the reporting period contracted by 41% to US\$ 77 million. Lower crop yields stipulated EBITDA decline in our farming segment, and a contractual shift of sunflower oil sales from Q2 to Q3 FY2018 caused the EBITDA reduction in our crushing segment.
- Sunflower crushing margins** remain weak, as the market is believed to touch bottom. Combined with the temporary decline in sales volumes owing to the contractual mix pushing exports to the coming quarters, total sunflower oil division's EBITDA declined by 41% y-o-y, to US\$ 20.6 million.
- Grain and infrastructure division** delivered EBITDA of US\$ 48.3 million in Q2 FY2018, up 2% y-o-y. Grain trading segment's absolute contribution was undermined by weaker volumes, while export terminals EBITDA contracted due to softer throughput margin. At the same time, the robust operating performance of silo segment delivered a strong quarterly EBITDA contribution, benefiting from solid demand for crop drying services as wet weather conditions during the harvesting campaign took their toll.
- The **farming segment's** performance in H1 FY2018 was diluted by lower crop yields caused by unfavorable weather conditions and resulted in US\$ 31 million decline in biological assets revaluation adjustment under IAS 41, bringing down farming segment's 1H FY2018 EBITDA to US\$ 34.9 million.
- After accounting for net financial costs (US\$ 16 million), net forex exchange gain (US\$ 30 million) and income tax benefit (US\$ 2.4 million), as well as some other minor lines, **net profit attributable to equity holders** of Kernel Holding S.A. for Q2 FY2018 stood at US\$ 67 million, down 30% y-o-y.

Corporate and regulatory

- On 8 November 2017, Kernel Holding S.A. received a notification from TFI PZU Funds about the disposal of 850,000 shares of the Company in transaction on the Warsaw Stock Exchange, settled on 7 November 2017, and decrease of its holdings in the Company's shares below 10% of the total number of votes on General Meeting in Shareholders. As of 7 November 2017, TFI PZU Funds held 7,562,562 shares in the Company, representing 9.23% of the share capital and entitling it to 7,562,562 votes at the Company's General Meeting of Shareholders, equal to 9.23% of the total number of votes. Before the disposal, TFI PZU Funds held 8,412,562 shares in the Company, representing 10.27% of the share capital of the Company.
- On 14 November 2017, Kernel Holding S.A. received a notification from Cascade Investment Fund about the increase of its holdings in the Company's shares above 5% if the total number of votes on General Meeting of Shareholders. As of 10 November 2017, Cascade Investment Fund held 5,397,453 shares in the Company, representing 6.59% of the share capital and entitling it to 5,397,453 votes at the Company's General Meeting of Shareholders, equal to 6.59% of the total number of votes.
- On 11 December 2017, the annual General Meeting of Shareholders approved a dividend payout of US\$ 0.25 per share for the year ended 30 June 2017. The Board of Directors set record and payment dates for the dividend 19 April 2018 and 26 April 2018, respectively.
- On 11 December 2017, the annual General Meeting of Shareholders approved the appointment of Mr. Yevgen Osypov as a new director of the Company and acknowledged the termination of the mandate of Mr. Kostiantyn Lytvynskyi as director of the Board of Directors of the Company.

US\$ million except ratios and EPS	Q2 FY2017	Q1 FY2018	Q2 FY2018	y-o-y	q-o-q	H1 FY2017	H1 FY2018	y-o-y
P&L highlights								
Revenue	659.3	536.1	536.1	(18.7%)	(0.0%)	1,043.3	1,072.2	2.8%
EBITDA ¹	129.8	46.0	77.1	(40.6%)	67.7%	202.2	123.1	(39.2%)
Profit attributable to equity holders of Kernel Holding S.A.	95.4	22.8	67.0	(29.7%)	2.9x	159.5	89.8	(43.7%)
EBITDA margin	19.7%	8.6%	14.4%	(5.3pp)	5.8pp	19.4%	11.5%	(7.9pp)
Net margin	14.5%	4.3%	12.5%	(2.0pp)	8.2pp	15.3%	8.4%	(6.9pp)
EPS ² , US\$	1.19	0.28	0.82	(31.6%)	2.9x	2.00	1.10	(45.1%)
Cash flow highlights								
Operating profit before working capital changes	129.0	38.4	80.7	(37.4%)	2.1x	170.3	116.5	(31.6%)
Change in working capital	(305.0)	62.2	(260.6)	(14.6%)	n/a	(359.4)	(202.3)	(43.7%)
Cash generated from operations	(176.1)	100.5	(179.9)	2.2%	n/a	(189.1)	(85.8)	(54.6%)
Net cash provided by / (used in) operating activities	(187.9)	74.9	(187.5)	(0.2%)	n/a	(217.6)	(119.0)	(45.3%)
Net cash used in investing activities	(37.6)	(75.1)	8.8	n/a	n/a	(50.4)	(71.6)	42.0%
Liquidity and credit metrics								
Net interest-bearing debt	554.1	506.3	697.9	25.9%	37.9%	554.1	697.9	25.9%
Readily marketable inventories	571.5	395.7	690.5	20.8%	74.5%	571.5	690.5	20.8%
Adjusted net debt ³	(17.4)	110.6	7.4	n/a	(93.3%)	(17.4)	7.4	n/a
Shareholders' equity	1,088.8	1,151.5	1,134.9	4.2%	(1.4%)	1,088.8	1,134.9	4.2%
Net debt/EBITDA ⁴	1.6x	1.7x	2.9x	1.3x	1.2x	1.6x	2.9x	1.3x
Adjusted net debt ³ /EBITDA ⁴	(0.1x)	0.4x	0.0x	0.1x	(0.3x)	(0.1x)	0.0x	0.1x
EBITDA/Interest ⁵	6.3x	4.4x	3.5x	(2.8x)	(0.8x)	6.3x	3.5x	(2.8x)

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

² EPS is measured in US Dollars per share based on 81.9 million shares for Q1 and Q2 FY2018 and 79.8 million shares for Q2 FY2017, 79.8 million shares in H1 FY2017 and 81.9 million shares in H1 FY2018

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

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

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

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 2017

Segment results summary

US\$ million except ratios and EPS	Revenue, US\$ million			EBITDA, US\$ million			Volumes, thousand tons ¹			EBITDA margin, US\$ / t ²		
	Q2 FY2017	Q2 FY2018	y-o-y	Q2 FY2017	Q2 FY2018	y-o-y	Q2 FY2017	Q2 FY2018	y-o-y	Q2 FY2017	Q2 FY2018	y-o-y
Sunflower oil												
Sunflower oil sold in bulk	331.4	274.3	(17.2%)	29.6	17.5	(40.8%)	341.1	269.1	(21.1%)	86.7	65.1	(24.9%)
Bottled sunflower oil	37.2	29.9	(19.6%)	5.2	3.1	(40.9%)	36.2	27.0	(25.5%)	144.4	114.4	(20.8%)
	368.6	304.2	(17.5%)	34.8	20.6	(40.8%)						
Grain and infrastructure												
Grain	277.1	213.9	(22.8%)	11.0	8.3	(24.7%)	1,531.9	1,181.2	(22.9%)	7.2	7.0	(2.4%)
Export terminals ³	16.4	14.2	(13.5%)	13.5	10.2	(24.3%)	1,245.2	1,125.0	(9.6%)	10.8	9.1	(16.2%)
Silo services	32.2	44.3	37.6%	23.0	29.8	29.7%	1,513.1	1,678.9	11.0%	15.2	17.8	16.9%
	325.7	272.9	(16.4%)	47.5	48.3	1.7%						
Farming	145.8	198.7	36.3%	54.5	18.4	(66.2%)						
Unallocated corporate expenses				(7.0)	(10.3)	47.7%						
Reconciliation	(180.8)	(239.3)	32.4%									
Total	659.3	536.1	(18.7%)	129.8	77.1	(40.6%)						

US\$ million except ratios and EPS	Revenue, US\$ million			EBITDA, US\$ million			Volumes, thousand tons ¹			EBITDA margin, US\$ / t ²		
	H1 FY2017	H1 FY2018	y-o-y	H1 FY2017	H1 FY2018	y-o-y	H1 FY2017	H1 FY2018	y-o-y	H1 FY2017	H1 FY2018	y-o-y
Sunflower oil												
Sunflower oil sold in bulk	483.6	608.6	25.8%	40.2	34.3	(14.5%)	508.4	661.9	30.2%	79.0	51.9	(34.4%)
Bottled sunflower oil	60.5	65.5	8.2%	7.2	7.3	1.3%	57.6	59.6	3.6%	124.8	122.0	(2.3%)
	544.2	674.1	23.9%	47.4	41.6	(12.1%)						
Grain and infrastructure												
Grain trading	476.8	363.1	(23.8%)	15.3	9.8	(36.2%)	2,712.8	1,985.9	(26.8%)	5.7	4.9	(12.8%)
Export terminals ³	28.9	25.6	(11.3%)	24.0	18.8	(21.7%)	2,164.9	1,962.3	(9.4%)	11.1	9.6	(13.6%)
Silo services	42.7	56.9	33.2%	30.1	38.0	26.1%	2,931.7	3,070.9	4.7%	10.3	12.4	20.4%
	548.4	445.6	(18.7%)	69.5	66.6	(4.2%)						
Farming	187.7	267.0	42.3%	101.4	34.9	(65.6%)						
Unallocated corporate expenses				(16.0)	(20.0)	25.3%						
Reconciliation	(236.9)	(314.6)	32.8%									
Total	1,043.3	1,072.2	2.8%	202.2	123.1	(39.2%)						

¹ Million liters for bottled sunflower oil

² US\$ per thousand of liters for bottled sunflower oil

³ Excluding Taman. Earnings from the joint venture are accounted for below EBITDA. Differences are possible due to rounding

Sunflower oil sold in bulk

- Despite intense competition for sunflower seeds, we managed to operate our crushing plants at full capacity utilization, **processing 911 thousand tons** of sunflower seeds in Q2 FY2018, flat y-o-y, and progressing on our target to crush 3.2 million tons of sunflower seeds in FY2018.
- Term structure of our sunflower oil forward selling contracts this season is skewed towards Q3-Q4 FY2018, and therefore we reported a 21% y-o-y decline in **volumes of sunflower oil sold in bulk** in Q2 FY2018. The major part of inventories accumulated over the quarter was presold as of 31 December 2017.
- As a new sunflower harvest came to the market, **crushing margin** demonstrated a recovery to 65 US\$ per ton of oil sold in bulk in Q2 FY2018, exceeding the levels of the two previous quarters, though still below by 25% y-o-y. Typically, October-December is a buyer's market as crop pressure translates into abundant oilseed supply following the completion of the harvesting campaign, while it gradually turns into a seller's market thereafter, sharpening the competition among processors. We expect a

weak margin environment to prevail until new crop arrives in the autumn of 2018, therefore we maintain our initial guidance of around 50 US\$/t of EBITDA margin for the full FY2018.

- Consequently, **EBITDA contribution** of bulk oil division stood at US\$ 17.5 million, down 41% y-o-y.

Bottled sunflower oil

- Bottled sunflower oil sales** in Q2 FY2018 declined by 25.5% y-o-y, to 27 million liters, primarily due to the expiration of a large one-year contract with one of our international customers. We do not expect to enter a similar contract in the foreseeable future to offset the bottled oil sale volumes contraction.
- EBITDA margin in bottling business mirrored the performance of bulk oil segment, squeezing to 114 US\$ per thousand liters, a 21% decline y-o-y.
- Given both volume and margin tightening, total segment EBITDA in Q2 FY2018 declined by 41% y-o-y, to US\$ 3 million.

Management Discussion and Analysis

for the three and six months ended 31 December 2017

Grain marketing

- Volume of **grains exported from Ukraine** in Q2 FY2018 was marginally flat, down 1.4% y-o-y, overperforming the total country dynamics reflected by a significant slowdown of grain export due to lower crop harvest and delayed harvesting campaign. **Shipments from Russia** were negligibly small, as we assigned a sizable portion of our FY2018 transshipment quota entitlement in Taman terminal to a third party, securing budgeted level of earnings from Russian operations for FY2018. Owing to negligible contributions from Russia, our total grain export volumes in Q2 FY2018 declined by 23% y-o-y, to 1.2 million tons. Accordingly, grain marketing segment margin reached 7 US\$ / t on EBITDA level in Q2 FY2018, nearly flat y-o-y.
- Overall, **grain segment EBITDA** totaled to US\$ 8.3 million, down 25% y-o-y. Grain segment EBITDA includes proceeds from assignment of Taman grain quota to third party and net result from Avere trading operations.

Export terminals and silo services

- Export terminal throughput** in Q2 FY2018 declined 9.6% y-o-y, partially due to the execution of investment project in our Transbulkterminal.
- Export terminal EBITDA** margin declined by 16% y-o-y, to 9.1 US\$ / t. As a result, total EBITDA declined to US\$ 10.2 million, minus 24% y-o-y.
- Following debottlenecking and silo network expansion, our **grain in-take volumes** in Q2 FY2017 increased to 1.7 million tons, up 11% y-o-y.
- EBITDA margin** of our **silo business** reached 17.8 US\$ / t, up 17% y-o-y. Similarly to a year ago, a rainy harvesting campaign resulted in extra earnings generated from grain drying services. Therefore, silo services generated healthy US\$ 29.8 million EBITDA in 2Q FY2018, 30% up y-o-y.

Farming

- Total net tonnage of the five key crops harvested by Kernel increased by 18% y-o-y, as a decline in Company's crop yields was more than compensated for by the land bank expansion in summer 2017. Crop yields on Kernel's initial lands (prior to expansion) are far above the country averages, and we are working at full speed to replicate our production technology on the newly acquired land bank.
- Segment's EBITDA margin** in H1 FY2018 declined by 41 percentage points y-o-y, to 13% of sales, explained mostly by the decline in yields and the elimination of VAT benefit – a direct cash subsidy to farmers in Ukraine, which was cancelled on 1 January 2017.
- Total **farming EBITDA** in H1 FY2018 declined by US\$ 67 million, to US\$ 35 million. We maintain our guidance of US\$ 85 million farming segment EBITDA (prior to IAS41 effect) for the full year.
- Following the decline in crop yields, **IAS 41 effect** (net change in the fair value of biological assets and agricultural produce) resulted in a gain of US\$ 3.8 million in H1 FY2018, as compared to a gain of US\$ 35.1 million for the same period a year ago.
- Following the expected land bank optimization and disposal of suboptimal lands, the **area under cultivation** for the 2018 harvest is planned to be over 560 thousand hectares, with 108 thousands hectares of winter crops already sown in autumn 2017, and the balance to be planted with spring crops in April - May 2018 or left as fallow land for agricultural purposes.
- Warm and snowless weather in November-December 2017 extended the winter crop vegetation period. As of mid-February 2018, a much larger share of acreage under **winter crops is in the optimal conditions** to end up the hibernation period, compared to the same period a year ago. Out of 108 thousand hectares of winter crops, 75-85% of winter crop acreage is in good condition, 20-25% is in satisfactory conditions, with quite limited risks of crop losses.

Harvest results

Financial year	Harvested area, thousand hectares			Net crop yields, tons / hectare ¹			Net tonnage, thousand tons		
	2017	2018	y-o-y	2017	2018	y-o-y	2017	2018	y-o-y
Calendar year	2016	2017		2016	2017		2016	2017	
Combined farmland									
Corn	138.6	201.8	45.6%	8.9	6.7	(24.2%)	1,230.7	1,358.3	10.4%
Wheat	81.9	145.7	77.9%	5.8	4.8	(17.1%)	479.0	706.5	47.5%
Sunflower	81.3	133.6	64.3%	3.0	2.3	(22.9%)	242.8	307.4	26.6%
Soybean	58.0	64.8	11.7%	2.7	1.8	(35.6%)	158.6	114.2	(28.0%)
Rapeseed	2.6	7.0	2.6x	3.0	3.4	14.3%	7.9	24.0	3.0x
Other ²	22.8	40.5	77.6%						
Total	385.3	593.5	54.0%				2,119.1	2,510.4	18.5%

Kernel's old landbank prior to acquisitions

Corn	138.6	139.1	0.3%	8.9	7.3	(17.7%)	1,230.7	1,016.6	(17.4%)
Wheat	81.9	82.3	0.4%	5.8	5.4	(8.5%)	479.0	440.2	(8.1%)
Sunflower	81.3	80.6	(0.9%)	3.0	2.7	(10.7%)	242.8	214.9	(11.5%)
Soybean	58.0	43.5	(25.1%)	2.7	1.9	(29.7%)	158.6	83.6	(47.3%)
Rapeseed	2.6	7.0	2.6x	3.0	3.4	14.3%	7.9	24.0	3.0x
Other ²	22.8	27.9	22.2%						
Total	385.3	380.3	(1.3%)				2,119.1	1,779.3	(16.0%)

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

² Includes barley, rye, pea, sugar beets, buckwheat, forage crops, and land left fallow for crop rotation purposes.

Management Discussion and Analysis

for the three and six months ended 31 December 2017

Income statement highlights

- **Revenue** reduced 18.7% y-o-y to US\$ 536 million in Q2 FY2018, stemming from a shift of sunflower oil sales from Q2 to Q3 caused by changes in term structure of our contractual demand and a decline of grain trading topline caused by negligible sales from Russia following the sale of Taman transshipment quota to a third party.
- The net change in fair value of biological assets and agricultural produce (**IAS 41 effect**) contributed by US\$ 1 million gain in Q2 FY2018, a 43% decline y-o-y. At the same time, on the semi-annual basis, contribution from IAS 41 effect is almost 10 times lower in H1 FY2018 compared to H1 FY2017, reflecting a decline in crop yields in the current season.
- Following the sluggish performance of our crushing and farming businesses this season, **gross profit** of the Company declined 39% y-o-y, to US\$ 96 million.
- **Net other operating income** in Q2 FY2018 declined by 35% y-o-y, to US\$ 13.8 million, primarily owing to the elimination of VAT benefits (subsidies) for farmers in Ukraine, being effective since 1 January 2017.
- **Distribution costs** reduced by one-third due to segment-wise reduction of sales volumes, reaching US\$ 33 million. As a percentage of revenues, distribution costs reduced from 7.5% in Q2 FY2017 to 6.2% in Q2 FY2018.
- **General and administrative expenses** grew to US\$ 20 million, primarily driven by the expansion of our farming division (expected to be rationalized following the completion of new land bank integration processes) and Avere operations.
- As a result, **operating profit** totaled to US\$ 56 million, as compared to US\$ 116 million generated in Q2 FY2017.
- Company's **net finance costs** grew by 8.2% y-o-y, reaching US\$ 16 million in Q2 FY2018, consisting mainly of Eurobond coupons and costs associated with pre-export credit facility servicing.
- **Net foreign exchange gain** in October-December 2017 totaled to US\$ 30 million, mostly reflecting non-cash gains recognized after revaluing intra-group balances in local currency.

- **Other non-operating expenses** amounted to US\$ 5 million, consisting of impairment of intangible assets and goodwill, as well as expenses due to reassessment of gain on bargain purchase (acquisition of farming enterprises in summer 2017).

- To summarize, **net profit attributable to shareholders** of Kernel Holding S.A. reached US\$ 67 million, down 30% y-o-y.

Cash flow highlights

- Being affected purely by the same factors as our EBITDA, Kernel's **operating profit before working capital changes** in Q2 FY2017 reduced 39% y-o-y, to US\$ 78 million.
- **Changes in working capital** in October-December 2017 translated into US\$ 264 million cash outflow, down 13% y-o-y, as US\$ 75 million increase in our inventories and biological assets was more than offset by optimization of our receivables and prepayments management and by US\$ 62 million less funds frozen as balance of taxes recoverable and prepaid as of 31 December 2017 compared with the same date a year ago.
- As a result, **net cash outflow from operating activities** in Q2 FY2018 was virtually the same as a year ago, amounting to US\$ 194 million.
- **Net cash generated by investing activities** in Q2 FY2018 stood at US\$ 3.5 million dollars, as amounts advanced for subsidiaries (mainly prepayments for planned suboptimal land disposals) exceeded our investments into PP&E, intangibles and other non-current assets, as well as payments to acquire financial assets
- Having the need to finance our seasonal working capital accumulation, we increased the utilization of our pre-export and trade financing facilities, with **net cash provided by financing activities** reaching US\$ 182 million.

Credit metrics highlights

- As expected for this part of the season, net debt as of 31 December 2017 surged by 26% y-o-y, to US\$ 698 million. The change reflects the higher working capital financing, needed for accumulating the inventories following the completion of the harvesting campaign. Net debt was 99% covered by the readily-marketable inventories such as corn, wheat, sunflower oil and seeds etc., which could be easily converted into cash.

Credit metrics

US\$ million, except ratios	31 Dec 2016	30 Sep 2017	31 Dec 2017	y-o-y	q-o-q
Gross interest-bearing debt	623.0	623.1	855.4	37.3%	37.3%
Cash	68.9	116.8	157.5	128.6%	34.8%
Net interest-bearing debt	554.1	506.3	697.9	25.9%	37.9%
Readily marketable inventories	571.5	395.7	690.5	20.8%	74.5%
Adjusted net financial debt	(17.4)	110.6	7.4	n/a	(93.3%)
Shareholders' equity	1,088.8	1,151.5	1,134.9	4.2%	(1.4%)
Net debt / EBITDA	1.6x	1.7x	2.9x	1.3x	1.2x
Adjusted net debt / EBITDA	(0.1x)	0.4x	0.0x	0.1x	(0.3x)
EBITDA / Interest	6.3x	4.4x	3.5x	(2.8x)	(0.8x)

Principal Risks and Uncertainties

for the six months ended 31 December 2017

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

Industry-wide risks:

- Country harvest level
- Agricultural commodities price volatility

Operational risks:

- Maintenance of the land usage rights and the size of the land bank
- Late harvesting
- Integration of newly acquired companies
- Fraud and fraudulent activities
- Inventory safety

Business continuity risks:

- Information security risks
- Sustainability concerns
- Compliance with environmental standards

For a detailed disclosure of the possible impact of each of the key risks and our management approach, please refer to pages 54-57 of the annual report for the year ended 30 June 2017, 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 2017

On 5 July 2017, one of Kernel's subsidiaries completed an acquisition of 100% interest in a farming business that managed more than 27,500 hectares of leasehold farmland and over 170,000 tons of grain storage capacity. Total consideration of US\$ 46.5 million had been paid in cash for the 100% interest in the business, which had a positive net working capital less net debt in excess of US\$ 13.1 million.

On 11 October 2017, Kernel declared the intentions to construct an oil-seed crushing plant in Western Ukraine, with installed processing capacity of 1 million tons of sunflower seeds per year and investments of around US\$ 130 million.

On 18 October 2017, Kernel reported that as of 16 October 2017, the Company had entered into pre-export credit facility with a syndicate of European banks. The three-year secured revolving facility with a limit of US\$ 200 million will be used by the Company to fund the working capital needs of its sunflower oil production business in Ukraine.

On 11 December 2017, 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 2017.
- To approve in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2017, with a resulting consolidated net profit attributable to equity holders of the Company of one hundred seventy-six million two hundred and forty-three thousand US dollars (US\$ 176,243,000.-).
- To approve in their entirety the annual accounts (unconsolidated) of the Kernel Holding S.A. for the financial year ended on 30 June 2017, with a resulting net profit for Kernel Holding S.A. as parent company of the Kernel Holding S.A. group of six million seven hundred sixty-five thousand four hundred and forty-two US dollars and twenty-nine cents (US\$ 6,765,442.29).
- 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 six million seven hundred sixty-five thousand four hundred and forty-two US dollars and twenty-nine cents (US\$ 6,765,442.29) and (ii) after allocation to the legal reserve of the Company, to declare a dividend at twenty-five cents per ordinary share (US\$ 0.25) for the financial year ended on 30 June 2017. The General Meeting of Shareholders 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 2017.
- To renew the mandates of directors Mr. Andrzej Danilczuk, Mrs. Nathalie Bachich, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mrs. Viktoriia Lukianenko, Mr. Yuriy Kovalchuk for a one-year term ending on the date of the General Meeting of Shareholders to be held in 2018.
- Not to renew the mandate and to grant discharge to Mr. Kostiantyn Lytvynskyi for the exercise of his duties during the year 2017 with immediate effect.
- To appoint as a new director of the Company Mr. Yevgen Osypov born on 14th May 1976 in Kyiv, Ukraine, for a one-year term mandate, which shall terminate on the date of the General Meeting of Shareholders to be held in 2018.
- 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 2018, for a total gross annual amount of two hundred sixty thousand US dollars (US\$ 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 2018, for a total gross annual amount of two hundred forty thousand US dollars (US\$ 240,000.-) including two hundred thousand US dollars (US\$ 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 2017.
- 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 2018.

Alternative Performance Measures

for the three and six months ended 31 December 2017

To comply with ESMA Directive on APMs, Kernel Holding S.A. (hereinafter the "Company") and its subsidiaries (hereinafter the "Group") 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 used by securities analysts, investors and other interested parties in evaluating 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 before income tax adding back share of (loss)/gain of joint ventures, net other (expenses)/income, net foreign exchange gain, 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 measures, to the exclusion of external factors unrelated to their performance.

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 of 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 significantly 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 the 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 core operations.

The following table reconciles profit before income tax to EBITDA for the periods indicated:

in thousand US\$	3 months ended 31 December 2016	3 months ended 31 December 2017	6 months ended 31 December 2016	6 months ended 31 December 2017
Profit before income tax	100,063	64,947	168,004	82,609
<i>add back:</i>				
Financial costs, net	(14,703)	(15,908)	(25,891)	(31,923)
Foreign exchange gain, net	1,002	29,886	16,093	37,294
Other (expenses)/income, net	(2)	(4,980)	5,495	(2,993)
Share of (loss)/gain of joint venture	(2,316)	69	(2,318)	(432)
Amortization and depreciation	(13,751)	(21,208)	(27,610)	(42,396)
EBITDA	129,833	77,088	202,235	123,059

Alternative Performance Measures

for the three and six months ended 31 December 2017

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 borrowings, current portion of long-term borrowings, current portion of obligations under finance lease and interest on bonds issued).

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, less purchase of financial assets and less payments to acquire financial assets.

Investing Cash Flows

The Group uses investing cash flows as a measure of its expenditures on investments and which is defined as net cash used in investing activities less purchase of property, plant and equipment, less proceeds from disposal of property, plant and equipment.

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

in thousand US\$	As of 31 December 2016	As of 31 December 2017
Total current assets	1,155,051	1,322,687
<i>less:</i>		
Cash and cash equivalents	68,906	157,494
Total current liabilities	721,506	515,751
<i>add back:</i>		
Short-term borrowings	492,867	329,351
Current portion of long-term borrowings	76,460	2,794
Current portion of obligations under finance lease	3,865	2,173
Interest on bonds issued	—	17,949
Working capital	937,831	1,001,709

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

in thousand US\$	3 months ended 31 December 2016	3 months ended 31 December 2017	6 months ended 31 December 2016	6 months ended 31 December 2017
Net cash used in investing activities	(37,567)	3,509	(50,441)	(71,621)
<i>less:</i>				
Purchase of intangible and other non-current assets	(208)	(2,652)	(397)	(3,733)
Disposal of subsidiaries	1,045	—	2,439	1,404
Acquisition of subsidiaries	(2,962)	—	—	(46,512)
Amounts advanced for subsidiaries	5,273	17,002	5,273	19,504
(Purchases) / sale of financial assets	(36,324)	6,981	(36,324)	(8,045)
Payment to acquire financial assets	—	(10,000)	—	(10,000)
Fixed assets investments	(4,391)	(7,822)	(21,432)	(24,239)

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

in thousand US\$	3 months ended 31 December 2016	3 months ended 31 December 2017	6 months ended 31 December 2016	6 months ended 31 December 2017
Net cash used in investing activities	(37,567)	3,509	(50,441)	(71,621)
<i>less:</i>				
Purchase of property, plant and equipment	(5,029)	(8,326)	(22,504)	(25,786)
Proceeds from disposal of property, plant and equipment	638	504	1,072	1,547
Investing cash flows	(33,176)	11,331	(29,009)	(47,382)

Alternative Performance Measures

for the three and six months ended 31 December 2017

Funds from Operations

The Group uses as a measure of the cash generation of its core business operations and which is defined as profit before income tax adding back income, share of (loss)/gain in joint ventures, net other income, 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, 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) before income tax adding back share of (loss)/gain in joint ventures, net other (expenses)/income, net foreign exchange gain, net finance costs, amortization and depreciation, less cash used in investing activities, finance costs paid, income tax paid, changes in working capital, less 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 before income tax to funds from operations for the periods indicated:

in thousand US\$	3 months ended 31 December 2016	3 months ended 31 December 2017	6 months ended 31 December 2016	6 months ended 31 December 2017
Profit before income tax	100,063	64,947	168,004	82,609
<i>add back:</i>				
Financial costs, net	(14,703)	(15,908)	(25,891)	(31,923)
Foreign exchange gain(loss), net	1,002	29,886	16,093	37,294
Other (expenses)/income, net	(2)	(4,980)	5,495	(2,993)
Share of (loss)/gain of joint venture	(2,316)	69	(2,318)	(432)
Amortization and depreciation	(13,751)	(21,208)	(27,610)	(42,396)
EBITDA	129,833	77,088	202,235	123,059
<i>less:</i>				
Purchase of property, plant and equipment	(5,029)	(8,326)	(22,504)	(25,786)
Proceeds from disposal of property, plant and equipment	638	504	1,072	1,547
Finance costs paid	(11,553)	(7,126)	(25,429)	(29,571)
Income tax paid	(255)	(468)	(3,129)	(3,647)
Movement in allowance for doubtful receivables	345	412	2,685	465
Net change in fair value of biological assets and agriproduce	(1,682)	(961)	(35,065)	(3,768)
Net non-realizable foreign exchange loss/(gain)	739	2,826	819	1,278
Other accruals	713	2,845	1,250	3,701
Other	(989)	(4,073)	(1,579)	(8,240)
Funds from operations	112,760	62,721	120,355	59,038

The following table reconciles profit before income tax to free cash flows for the periods indicated:

in thousand US\$	3 months ended 31 December 2016	3 months ended 31 December 2017	6 months ended 31 December 2016	6 months ended 31 December 2017
Profit before income tax	100,063	64,947	168,004	82,609
<i>add back:</i>				
Financial costs, net	(14,703)	(15,908)	(25,891)	(31,923)
Foreign exchange gain(loss), net	1,002	29,886	16,093	37,294
Other (expenses)/income, net	(2)	(4,980)	5,495	(2,993)
Share of (loss)/gain of joint venture	(2,316)	69	(2,318)	(432)
Amortization and depreciation	(13,751)	(21,208)	(27,610)	(42,396)
EBITDA	129,833	77,088	202,235	123,059
<i>less:</i>				
Net cash used in investing activities	(37,567)	3,509	(50,441)	(71,621)
Changes in working capital	(305,036)	(264,482)	(359,406)	(202,313)
Finance costs paid	(11,553)	(7,126)	(25,429)	(29,571)
Income tax paid	(255)	(468)	(3,129)	(3,647)
Movement in allowance for doubtful receivables	345	412	2,685	465
Net change in fair value of biological assets and agriproduce	(1,682)	(961)	(35,065)	(3,768)
Net non-realizable foreign exchange loss/(gain)	739	2,826	819	1,278
Other accruals	713	2,845	1,250	3,701
Other	(989)	(4,073)	(1,579)	(8,240)
Free cash flows	(225,452)	(190,430)	(268,060)	(190,657)

Alternative Performance Measures

for the three and six months ended 31 December 2017

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 markets 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, bonds issued 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:

in thousand US\$	As of 31 December 2016	As of 31 December 2017
Sunflower oil & meal	121,362	177,065
Sunflower seed	219,249	298,571
Grains	230,857	214,090
Other	44,628	79,121
Total	616,096	768,847
<i>of which: Readily marketable inventories</i>	<i>571,512</i>	<i>690,497</i>

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

in thousand US\$	As of 31 December 2016	As of 31 December 2017
Short-term interest-bearing debt	569,327	350,094
Long-term interest-bearing debt	46,177	4,189
Bonds issued	—	494,391
Obligations under finance lease	7,544	6,758
Gross interest-bearing debt	623,048	855,432
less: cash and cash equivalents	68,906	157,494
Net interest-bearing debt	554,142	697,938
less: readily marketable inventories	571,512	690,497
Adjusted net financial debt	(17,370)	7,441

Management Statement

for the three and six months ended 31 December 2017

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 2017, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial reporting' (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 2017, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

26 February 2018

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 2017

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 2017;
- 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 2017;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

26 February 2018

On behalf of the Board

Andriy Verevskyy

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Kernel Holding S.A. as of 31 December 2017, 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 2017 ("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 2017 and 2016, were not audited or reviewed by us and accordingly we do not express any other form of assurance on it.

For Deloitte Audit, *Cabinet de révision agréé*

PP



Sophie Mitchell, *Réviser d'entreprises agréé*
Partner

27 February 2018

Condensed Consolidated Interim Financial Statements

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Selected Financial Data

for the six months ended 31 December 2017 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
I. Revenue	1,072,165	1,043,344	3,869,765	4,144,893	911,555	951,008
II. Profit from operating activities	80,663	174,625	291,137	693,733	68,580	159,171
III. Profit before income tax	82,609	168,004	298,161	667,429	70,234	153,136
IV. Profit for the period from continuing operations	90,191	161,298	325,526	640,789	76,680	147,023
V. Net cash used in operating activities	(119,036)	(217,619)	(472,894)	(864,535)	(101,205)	(198,360)
VI. Net cash used in investing activities	(71,621)	(50,441)	(284,529)	(200,387)	(60,892)	(45,977)
VII. Net cash generated by financing activities	190,990	272,396	758,746	1,082,148	162,380	248,289
VIII. Total net cash flow	333	4,336	1,323	17,226	283	3,952
IX. Total assets	2,210,414	1,920,548	7,695,115	8,026,547	1,845,032	1,814,342
X. Current liabilities	515,751	721,506	1,795,484	3,015,390	430,497	681,607
XI. Non-current liabilities	556,033	107,070	1,935,718	447,478	464,121	101,149
XII. Issued capital	2,164	2,131	7,534	8,906	1,806	2,013
XIII. Total equity	1,138,630	1,091,972	3,963,913	4,563,679	950,414	1,031,586
XIV. Number of shares	81,941,230	80,701,230	81,941,230	80,701,230	81,941,230	80,701,230
XV. Profit per ordinary share (in USD/PLN/EUR)	1.10	2.00	3.96	7.94	0.93	1.82
XVI. Diluted number of shares	82,776,896	82,011,841	82,776,896	82,011,841	82,776,896	82,011,841
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	1.09	1.94	3.92	7.73	0.92	1.77
XVIII. Book value per share (in USD/PLN/EUR)	13.85	13.49	48.22	56.38	11.56	12.74
XIX. Diluted book value per share (in USD/PLN/EUR)	13.71	13.28	47.73	55.50	11.44	12.55

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Assets				
Current assets				
Cash and cash equivalents	6	157,494	143,392	68,906
Trade accounts receivable, net	7	117,974	87,192	125,426
Prepayments to suppliers and other current assets, net	25	75,062	82,701	81,248
Corporate income tax prepaid	24	9,057	8,198	6,519
Taxes recoverable and prepaid, net	8	127,162	135,257	199,636
Inventory	9	768,847	386,660	616,096
Biological assets	10	32,673	256,247	27,970
Other financial assets	27	34,418	21,041	29,250
Total current assets		1,322,687	1,120,688	1,155,051
Non-current assets				
Property, plant and equipment, net	11	577,091	569,714	522,626
Intangible assets, net	12	106,799	104,861	31,512
Goodwill	13	110,465	114,110	120,124
Investments in joint ventures	14	50,593	51,025	49,846
Deferred tax assets		13,222	11,924	12,817
Corporate income tax prepaid	24	5,291	5,028	11,455
Other non-current assets	25	24,266	31,733	17,117
Total non-current assets		887,727	888,395	765,497
Total assets		2,210,414	2,009,083	1,920,548
Liabilities and equity				
Current liabilities				
Trade accounts payable	25	41,435	52,776	41,685
Advances from customers and other current liabilities	25	120,459	88,665	110,494
Short-term borrowings	15	329,351	131,679	492,867
Current portion of long-term borrowings	16	2,794	2,782	76,460
Interest on bonds issued	17	17,949	17,949	—
Other financial liabilities		3,763	—	—
Total current liabilities		515,751	293,851	721,506
Non-current liabilities				
Long-term borrowings	16	4,189	5,562	46,177
Obligations under finance leases		4,585	2,902	3,679
Deferred tax liabilities		20,477	24,865	18,897
Bonds issued	17	494,391	493,648	—
Other non-current liabilities	25	32,391	30,646	38,317
Total non-current liabilities		556,033	557,623	107,070
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital	2	2,164	2,164	2,131
Share premium reserve		481,878	481,878	471,796
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve	2	6,639	7,014	7,315
Revaluation reserve		43,815	43,815	43,815
Translation reserve		(796,468)	(707,458)	(745,002)
Retained earnings		1,356,963	1,285,671	1,268,767
Total equity attributable to Kernel Holding S.A. equity holders		1,134,935	1,153,028	1,088,766
Non-controlling interests		3,695	4,581	3,206
Total equity		1,138,630	1,157,609	1,091,972
Total liabilities and equity		2,210,414	2,009,083	1,920,548
Book value		1,134,935	1,153,028	1,088,766
Number of shares	2	81,941,230	80,338,776	80,701,230
Book value per share (in USD)		13.85	14.35	13.49
Diluted number of shares		82,776,896	82,407,733	82,011,841
Diluted book value per share (in USD)		13.71	13.99	13.28

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 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2017	3 months ended 31 December 2017	6 months ended 31 December 2016	3 months ended 31 December 2016
Revenue	18	1,072,165	536,071	1,043,344	659,281
Net change in fair value of biological assets and agricultural produce	10	3,768	961	35,065	1,682
Cost of sales	19	(914,126)	(441,258)	(826,617)	(503,826)
Gross profit		161,807	95,774	251,792	157,137
Other operating income, net	20	19,448	13,765	30,708	21,044
Operating expenses					
Distribution costs	21, 25	(62,013)	(33,398)	(81,195)	(49,271)
General and administrative expenses	22, 25	(38,579)	(20,261)	(26,680)	(12,828)
Profit from operating activities		80,663	55,880	174,625	116,082
Finance costs, net	25	(31,923)	(15,908)	(25,891)	(14,703)
Foreign exchange gain, net	23	37,294	29,886	16,093	1,002
Other (expenses)/income, net	25	(2,993)	(4,980)	5,495	(2)
Share of (loss)/gain of joint ventures	14	(432)	69	(2,318)	(2,316)
Profit before income tax		82,609	64,947	168,004	100,063
Income tax benefits/(expenses)	24	7,582	2,425	(6,706)	(3,031)
Profit for the period from continuing operations		90,191	67,372	161,298	97,032
Profit for the period attributable to:					
Equity holders of Kernel Holding S.A.		89,816	66,998	159,502	95,364
Non-controlling interests		375	374	1,796	1,668
Earnings per share					
From continuing and discontinued operations					
Weighted average number of shares		81,941,230	81,941,230	79,832,764	79,982,118
Profit per ordinary share (in USD)		1.10	0.82	2.00	1.19
Diluted number of shares		82,776,896	82,650,622	82,011,841	82,124,488
Diluted profit per ordinary share (in USD)		1.09	0.81	1.94	1.16
From continuing operations					
Weighted average number of shares		81,941,230	81,941,230	79,832,764	79,982,118
Profit per ordinary share (in USD)		1.10	0.82	2.00	1.19
Diluted number of shares		82,776,896	82,650,622	82,011,841	82,124,488
Diluted profit per ordinary share (in USD)		1.09	0.81	1.94	1.16

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 2017 (in thousands of US dollars, unless otherwise stated)

	6 months ended 31 December 2017	3 months ended 31 December 2017	6 months ended 31 December 2016	3 months ended 31 December 2016
Profit for the period	90,191	67,372	161,298	97,032
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(89,493)	(64,735)	(53,433)	(22,995)
Other comprehensive loss, net	(89,493)	(64,735)	(53,433)	(22,995)
Total comprehensive income for the period	698	2,637	107,865	74,037
Total comprehensive income/(loss) attributable to:				
Equity holders of Kernel Holding S.A.	806	2,654	106,385	72,519
Non-controlling interests	(108)	(17)	1,480	1,518

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the six months ended 31 December 2017 (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 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)
Issue of ordinary shares under employee share option plan	27	7,917	—	733	—	—	(1,450)	7,227	—	7,227
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
Profit for the period	—	—	—	—	—	—	16,741	16,741	564	17,305
Other comprehensive income	—	—	—	—	—	37,544	—	37,544	183	37,727
Total comprehensive income for the period	—	—	—	—	—	37,544	16,741	54,285	747	55,032
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(197)	(197)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	825	825
Issue of ordinary shares under employee share option plan	33	10,082	—	(301)	—	—	163	9,977	—	9,977
Balance as of 30 June 2017	2,164	481,878	39,944	7,014	43,815	(707,458)	1,285,671	1,153,028	4,581	1,157,609
Profit for the period	—	—	—	—	—	—	89,816	89,816	375	90,191
Other comprehensive loss	—	—	—	—	—	(89,010)	—	(89,010)	(483)	(89,493)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(89,010)	89,816	806	(108)	698
Distribution of dividends (Note 2)	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Effect of changes in non-controlling interests	—	—	—	—	—	—	778	778	(778)	—
Recognition of share-based payments (Note 2)	—	—	—	(375)	—	—	1,183	808	—	808
Balance as of 31 December 2017	2,164	481,878	39,944	6,639	43,815	(796,468)	1,356,963	1,134,935	3,695	1,138,630

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the six months ended 31 December 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2017	6 months ended 31 December 2016
Operating activities: Profit before income tax		82,609	168,004
Adjustments for:			
Amortization and depreciation		42,396	27,610
Finance costs, net		31,923	25,891
Movement in allowance for doubtful receivables		465	2,685
Other accruals		3,701	1,250
Loss /(Gain) on disposal of property, plant and equipment		1,708	(220)
Net foreign exchange gain		(36,016)	(15,274)
Write-offs and impairment loss	13	2,255	1,830
Net change in fair value of biological assets and agricultural produce	10	(3,768)	(35,065)
Share of loss of joint ventures	14	432	2,318
Gain on sales of Subsidiaries	5	(1,876)	(7,008)
Gain on bargain purchase	5	(2,309)	—
Net gain arising on financial assets classified as held for trading		(1,569)	(1,676)
Other gains		(3,456)	—
Operating profit before working capital changes		116,495	170,345
Changes in working capital:			
Change in trade accounts receivable		(31,321)	(49,919)
Change in prepayments and other current assets		16,864	(20,045)
Change in restricted cash balance		(12,377)	(20)
Change in taxes recoverable and prepaid		1,458	(78,780)
Change in biological assets		219,567	170,124
Change in inventories		(382,296)	(407,376)
Change in trade accounts payable		(13,455)	(268)
Change in advances from customers and other current liabilities		(753)	26,878
Cash used in operations		(85,818)	(189,061)
Finance costs paid		(29,571)	(25,429)
Income tax paid		(3,647)	(3,129)
Net cash used in operating activities		(119,036)	(217,619)
Investing activities:			
Purchase of property, plant and equipment		(25,786)	(22,504)
Proceeds from disposal of property, plant and equipment		1,547	1,072
Purchase of intangible and other non-current assets		(3,733)	(397)
Disposal of subsidiaries		1,404	2,439
Acquisition of subsidiaries		(46,512)	—
Purchases of financial assets		(8,045)	(36,324)
Payment to acquire financial assets		(10,000)	—
Amount advanced for subsidiaries		19,504	5,273
Net cash used in investing activities		(71,621)	(50,441)
Financing activities:			
Proceeds from borrowings		427,561	322,180
Repayment of borrowings		(233,096)	(55,387)
Proceeds from share premium reserve increase		—	6,230
Issued capital		—	27
Net cash generated by financing activities		194,465	273,050
Effect of exchange rate changes on the balance of cash held in foreign currencies		(3,475)	(654)
Net increase in cash and cash equivalents		333	4,336
Cash and cash equivalents, at the beginning of the period	6	87,165	60,269
Cash and cash equivalents, at the end of the period	6	87,498	64,605

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 2017 (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 2017, 30 June 2017 and 31 December 2016, 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 2017	30 June 2017	31 December 2016
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%
Inerco Trade S.A.		Switzerland	100.0%	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC	Trading in sunflower oil, meal and grain.	Ukraine	100.0%	100.0%	100.0%
Avere Commodities SA		Switzerland	60.0% ¹	0.0%	0.0%
Ukragroinvest LLC		Ukraine	100.0%	100.0% ²	0.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC	Oilseed crushing plants. Production of sunflower oil and meal.	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%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC		Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100.0%	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0% ³	0.0%	0.0%
Bilovodskiy KHP PJSC		Ukraine	91.12%	91.12% ²	0.0%
Unigrain-Agro (Semenivka) LLC		Ukraine	100.0%	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%
Vyshneve-Agro ALLC		Ukraine	100.0%	100.0%	100.0%
Prydniprovskiy Kray ALLC ⁴	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	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%
Agro Invest Ukraine LLC		Ukraine	100.0% ³	0.0%	0.0%
Druzhba 6 PE		Ukraine	100.0%	100.0% ²	0.0%
Buymerske PE		Ukraine	100.0%	100.0% ²	0.0%

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 26 February 2018.

¹ The company started its activity in July 2017.

² The company was acquired on 30 June 2017.

³ The company was acquired on 04 July 2017.

⁴ The company was renamed from Palmira ALLC on 26 November 2017.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2017 (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 2017 consisted of 81,941,230 ordinary electronic shares and as of 31 December 2016 80,701,230 ordinary electronic shares without indication of a nominal value, providing 81,941,230 and 80,701,230 voting rights, respectively.

The shares were distributed as follows:

	As of 31 December 2017		As of 31 December 2016	
	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')	32,344,404	39.47%	31,345,878	38.84%
Free float	49,596,826	60.53%	49,355,352	61.16%
Total	81,941,230	100.00%	80,701,230	100.00%

As of 31 December 2017 and 2016, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

As of 31 December 2017, the fair value of the share-based options granted to the management was USD 6,639 thousand and USD 808 thousand was recognized as an expense (part of payroll and payroll related expenses) during the six months ended 31 December 2017, with a corresponding increase in equity over the vesting period (31 December 2016: USD 7,315 thousand and USD 970 thousand, respectively). Decrease in the fair value of the share-based options in the amount of USD 1,183 thousand was recognized as a result of cancellation of share-based options of the dismissed manager of the Company (31 December 2016: USD 237 thousand decrease in the fair value of the share-based options was recognized as a result of exercised share-based options).

On 11 December 2017, the annual General Meeting of Shareholders approved an annual dividend of USD 0.25 per share amounting to USD 20,485 thousand.

On 8 November 2017, the Company received a notification from TFI PZU SA with its registered office in Warsaw, Poland, 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 Dynamiczny, hereinafter referred to as the 'TFI PZU Funds', regarding the disposal of shares in Kernel Holding S.A.

The TFI PZU Funds had disposed 850,000 shares of the Company in transaction on the Warsaw Stock Exchange, settled on 7 November 2017 and decreased its holdings in the Company's shares below 10% of the total number of votes on General Meeting of Shareholders. As of 7 November 2017, TFI PZU Funds held 7,562,562 shares in the Company, representing 9.23% of the share capital and entitling it to 7,562,562 votes at the Company's General Shareholders' Meeting, equal to 9.23% of the total number of votes. Before the disposal, TFI PZU Funds held 8,412,562 shares in the Company, representing 10.27% of the share capital of the Company.

On 10 November 2017 the Company received a notification from Cascade Investment Fund, regarding the acquisition of shares in Kernel Holding S.A. The Cascade Investment Fund held 5,397,453 shares in the Company, representing 6.59% of the share capital and entitling it to 5,397,453 votes at the Company's general shareholders' meeting, equal to 6.59% of the total number of votes.

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 31 December 2017 and 2016, respectively, may not be distributed as dividends.

3. Basis of Presentation of Financial Statements

These Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2017 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 2017.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2017. 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 2017 (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 2017	Average rate for the 6 months ended 31 December 2017	Closing rate as of 30 June 2017	Average rate for the year ended 30 June 2017	Closing rate as of 31 December 2016	Average rate for the 6 months ended 31 December 2016
USD/UAH	28.0672	26.9617	26.0990	26.1919	27.1909	25.6328
USD/EUR	0.8347	0.8491	0.8769	0.9180	0.9447	0.9115
USD/RUB	57.6002	58.4080	59.0855	60.9404	60.6569	63.8465
USD/PLN	3.4813	3.5938	3.7062	3.9609	4.1793	3.9727

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 2017 (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 2017:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	Continuing operations
Revenue (external)	65,487	608,615	268	30,450	363,105	4,240	—	—	1,072,165
Intersegment sales	—	—	25,313	236,588	—	52,669	—	(314,570)	—
Total revenue	65,487	608,615	25,581	267,038	363,105	56,909	—	(314,570)	1,072,165
Net change in fair value of biological assets and agricultural produce	—	—	—	3,768	—	—	—	—	3,768
Other operating income, net	25	379	3	11,497	7,000	544	—	—	19,448
Profit/(Loss) from operating activities	6,363	26,994	17,209	5,746	9,799	35,236	(20,684)	—	80,663
Finance costs, net									(31,923)
Foreign exchange gain, net									37,294
Other expenses, net									(2,993)
Share of loss of joint ventures									(432)
Income tax benefit									7,582
Profit for the period from continuing operations									90,191
Total assets	85,853	1,057,088	117,047	565,940	178,567	66,782	139,137	—	2,210,414
Capital expenditures	297	5,104	5,678	43,550	—	17,784	2,205	—	74,618
Amortization and depreciation	913	7,346	1,580	29,131	—	2,749	677	—	42,396
Liabilities	4,331	43,649	3,613	43,959	18,740	1,743	955,749	—	1,071,784

During the six months ended 31 December 2017, revenues of approximately USD 115,950 thousand are derived from one external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 94% of total external sales.

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

The Group changed the presentation of operating profit for the segment reporting with the purposes to reflect more precisely the farming segment profitability. Namely, to recognize only those sales generated by the Company's farming segment, which were realized from the trading companies to the 3rd parties during the reporting period. These corresponding amendments were made to the segment disclosures for six months ended 31 December 2016.

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 2017	As of 31 December 2017
Ukraine	1,054,176	823,857
Russian Federation	17,989	50,648
Total	1,072,165	874,505

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2017 (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 2016:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	Continuing operations
Revenue (external)	60,540	483,640	396	14,418	476,781	7,569	—	—	1,043,344
Intersegment sales	—	—	28,460	173,286	—	35,154	—	(236,900)	—
Total revenue	60,540	483,640	28,856	187,704	476,781	42,723	—	(236,900)	1,043,344
Net change in fair value of biological assets and agricultural produce	—	—	—	35,065	—	—	—	—	35,065
Other operating income, net	(7)	(661)	4	25,866	4,643	863	—	—	30,708
Profit/(Loss) from operating activities	6,274	33,019	22,480	85,506	15,347	28,663	(16,664)	—	174,625
Finance costs, net									(25,891)
Foreign exchange gain, net									16,093
Other expenses, net									5,495
Share of gain 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	314,465	298,637	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, revenues of approximately USD 154,694 thousand are derived from one external customer. 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 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 6 months ended 31 December 2016	Non-current assets 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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5. Acquisition and Disposal of Subsidiaries

On 4 July 2017, the Group has acquired 100% effective ownership of AIU (Agro Invest Ukraine) Group: a farming business that manages about 27,500 hectares of leasehold farmland and over 170,000 tons of grain storage capacity.

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Agro Logistics Ukraine LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100.00%	04 July 2017
Agro Invest Ukraine LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.00%	04 July 2017

As of the date of acquisition, the provisional fair values of assets, liabilities and contingent liabilities were as follows:

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	4
Trade accounts receivable, net	176
Prepayments to suppliers and other current assets, net	316
Corporate income tax prepaid	29
Taxes recoverable and prepaid, net	2,735
Inventory	1,574
Biological assets	12,006
Total current assets	16,840
Non-current assets:	
Property, plant and equipment, net	23,161
Intangible assets, net	14,385
Deferred tax assets	40
Other non-current assets	270
Total non-current assets	37,856
Total assets	54,696
Liabilities and equity	
Current liabilities:	
Trade accounts payable	3,021
Advances from customers and other current liabilities	687
Total current liabilities	3,708
Non-current liabilities:	
Deferred tax liabilities	1,463
Total non-current liabilities	1,463
Fair value of net assets of acquired Subsidiaries	49,525
Non controlling interest	—
Fair value of acquired net assets	49,525
Gain on bargain purchase	(2,309)
Total cash considerations due and payable	47,216
Less: acquired cash	(4)
Net cash outflow on acquisition of subsidiaries	(46,512)
Net cash due and payable	(700)

Since initial accounting is incomplete as of the reporting date due to finalization of relevant calculations and market valuations, only provisional amounts were recognized to determine net assets, and result of acquisition. After finalization of relevant information retrospective adjustments to the provisional amounts will be made. The Group supposes to finalize result of acquisition and relevant amounts till the end of the period ended 30 June 2018.

The Group does not disclose the revenue and net profit of the acquired group as if it has been acquired at the beginning of the reporting period due to the fact that the beginning of the reporting period almost coincides with the date of acquisition.

Acquired group manages world-class grain storage infrastructure which complemented the recent expansion of our farmland bank in the region and completes our land bank expansion strategy.

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5. Acquisition and Disposal of Subsidiaries (continued)

Based on the knowledge available as of 31 December 2017 the management is in process of verification that all acquired or assumed liabilities have been fully accounted for, and net assets acquired have not been overstated. Gain on bargain purchase was recognized in the amount of USD 2,309 thousand within 'Other expenses, net' in the condensed consolidated interim statement of profit or loss.

During the six months ended 31 December 2017, as a result of the optimization process of its legal structure, the Group disposed of one grain elevator located in Poltava region. The net assets of the disposed entity as of the date of disposal were equal to USD 137 thousand and the cash consideration received was USD 2,013 thousand (out of which USD 1,404 thousand was received during this reporting period).

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.

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6. Cash and Cash Equivalents

	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Cash with banks in USD	109,230	90,369	42,779
Cash with banks in UAH	46,510	52,067	24,195
Cash with banks in other currencies	1,748	951	1,930
Cash on hand	6	5	2
Total	157,494	143,392	68,906
Less restricted and blocked cash on security bank accounts	(16,304)	(3,927)	(123)
Less bank overdrafts (Note 15)	(53,692)	(52,300)	(4,178)
Cash and cash equivalents for the purposes of cash flow statement	87,498	87,165	64,605

7. Trade Accounts Receivable, net

The increase in trade accounts receivable to USD 117,974 thousand as of 31 December 2017 from USD 87,192 thousand as of 30 June 2017 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 decreased to USD 127,162 thousand as of 31 December 2017 from USD 135,257 thousand as of 30 June 2017 mostly due to foreign exchange loss and normal operating activity.

9. Inventory

	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Raw materials	326,976	109,951	237,227
Finished products	177,244	221,369	120,379
Agricultural products	161,207	24,166	134,891
Goods for resale	58,554	20,227	101,328
Work in progress	33,513	410	16,358
Fuel	3,172	2,770	1,718
Packaging materials	1,392	993	900
Other inventories	6,789	6,774	3,295
Total	768,847	386,660	616,096

As of 31 December 2017, raw materials were represented mainly by sunflower seeds in the amount of USD 298,546 thousand (as of 30 June 2017 and 31 December 2016: USD 89,644 thousand and USD 218,622 thousand, respectively).

As of 31 December 2017, finished goods mostly consisted of sunflower oil in bulk in the amount of USD 157,717 thousand (as of 30 June 2017 and 31 December 2016: USD 204,596 thousand and USD 95,997 thousand, respectively).

As of 31 December 2017, inventory balances in the amount of USD 271,801 thousand (as of 30 June 2017 and 31 December 2016: USD 83,736 thousand and USD 406,350 thousand, respectively) were pledged as security for short-term borrowings (Note 15).

10. Biological Assets

Current biological assets as of 31 December 2017 consisted of 113,086 hectares of winter crops sowed in the amount of USD 22,324 thousand and 9,445 hectares of not harvested corn in the amount of USD 7,749 thousand and 462 hectares of not harvested soy in the amount of USD 106 thousand (30 June 2017: 559,026 hectares of crops in the amount of USD 254,482 thousand; 31 December 2016: 94,947 hectares of winter crops in the amount of USD 13,770 thousand and 16,071 hectares of not harvested corn in the amount of USD 12,482 thousand) and 7,743 heads of current livestock in the amount of USD 2,494 thousand (30 June 2017: 7,366 heads in the amount of USD 1,765 thousand; 31 December 2016: 8,367 heads of current livestock in the amount of USD 1,718 thousand).

Net change in the fair value of biological assets and agricultural produce for the six months ended 31 December 2017 in the amount of USD 3,768 thousand (six months ended 31 December 2016: USD 35,065 thousand) reflects the revaluation of crops in fields and agricultural produce balances to its fair value. For the six months ended 31 December 2016, 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 and favorable weather conditions. Decrease of amount of net change in the fair value of biological assets and agricultural produce for six months ended 31 December 2017 was caused by decline of crops yields and market prices for crops at the moment of harvest.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2017 (in thousands of US dollars, unless otherwise stated)

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 2017 and 30 June 2017:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 31 December 2016	17,514	8,738	26,252
Decrease due to harvest (2016 harvest)	(12,482)	—	(12,482)
Increase due to purchases and subsequent expenditures capitalized in biological assets (2017 harvest)	166,557	—	166,557
Increase resulting from business acquisitions	59,083	—	59,083
Gain arising from changes in fair value attributable to physical changes and to changes in the market price	—	14,745	14,745
Exchange difference	—	327	327
As of 30 June 2017	230,672	23,810	254,482
Decrease due to harvest (2017 harvest)	(237,635)	(23,810)	(261,445)
Increase due to purchases and subsequent expenditures capitalized in biological assets (2017 harvest)	11,772	—	11,772
Increase resulting from business acquisitions	12,006	—	12,006
Gain arising from changes in fair value attributable to physical changes and to changes in the market price	—	13,913	13,913
Exchange difference	—	(549)	(549)
As of 31 December 2017	16,815	13,364	30,179

11. Property, Plant and Equipment, net

During the six months ended 31 December 2017, the Group acquired property, plant and equipment in the amount of USD 56,948 thousand (31 December 2016: USD 17,065 thousand). The above mentioned amount included USD 23,161 thousand as a part of acquisition of AIU (Agro Invest Ukraine) Group. 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 12,873 thousand resulted from the depreciation of the Ukrainian hryvnia during the six months ended 31 December 2017 (31 December 2016: USD 9,090 thousand).

During the six months ended 31 December 2017 depreciation of property, plant and equipment amounted USD 32,935 thousand (31 December 2016: USD 23,220 thousand).

As of 31 December 2017, property, plant and equipment with a carrying amount of USD 95,609 thousand (30 June 2017 and 31 December 2016: USD 100,950 thousand and USD 171,466 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 15 and 16).

As of 31 December 2017, property, plant and equipment with a carrying amount of USD 26,677 thousand (as of 30 June 2017 and 31 December 2016: USD 27,578 thousand and USD 28,504 thousand, 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 2017, 30 June 2017 and 31 December 2016, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 6,670 thousand, USD 15,004 thousand and USD 14,592 thousand, respectively. Additions during the six months ended 31 December 2017 totaled USD 4,411 thousand (31 December 2016: USD 4,810 thousand).

12. Intangible Assets, net

During the six months ended 31 December 2017, the Group acquired land lease rights in the amount of USD 14,385 thousand as a part of acquisition of AIU (Agro Invest Ukraine) Group.

As of 30 June 2017, the Group acquired land lease rights in the amount of USD 77,179 thousand as a part of acquisition of UAI (Ukrainian Agrarian Investments) Group.

Amortization of intangible assets for the six months ended 31 December 2017 were USD 9,461 thousand (31 December 2016: USD 4,390 thousand).

The decrease in intangible assets in the amount of USD 6,719 thousand resulted from the depreciation of the Ukrainian hryvnia during the six months ended 31 December 2017 (31 December 2016: USD 1,313 thousand).

13. Goodwill

For the six months ended 31 December 2017, the impairment of goodwill allocated to BSI LLC oilseed crushing plant relating to the Sunflower oil sold in bulk segment was recognized in the amount of USD 2,255 thousand within 'Other expenses, net'. Impairment was caused by the remaining low margin of sunflower oil.

14. Investments in Joint Ventures

For the six months ended 31 December 2017, the share of loss of joint venture (Taman) equaled USD 432 thousand (for the six months ended 31 December 2016: loss USD 2,318 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 1,066 thousand (for the six months ended 31 December 2016: USD 1,057 thousand) and interest expenses in the amount of USD 593 thousand (for the six months ended 31 December 2016: USD 915 thousand).

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15. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Bank credit lines	274,255	78,866	486,052
Bank overdrafts (Note 6)	53,692	52,300	4,178
Interest accrued on short-term borrowings	1,342	436	1,364
Interest accrued on long-term borrowings	62	77	1,273
Total	329,351	131,679	492,867

The balances of short-term borrowings as of 31 December 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.15%	USD	August 2018	171,697
European bank	Libor + 3.25%	USD	January 2018	53,692
Ukrainian subsidiary of European bank	2.90%	USD	January 2018	30,000
Ukrainian subsidiary of European bank	4.00%	USD	January 2018	22,800
Ukrainian subsidiary of European bank	13.00%	UAH	January 2018	20,095
Ukrainian subsidiary of European bank	14.00%	UAH	January 2018	8,836
Ukrainian subsidiary of European bank	4.00%	USD	February 2018	8,000
Ukrainian subsidiary of European bank	14.00%	UAH	May 2018	7,126
Ukrainian subsidiary of European bank	14.00%	UAH	February 2018	3,563
Ukrainian subsidiary of European bank	14.25%	UAH	January 2018	2,138
Total				327,947
Interest accrued on short-term borrowings				1,342
Interest accrued on long-term borrowings				62
Total				329,351

The balances of short-term borrowings as of 30 June 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 3.25%	USD	September 2017	52,300
Ukrainian subsidiary of European bank	3.80%	USD	March 2018	18,503
Ukrainian subsidiary of European bank	4.50%	USD	July 2017	12,450
European bank	Libor + 7.30%	USD	April 2018	10,000
Ukrainian subsidiary of European bank	11.75%	UAH	September 2017	9,960
Ukrainian subsidiary of European bank	12.00%	UAH	July 2017	9,579
Ukrainian subsidiary of European bank	6.50%	USD	September 2017	7,500
Ukrainian subsidiary of European bank	10.50%	UAH	July 2017	5,874
Ukrainian subsidiary of American bank	4.00%	USD	July 2017	5,000
Total bank credit lines				131,166
Interest accrued on short-term borrowings				436
Interest accrued on long-term borrowings				77
Total				131,679

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15. Short-term Borrowings (continued)

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

As of 31 December 2017, undrawn short-term bank credit lines amounted to USD 117,189 thousand (as of 30 June 2017: USD 57,710 thousand and as of 31 December 2016: USD 140,079 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Cash and cash equivalents	—	2,330	123
Inventory	271,801	83,736	406,350
Other financial assets	21,631	15,420	—
Property, plant and equipment	95,609	100,950	115,238
Controlling stakes in Subsidiaries	—	Not quantifiable	—
Total	389,041	202,436	521,711

As of 31 December 2017 and 31 December 2016, no stakes in Subsidiaries were pledged to secure short-term borrowings (as of 30 June 2017: sixteen agricultural companies and one sunflower oil plant).

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16. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Long-term bank borrowings	6,983	8,344	122,637
Current portion of long-term borrowings	(2,794)	(2,782)	(76,460)
Total	4,189	5,562	46,177

The balances of long-term borrowings as of 31 December 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 1,65%	USD	March 2020	6,983
Total				6,983

The balances of long-term borrowings as of 30 June 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 1.65%	USD	March 2020	8,344
Total				8,344

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

As of 31 December 2017, 30 June 2017 and 31 December 2016, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 December 2017	As of 30 June 2017	As of 31 December 2016
Property, plant and equipment	—	—	56,228
Controlling stakes in Subsidiaries	—	—	Not quantifiable
Total	—	—	56,228

As of 31 December 2017 and 30 June 2017, stakes in Subsidiaries were not pledged to secure long-term borrowings (31 December 2016: one agricultural company, one sunflower oil plant, one export terminal and one holding company).

17. Bonds issued

In January 2017 the Group issued USD 500,000 thousand unsecured notes ('the Notes'), that will mature on 31 January 2022. The Notes bear interest from 31 January 2017 at the rate of 8.75% per annum payable semi-annually in arrears on 31 January and 31 July each year commencing from 31 July 2017.

As of 31 December and 30 June 2017 accrued interest on bonds issued was USD 17,949 thousand.

The Notes are unsecured, ranking equally with all existing and future senior unsecured indebtedness of the Issuer and have been unconditionally and irrevocably guaranteed by designated Group subsidiaries on the joint and several basis to the maximum extent permitted by law.

The Notes contain certain restrictive covenants that limit the ability of the Issuer and, where applicable, its restricted subsidiaries to create or incur certain liens, make restricted payments, engage in amalgamations, mergers or consolidations, or combination with other entities; make certain disposals and transfers of assets; and enter into transactions with affiliates. The Notes may be redeemed in whole, but not in part, at the option of the Issuer at a price equal to 100 per cent of their principal amount, plus accrued and unpaid interest to the redemption date, in case of specified taxation event. The Notes could be redeemed at any time, at the option of the Issuer, up to 35 per cent of the principal aggregate amount of the Notes ('Equity Offering') at redemption price of 108.75 per cent of their principal amount, plus accrued and unpaid interest to the redemption date.

Upon a change of control event each noteholder has the right, but not the obligation, to require the Issuer to purchase the Notes at the purchase price equal to 100 per cent of their principal amount, plus accrued and unpaid interest to the purchase date.

The Notes were rated in line with the Issuer's IDR by Fitch (B+) and S&P (B), which is two notches and one notch above the sovereign, respectively.

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18. Revenue

Revenue was as follows:

	6 months ended 31 December 2017	6 months ended 31 December 2016
Revenue from sunflower oil sold in bulk, sunflower meal and cake	619,473	492,901
Revenue from grain sales	363,105	476,781
Revenue from bottled sunflower oil	54,629	51,279
Revenue from farming	30,450	14,418
Revenue from grain silo services	4,240	7,569
Revenue from transshipment services	268	396
Total	1,072,165	1,043,344

19. Cost of Sales

Cost of sales was as follows:

	6 months ended 31 December 2017	6 months ended 31 December 2016
Cost of goods for resale and raw materials used	790,954	760,898
Amortization and depreciation	41,182	26,341
Rental payments	40,704	17,216
Payroll and payroll related costs	29,687	16,426
Other operating costs	11,599	5,736
Total	914,126	826,617

20. Other operating income, net

Other operating income, net was as follows:

	6 months ended 31 December 2017	6 months ended 31 December 2016
Gain on operations with commodity futures and options	8,987	3,434
VAT benefits	6,831	25,621
Contracts wash-out (price difference settlement)	189	2,631
Gain/(Loss) on sale of hard currency	491	(138)
Other operating income/(loss)	2,950	(840)
Total	19,448	30,708

21. Distribution costs

During six months ended 31 December 2017, distribution costs reduced to USD 62,013 thousand from USD 81,195 thousand for the six months ended 31 December 2016 mostly as a result of reduction of sales volumes.

22. General and administrative expenses

During six months ended 31 December 2017, general and administrative expenses increased to USD 38,579 thousand from USD 26,680 thousand for the respective period of the previous year mostly as a result of the recent expansion of the farming division and start of trading operations of Avere.

23. Foreign Exchange Gain, net

For the six months ended 31 December 2017, foreign exchange gain, net amounted to USD 37,294 thousand (31 December 2016: foreign exchange gain in the amount of USD 16,093 thousand). Changes are mostly connected with increase of balances denominated in other than functional currencies, namely trade balances and borrowings (including intra-group balances: the Company's subsidiaries operate with different functional currencies 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 subsidiaries if they had different functional currencies).

During the period under review, the Ukrainian hryvnia devalued by 7% against the US dollar (9% during the six months ended 31 December 2016) and the Russian ruble revalued by 3% against the US dollar (revalued by 6% during the six months ended 31 December 2016).

24. 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 2017, the Group prepaid USD 14,348 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (as of 30 June 2017 and 31 December 2016: USD 13,226 thousand and USD 17,974 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.

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25. 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 2017		As of 30 June 2017	
Prepayments to suppliers and other current assets, net	20,385	75,062	12,525	82,701
Other non-current assets	6,038	24,266	6,439	31,733
Trade accounts payable	128	41,435	188	52,776
Advances from customers and other current liabilities	15,592	120,459	11,282	88,665
Other non-current liabilities	3,053	32,391	3,053	30,646

As of 31 December 2017 and 30 June 2017, 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 2017, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand (30 June 2017: USD 4,743 thousand).

As of 31 December 2017, prepayments to suppliers and other current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,417 thousand provided to Taman Grain Terminal Holding (30 June 2017: USD 2,367 thousand).

As of 31 December 2017, prepayments to suppliers and other current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 10,000 thousand provided to Namsen Limited (30 June 2017: nil).

As of 31 December 2017, other non-current assets included an interest-free financing in the amount of USD 5,884 thousand provided to key management personnel (30 June 2017: USD 5,735 thousand).

As of 31 December 2017, USD 8,086 thousand of dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (30 June 2017: nil).

As of 31 December 2017, advances from customers and other current liabilities included USD 1,204 thousand of bonuses payable to the management (30 June 2017: USD 3,455 thousand).

As of 31 December 2017 and 30 June 2017, advances from customers and other current liabilities included an interest-free financial liability in the amount of USD 4,977 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.

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25. Transactions with Related Parties (continued)

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 2017		6 months ended 31 December 2016	
General, administrative and distribution expenses	(4,846)	(100,592)	(8,459)	(107,875)
Finance costs, net	(344)	(31,923)	(300)	(25,891)
Other (expenses)/income, net	7	(2,993)	119	5,495

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

For the six months ended 31 December 2017, there were no distribution expenses of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the six months ended 31 December 2016: USD 5,995 thousand).

All other transactions occurred with related parties under common control.

As of 31 December 2017, 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 2017 amounted to USD 258 thousand (31 December 2016: 8 directors, USD 269 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 12 people, amounted to USD 1,254 thousand for the six months ended 31 December 2017 (31 December 2016: 10 people, USD 1,185 thousand).

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2017 (in thousands of US dollars, unless otherwise stated)

26. Commitments and Contingencies

Taxation and legal issues

In April 2012, the Group entered into a call option agreement to acquire Stiomi 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 2017, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect 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 2017, 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 84,758 thousand (30 June 2017: USD 86,548 thousand), from which USD 62,136 thousand related to VAT recoverability (30 June 2017: USD 50,565 thousand) USD 22,117 thousand related to corporate income tax (30 June 2017: USD 35,469 thousand) and USD 505 thousand related to other tax issues (30 June 2017: USD 514 thousand).

As of 31 December 2017, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 25,327 thousand (30 June 2017: USD 30,803 thousand) of the aforementioned amount. Of this amount, USD 19,291 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 2017: USD 23,260 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. Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting significant amendments to the Tax Code of Ukraine which became effective from 1 January 2015, 1 January 2016, 1 January 2017 and 1 January 2018.

Starting from the 1 January 2017, special tax regime in respect of VAT for agricultural enterprises was eliminated. As a result of the new legislation, the Group's agricultural farms, engaged in growing crops, have not retained any VAT liabilities during 2017 versus 15% retained in 2016 and 100% previously. Since 1 January 2017, the relevant companies have become regular VAT payers. However, from 1 January 2017, the Ukrainian government introduced budget subsidies for qualifying agricultural companies. Starting from 2017 agriculture producers are subject to partial reimbursement (in the amount of 20%) of the costs paid for Ukrainian-made agriculture machinery and equipment purchases provided that certain conditions are met. In addition, temporary VAT exemption for the supplies of certain types of grain crops has been removed since the beginning of 2016. This effectively means that the companies will continue to benefit from the reinstatement of VAT refunds on grain exports. With respect to other changes, additional improvements to VAT reimbursement procedure have been also introduced and they are aimed to streamline the refund process.

Moreover, certain amendments of legislation that can affect Group's tax position came into force starting from 1 January, 2018. In particular:

- VAT holiday on exports of certain industrial crops (a 0% VAT was previously applied), in particular:
 - Soybean – from 01 September 2018 to 31 December 2021
 - Rape and rocket-cress – from 01 January 2020 to 31 December 2021.
- This change will push the exporters to impute VAT liabilities when purchasing these goods. A 0% VAT rate will apply to the exports of other agricultural crops.
- The Law establishes a 60-day reporting period for annual CIT Return prepared year-to-date.
- Financial result before tax is not to be reduced by the amount of dividends receivable from single tax payers.
- The Law extends the list of non-residents business relations with which may bring to an increase in financial result by 30% of the cost of goods/services purchased, to include non-residents that are not corporate income tax payers (including on income sourced outside the country of their registration) and are not tax residents in the countries of their incorporation. The list of organizational legal forms of such non-residents is to be approved by the Cabinet of Ministers
- Payers of single tax are exempt from single tax advance payments on distribution of dividends.
- Single tax payers must pay withholding tax on income paid to non-residents.

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26. 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 2016-2017, 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 2017, annual inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.1% (2016: 1.4%) and stabilization of national currency. From a trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. 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 terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014-2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as a pension system, anti-corruption regulations, and privatization.

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 2017, the Group had commitments under contracts with a group of suppliers for a total amount of USD 6,807 thousand, mostly for the purchase of oil plant equipment, agricultural equipment and reconstruction of a terminal (31 December 2016: USD 5,567 thousand mostly for the purchase of agricultural equipment).

Contractual commitments on sales

As of 31 December 2017, the Group had entered into commercial contracts for the export of 934,329 tons of grain and 921,824 tons of sunflower oil and meal, corresponding to an amount of USD 172,173 thousand and USD 416,935 thousand, respectively, in contract prices as of the reporting date.

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 amounts of USD 264,260 thousand and USD 291,153 thousand, respectively, in contract prices as of the reporting date.

27. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties in an arm's length transaction, rather than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary for arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2017, 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 29,122 thousand classified as held for trading since they had been acquired principally for trading purposes in the near time (30 June 2017 and 31 December 2016: USD 21,038 thousand and USD 25,797 thousand, respectively). Fair value was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts receivable, trade accounts payable and short-term borrowings due to the short-term nature of the financial instruments. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

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27. Fair Value of Financial Instruments (continued)

The following table below represents comparison by category of carrying amounts and fair value of the financial instruments:

Financial liabilities	31 December 2017		30 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 16)	6,983	6,983	8,344	8,344	122,637	123,342
Bonds issued ¹ (Note 17)	512,340	551,915	511,597	535,220	—	—

¹ Including accrued interests

For the six months ended 31 December 2017, the fair value of bank long-term borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 3.62% (30 June 2017 and 31 December 2016: 3.27% and 7.16%, respectively) that is within level 2 of the fair value hierarchy.

The fair value of Bonds issued was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

As of 31 December 2017, fair value of other non-current liabilities does not differ materially from its carrying amount.

There were no transfers between levels of fair value hierarchy.

There were no changes in the valuation technique since the previous year.

28. Subsequent Events

As of 22 February 2018, Kernel entered into pre-export credit facility with a syndicate of European banks. The two-and-a-half-year secured revolving facility with a limit of USD 100 million will be used by the Company to fund the working capital needs of its grain export business in Ukraine.