KERNEL

KERNEL HOLDING S.A.

ANNUAL REPORT 2017

Contents

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

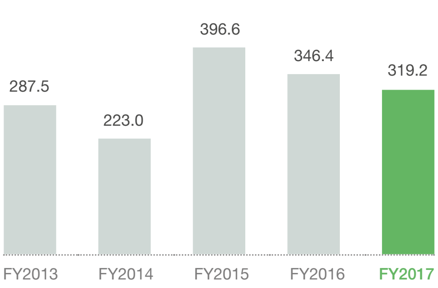
We are the world's largest exporter and the largest regional producer of sunflower oil, a leading exporter of grains and oilseeds from the Black Sea region, operator of an extensive agriculture logistics asset base and the largest producer of grain and oilseeds in Ukraine. In FY2017, we supplied in excess of 8 million tons of agricultural products across the world.

Key Highlights

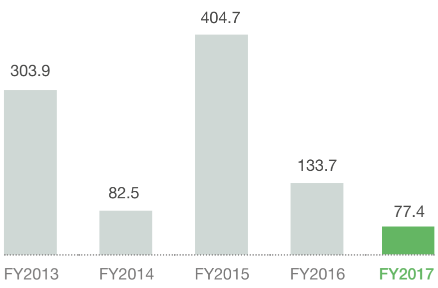
US$ million except ratios and EPS	FY2016	FY2017	y-o-y
Income statement highlights			
Revenue	1,988.5	**2,168.9**	9.1%
EBITDA[1]	346.4	**319.2**	(7.8%)
Net profit attributable to equity holders of Kernel Holding S.A.	225.2	**176.2**	(21.7%)
EBITDA margin	17.4%	**14.7%**	(2.7pp)
Net margin	11.3%	**8.1%**	(3.2pp)
EPS, US$	2.83	**2.19**	(22.4%)
Cash flow highlights			
Operating profit before working changes	330.5	**324.8**	(1.7%)
Changes in working capital	(136.3)	**(206.2)**	51.3%
Cash generated from operations	194.1	**118.5**	(38.9%)
Net cash generated by operating activities	133.7	**77.4**	(42.1%)
Net cash used in investing activities	(60.7)	**(223.5)**	3.7x
Liquidity and credit metrics			
Net interest-bearing debt	282.8	**496.0**	75.4%
Readily marketable inventories[2]	183.7	**353.9**	92.7%
Adjusted net debt[3]	99.1	**142.1**	43.4%
Shareholders' equity	995.3	**1,153.0**	15.8%
Net debt/EBITDA	0.8x	**1.6x**	0.7x
Adjusted net debt[2]/EBITDA	0.3x	**0.5x**	0.2x
EBITDA/Interest	6.1x	**5.1x**	(0.9x)
Non-financial highlights			
Full-time employees at 30 June	14,075	**16,103**	14.4%
Injury frequency rate, accidents per million worked hours	0.53	**0.45**	(15.1%)
Social spending, US$ million	1.7	**2.6**	52.9%
Direct greenhouse gas emissions, thousand tons of CO_2 equivalent	206.9	**273.4**	32.1%
Total energy consumption, thousand gigajoules	5,132.1	**6,878.7**	34.0%

Note: Financial year ends 30 June.
1 Hereinafter, EBITDA is calculated as the sum of the profit from operating activities plus amortization and depreciation.
2 Readily marketable inventories are inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism.
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.

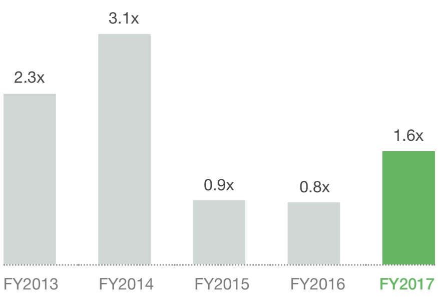
EBITDA,
US$ million



Net cash from operations,
US$ million

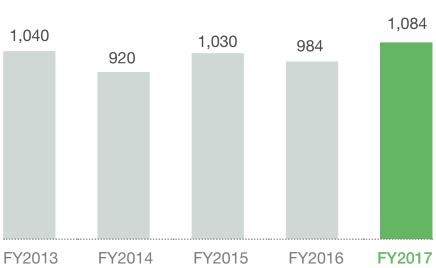


Net debt/EBITDA



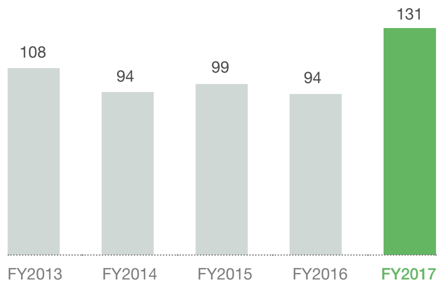
Operating Highlights

Sunflower oil sold in bulk,
thousand tons



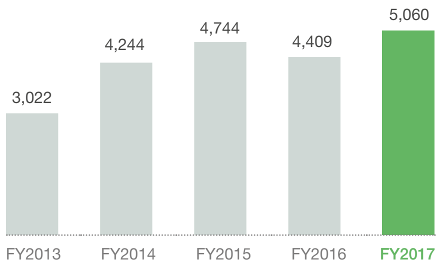
Due to record crush of 3.0 million tons of sunflower seeds in FY2017, in line with our initial plan, our bulk oil sales reached 1.1 million tons. At the same time we accumulated significant inventory of sunflower oil in bulk, which reflects our contractual demand and will boost our sales in Q1 FY2018

Bottled sunflower oil,
million liters



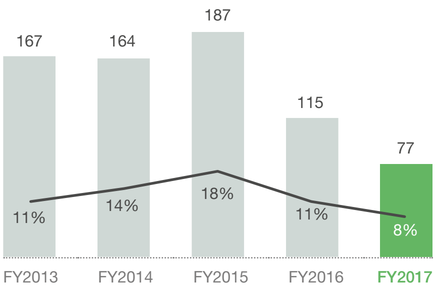
Facing the declining demand for sunflower oil in the local market due to suppressed purchasing power in Ukraine, we made significant progress in entering other markets by doubling our export volumes of bottled sunflower oil y-o-y. As a result, share of export sales increased from 51% in FY2016 to 74% in FY2017, resulting in total sales of 131 million liters.

Grain sales,
thousand tons



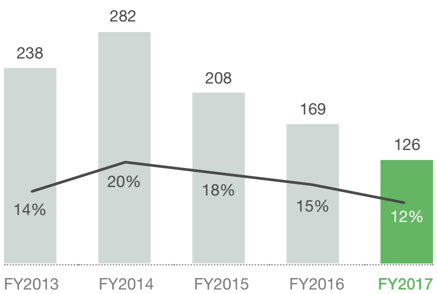
Grain exports soared by 14.8% y-o-y to a record 5.1 million tons in FY2017. This double-digit growth reflects the gradual debottlenecking of our grain handling and export infrastructure, and record harvest in Ukraine.

Sunflower oil sold in bulk EBITDA margins,
US$ per ton and as a % of revenue



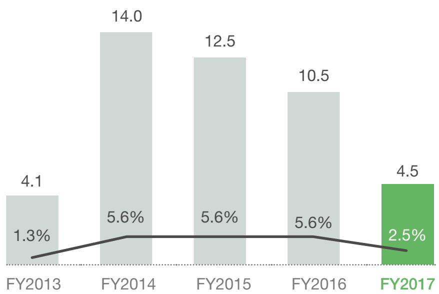
The crushing margins continued to contract in FY2017 stemming from an imbalance between supply and demand for sunflower seeds caused by new crushing facilities being commissioned recently. Hence, our EBITDA margin declined to US$ 77 per ton of sunflower oil sold in bulk.

Bottled sunflower oil EBITDA margins,
US$ per thousand liters and as a % of revenue



Similar to our margins in the bulk oil business, profitability of our operations in the bottled sunflower oil segment declined in FY2017, but decreased pace was mitigated by the growing share of more profitable export sales. We earned on average US$ 126 EBITDA per thousand of liters of sunflower oil.

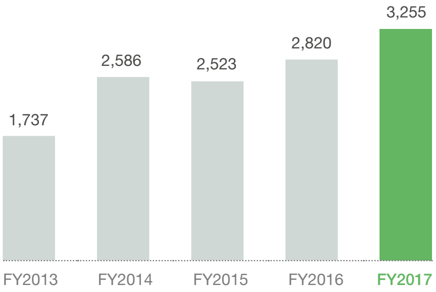
Grain segment EBITDA margins,
US$ per ton and as a % of revenue



Intensified competition from international and local players, combined with regulatory changes and farmers' reluctance to sell their crops over the year, resulted in a substantial decline of EBITDA margins, pushing profitability in grain trading business down.

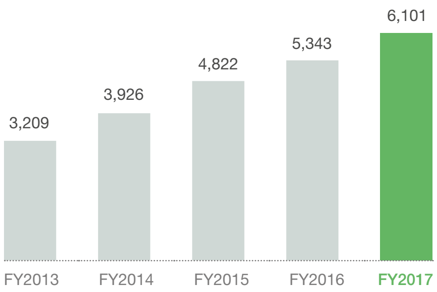
Operating Highlights

Grain in-take in inland silos,
thousand tons



Bulk of grains received in inland silos surged by 15.4% y-o-y to a record 3.3 million tons in FY2017, reflecting top in house grain production volumes, increased demand for off-farm drying services by external customers during wet harvesting campaign, and our efforts in improving turnover of capacities.

Export terminal throughput,
thousand tons

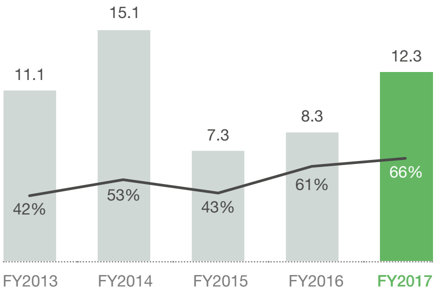


Export terminals' throughput increased by 14.2% y-o-y in FY2017 reaching historical high volume matching the installed capacity of 6.5 million tons, owing to debottlenecking of existing facilities and robust grain supply in the region.

Acreage harvested[1],
thousand hectares

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

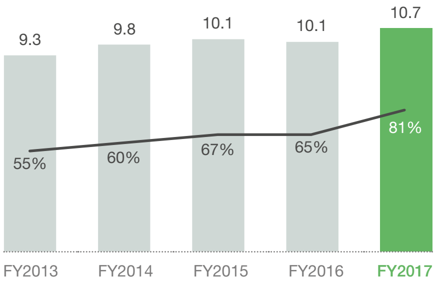
Silo services EBITDA margins,
US$ per ton and as a % of revenue



The EBITDA margin we earn per ton of throughput in our silo network increased by 48% y-o-y to 12.3 US$ / ton, due to high demand for silo services as a result of our record harvest and rainy harvesting campaign.

Note: services provided intra-group were accounted for on an arm's-length basis.

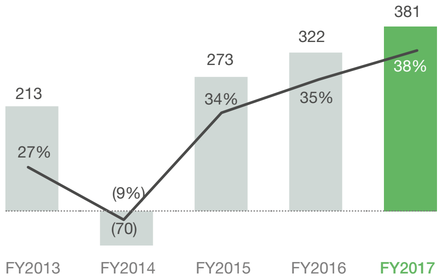
Export terminal EBITDA margins,
US$ per ton and as a % of revenue



Record volumes transshipped has allowed us to increase EBITDA margin by 6% y-o-y to 10.7 US$ per ton transshipped.

Note: services provided intra-group were accounted for on an arm's-length basis. Excludes Taman volumes and earnings, which are reported under the equity method of accounting.

Farming segment adjusted EBITDA margins,
US$ per ha and as a % of revenue



Constant improvement of production technology and low costs base, due to depreciation of local currency, as well as favorable weather conditions resulted in the highest ever profitability of our farming segment measured by EBITDA per ha excluding IAS 41 effect.

Note: EBITDA net of IAS 41 effect.

1 Farmland bank acquired in summer 2017 shall be harvested in FY2018

Chairman's Statement

Andriy Verevskyy
Chairman of the board of directors,
Founder

Dear Shareholders,

Today we report the annual results for the year ended 30 June 2017. We produced and handled record volumes across each business line which translated into US$ 319 million EBITDA and US$ 179 million net profit with a net debt to EBITDA ratio staying at a comfortable 1.6x level following the recent investments into the expansion of the farming business.

FY2017 results were undermined by continuous weakness in the crushing business. Extremely high crushing margins over the past 5-6 years drove substantial investment into the sector and resulted in overcapacity, pushing the margins to historically low levels. Moreover, a low cycle of global soft commodity prices discouraged farmers from selling agri produce actively, further intensifying the competition for the limited supply. Our game plan in this situation remains very simple - full capacity utilization to maximize contribution and benefit from our scale. With three million tons crushed in FY2017 as pledged last year, we achieved almost 90% capacity utilization, which is above industry average, delivering a record 1.1 million tons of sunflower oil to export markets. Overall, our sunflower oil business contributed EBITDA[1] of US$ 100 million this year, 23% less than a year ago.

In contrast to the crushing business, our grain and infrastructure segment demonstrated strong financial performance in FY2017. Silos and deep-water transshipment facilities handled the largest export volume ever, posting record earnings while margins in grain trading were downward adjusted reflecting the passive market environment. Overall, grain and infrastructure contributed US$ 110 millions of EBITDA in FY2017, up 3% y-o-y.

In line with our guidance, the farming division delivered another great year benefiting from favorable weather conditions, well-timed hedging and continuous productivity gains. All that translated into a US$ 144 million EBITDA in FY2017, down 2% y-o-y.

Based on FY2017, the Board intends to recommend the shareholders approve the dividend of US$ 0.25 per share.

We broadly assume weak business conditions to prevail in FY2018 keeping financial performance under pressure.

Ukrainian farmers are expected to deliver close to 13.0 million tons of sunflower seeds as unfavorable weather in central and south-eastern Ukraine adversely impacted crop yields, reducing the total sunflower seed supply by more than 1.5 million tons compared to last season. Despite the lower harvest, we aim to crush 3.2 million tons of sunflower seeds in FY2018 to maximize capacity utilization, which together with the sizable brought forward stock shall translate into record high export volumes of bulk sunflower oil. Obviously, we maintain a cautious outlook for crushing margins in FY2018.

Our grain and infrastructure division is projected to operate at full capacity, mirroring both operational and financial performance of FY2017.

We also anticipate the decline of earnings in the farming division. Five consecutive years of falling global soft commodity prices, declining crop yields due to hot summer in central Ukraine where we have a substantial farmland bank and accelerated local cost inflation following devaluation of domestic currency in previous periods will take its toll, squeezing profitability from farming operations. Moreover, the ongoing integration of recently acquired farming businesses shall require at least one season to bring the productivity levels to Kernel's standard, further diluting the operational performance of the division in FY2018.

Regardless of our cautious outlook for next year, we are excited about Kernel's mid-term prospects.

Recently, we declared Strategy 2021, an ambitious plan to achieve a financial performance target of US$ 500 million EBITDA in FY2021 through balanced development of all our divisions redeploying the free cash generated by the existing platform.

On the way to this remarkable milestone, we recently acquired Ukrainian Agrarian Investments (UAI) and Agro-Invest Ukraine (AIU) paying almost US$ 200 million to expand our leasehold farmland acreage by 217,000 ha and adding 370,000 tons of in-land storage capacity. Both deals are complimentary to each other and fit well into the existing Kernel platform. With UAI, we synergistically enlarged our farming operations in the regions where we are currently present while AIU was instrumental to secure immediate access to storage infrastructure to support larger crop flows. Moreover, amplified in-house crop production will provide a captive supply to arriving TransGrainTerminal.

The construction works on the US$ 120 million deep-water TransGrainTerminal are progressing according to plan with the first stage due to be operational in 2018, while full capacity commissioning is scheduled for 2019. The four million tons per year facility will remove the bottleneck in our value chain, unlocking four million tons of incremental grain and oilseed exports from Ukraine.

1 Prior to certain unallocated G&A costs and net of discontinued operations and assests held for sale

We have no doubts that growth targets set for our farming and infrastructure segments will be successfully achieved as smooth post-acquisition integration and efficiency gains of recently acquired assets along with the timely commissioning of TransGrainTerminal are under our control.

We also have a clear plan of how to benefit from current weakness in the crushing sector to bring the important part of our business to the whole new level. Contrary to multinational companies which today account for over 20% of installed crushing capacities in Ukraine and could afford operating at zero or even negative margins, the independent local crushers, representing more than 50% of the sector, are not financially capable of running the business in an ongoing basis if crushing margins stay at the level of US$ 50-60 per ton of oil. Even local players which recently invested in low cost modern crushing facilities still lack the scale and have to carry the high cost of debt. Without a doubt, current level of crushing margins is not sustainable and shall result in the decommissioning of independent high-cost processors and consolidation of the sector.

Being the most profitable crop in Ukraine for 10 consecutive years already, sunflower now generates record profits for farmers, incentivizing them to produce more by expanding geographies. Obviously, a supply boost may not happen overnight, but we already see quite encouraging data coming from Western Ukraine where the growth of acreage under sunflower seeds is well above the Ukrainian average, supported by strong crop yields as the climatic zone perfectly aligns with oil-bearing crop production. Presently, the acreage under sunflower seed production accounts for just 8% of total crop acreage in Western Ukraine compared to 16% in Central and over 30% in the South-Eastern Ukraine. At the same time, up to 90% of the total Ukrainian installed crushing capacity is in the Central and South-Eastern parts of Ukraine across the traditional sunflower belt where a severe oilseed supply deficit is localized.

Kernel was well prepared in advance to benefit from a low cycle in the crushing business, we de-levered the balance sheet, diversified earning and funding sources, extending the maturity of our debt. Now we are building momentum to act forcefully, expanding our scale and reinforcing our leadership position in the global sunflower oil business, leveling up the competitive edge of our platform. We see a clear opportunity for Kernel to build its presence in Western Ukraine where an emerging supply base and long distances to the traditional demand base create a strong case for greenfield construction of the largest and the most efficient crushing plant in Ukraine. A few weeks ago, we announced our intention to launch the construction of one million tons per year crushing plant in the Khmelnytskyi region with a plan to commission it in summer 2020. With a roughly US$ 130 million investment, this plant shall substantially match the anticipated sunflower seed supply growth in the region by 2020, keeping economic interest for other entrants low. Besides, we continue our hunt for a brownfield target located in the Western Ukraine. It is important to underscore, we are entering a whole new isolated emerging geography economically protected by high transportation costs rather than expanding our crushing capacities in the traditional sunflower belt where supply and demand imbalance persists.

As a result, we will add one million tons of modern crushing capacity in Western Ukraine over the next few years, keeping all our assets at nearly full capacity utilization. Moreover, we expect the gradual recovery and stabilization of crushing margins at around US$ 100 per ton of oil within next few seasons, following the rationalization of demand along with the supply growth.
With all the investments made and yet to be deployed under the strategic plan, Kernel shall annually handle over 12 million tons of soft commodities in FY2021. This is a notable increase from current levels, requiring more sophisticated hedging instruments, going well beyond the capabilities of traditional risk management built around physical forward contracts. With this in mind, we recently launched Avere, a knowledge center and research platform with offices in the USA, Switzerland and Singapore to get better visibility of global soft commodity fundamentals and trends to develop in-house insight and expertise to effectively hedge and service Kernel's ever-growing physical export volumes.

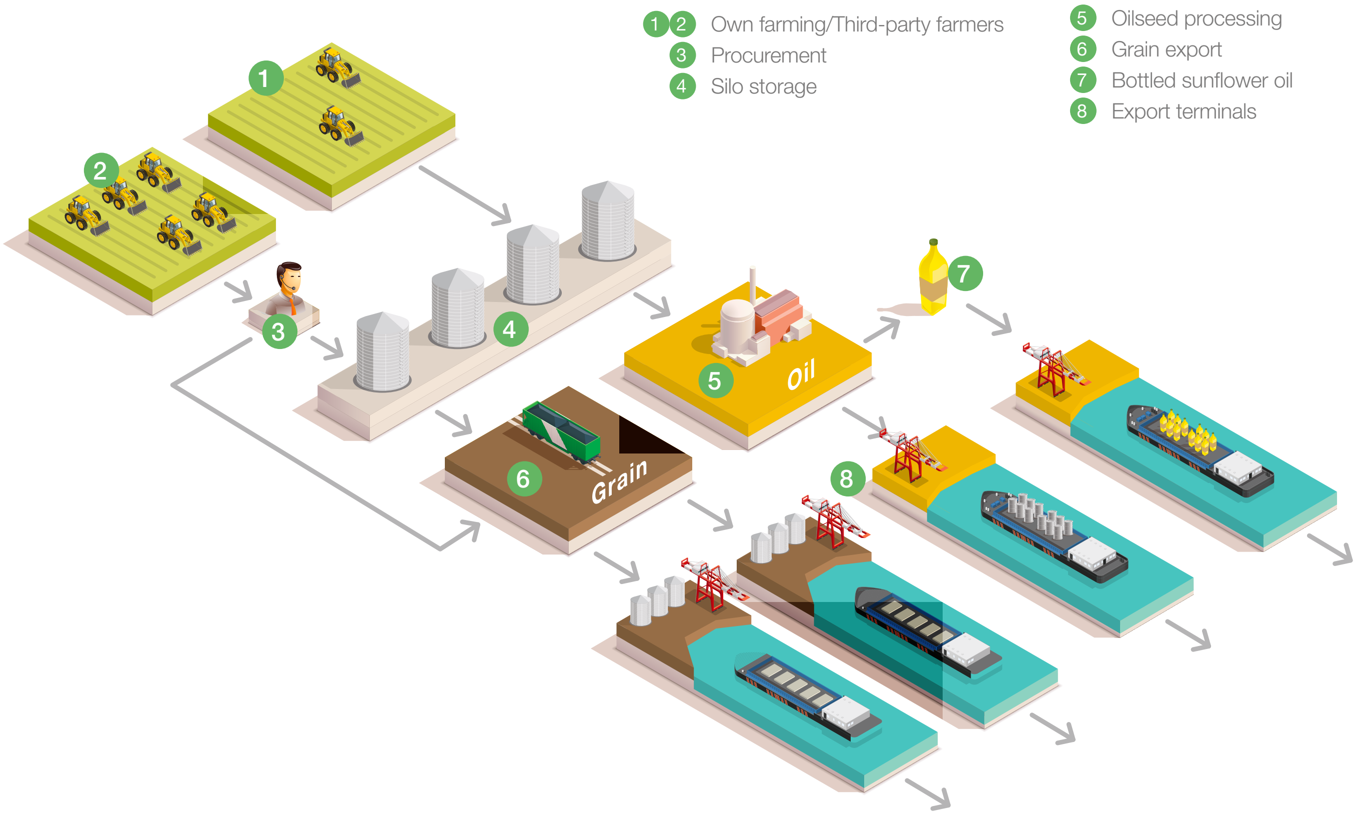
Finally, next month we celebrate the 10th anniversary of Kernel's initial public offering and listing of shares on the Warsaw Stock Exchange. Ten years of an incredible journey, a relentless climb, with total commitment and complete integrity. Over the past ten years our company transformed from a US$ 46 million EBITDA local player into the Black Sea region integrated customer-centric powerhouse providing superb world-class solutions to our clients. It was not a smooth ride, as the fast growth of the farming division was offset by operational slips in 2014; the expansion into the Russian crushing sector was less successful than envisaged; and many regulatory, macro and geopolitical setbacks influenced our performance. But we succeeded in building a business and decision-making system allowing us to recognize future negative shocks, and promptly and efficiently adopt and re-calibrate to assure steady growth and development. Over the past decade, we built a solid, resilient and structurally profitable platform in a globally competitive geography braced with unmatched in-house skills and unique expertise in servicing and creating value for our customers. We will never give up on our fundamentals: integrity and financial stability. Kernel earned recognition for the best credit from Ukraine following the US$ 500 million debut Eurobond issue last winter, unlocking the country after a four-year freeze and paving the way for Ukraine's successful return to international debt capital markets last month.

Today, we start writing a new chapter of the Kernel success story. This new chapter begins with the Board of Directors decision to make an important step for the company by appointing Yevgen Osypov as the Chief Executive Officer of Kernel. At his new role, Yevgen will manage the day-to-day operations and be responsible for the execution of strategy, while I shall continue to serve as the Chairman of the Board actively steering the policy, strategy and further development of the company. Since joining our team in 2013, has turned our struggling farming division into the profitable business system which now sets the industry standard for operational efficiency and technological excellence. He has a comprehensive knowledge of the company, and his experience and systematic approach, along with leadership skills, are the right mix for daily navigation of Kernel's steadily expanding operational needs.

We are thrilled and committed to achieving our ambitious financial and performance targets, leveraging the broad capabilities of our platform as we strive to bring Kernel to a new sustainable level.

Andriy Verevskyy
Chairman of the board of directors

Our Business Model



Sunflower oil segment

- #1 sunflower oil exporter in the world
- #1 sunflower oil producer in Ukraine
- #1 bottled sunflower oil producer and marketer in Ukraine
- 3.5 million tons annual sunflower seed crushing capacity

Grain and infrastructure segment

- #1 grain & oilseed originator and marketer in Ukraine with 9% of country's total grain export
- 2 export terminals in Ukraine and 1 in Russia (50/50 JV with Glencore) with total annual capacity to transship 6.5 million tons of soft commodities
- #1 private inland grain silo network in Ukraine with 2.8 million tons of storage capacity

Farming segment

- #1 crop producer in Ukraine operating over 600,000 hectares of leasehold farmland
- Modern large-scale machinery, sustainable agronomic practices, cluster management system and export-oriented crop mix
- Nearly 100% of sales volumes goes through our grain and infrastructure or sunflower oil segments, earning incremental profits

Sunflower oil

Market leader in oilseed crushing

We operate our nine plants (including one in Kropyvnytskyi under a tolling agreement) to yield a total annual crushing capacity of 3.5 million tons of sunflower seed, making Kernel the largest oilseed crusher in the Black Sea region. The close proximity of our crushing plants to sunflower seed production ensures the high utilization and profitability of our assets as the low density of sunflower seed prohibits its transportation to distant regions.

The industrial-scale of our crushing plants, all of which were constructed or fully modernized recently, along with a continuous exchange of best practices, ensures we have a processing cost advantage to other peers. Our scale also allows us to benefit from more efficient usage of our country-wide origination network and other fixed cost allocations over larger volumes.

Our own farming divisions supply 6-7% of our crushing needs, while the remaining part is bought from third-party farmers. A significant portion of the sunflower seed we buy is stored in our own silo network with a capacity of 2.8 million tons, the largest private silo network in Ukraine, and we use 3rd-party storages as well. Produced sunflower oil and meal is exported abroad both through our own terminals in Ukraine, and through 3rd-party terminals.

Prudent risk management

Our business is margin-driven: we sell sunflower oil and meal through forward contracts in a similar timeframe as we buy sunflower seed from farmers, essentially locking in the margin at the time of procurement. Our origination team purchases sunflower seed from farmers in close proximity of plants, either at the farm gate or at the wide network of our silos. At the same time, our international sales team enters into forward contracts to sell sunflower oil, thus fixing volumes and prices. Although sunflower seed prices in Ukraine closely correlate with the international price of sunflower oil, as nearly 90% of the country's sunflower oil production is exported, our 'balanced book' policy is essential to minimizing the impact of unexpected movements in global commodity prices.

We also mitigate counterparty risk as we sell only either against credit letters from international banks or to top recognized global traders within strictly monitored limits.

Exports dominate the sales structure

Typically, 90-93% of our sunflower oil production is exported in bulk. The remainder is refined, bottled and sold under our well-recognizable brands and private labels, covering all price segments, both domestically and abroad.

Grain and Infrastructure

Grain marketing

Kernel accounts for around 9% of total grain export from Ukraine, being one of the largest grain exporters from the Black Sea region. We are involved in buying grain from local farmers and exporting it to other countries. Success in this low-margin high-volume business is supported by several factors:

- Professional procurement team with country-wide presence and deep understanding of local trends and regional peculiarities
- First-hand access to our own infrastructure – the largest private silo network in Ukraine and deep-water export terminals
- Prudent risk management: locking up the margins by selling grain through forward contracts in a similar time frame as when we purchase it from farmers on the spot market
- Farmers' loyalty

Silo network

Our inland silo network has 2.8 million tons of grain storage capacity, located across the key grain production regions in Ukraine. Our silos provide drying, cleaning, storage and transloading services to both our own farms and third-party farmers nationwide. Our silo network serves as a crucial origination tool, enabling our procurement team to purchase grains and sunflower seeds from farmers within a 100 km range from the harvested land, thus being the first buyer to consider. On top of earnings generated, silo network provides us with two strategic advantages:

- Our inland silo footprint enables us to maintain close contacts with third-party farmers and have a better visibility of Ukrainian grain supply
- Ceteris paribus, we are usually considered as the first-choice buyer of grains and sunflower seeds stored in our silos by third parties

Being an infrastructure type of business, the silo services segment boasts a consistently high EBITDA margin and enjoys significant barrier to entry due to high CAPEX requirements.

Export terminals

In Ukraine, Kernel owns a 4-million-ton transshipment facility TransBulkTerminal located on the Black Sea coast in Chornomorsk (formerly Illichivsk). In the Russia, we operate the Taman grain export terminal via a 50/50 joint venture with Glencore, with our share of capacity standing at 2 million tons in FY2017. In both countries, export terminals are deep-water facilities capable of loading Panamax vessels with deadweight of up to 70,000 tons, providing materially cheaper logistic advantages.

Our port facilities are essential for our largescale grain export operations, with the history of material increases in our grain sales after the acquisition of our port in Ukraine and joint venture in the Russian Federation serving as the best proof.

We also own small 0.5-million-ton dry cargo part of terminal in Mykolaiv, which transship mainly sunflower meal. In the beginning of FY2017 we sold a part of that terminal which transshipped sunflower oil, as the asset was outdated and inefficient.

Farming

Our farming division operates over 600,000 hectares of leasehold farmland in Ukraine, being the largest crop producer country-wise. Our lands are in the central, western and northern regions of the country, which are rich with black soil and receive sufficient precipitation.

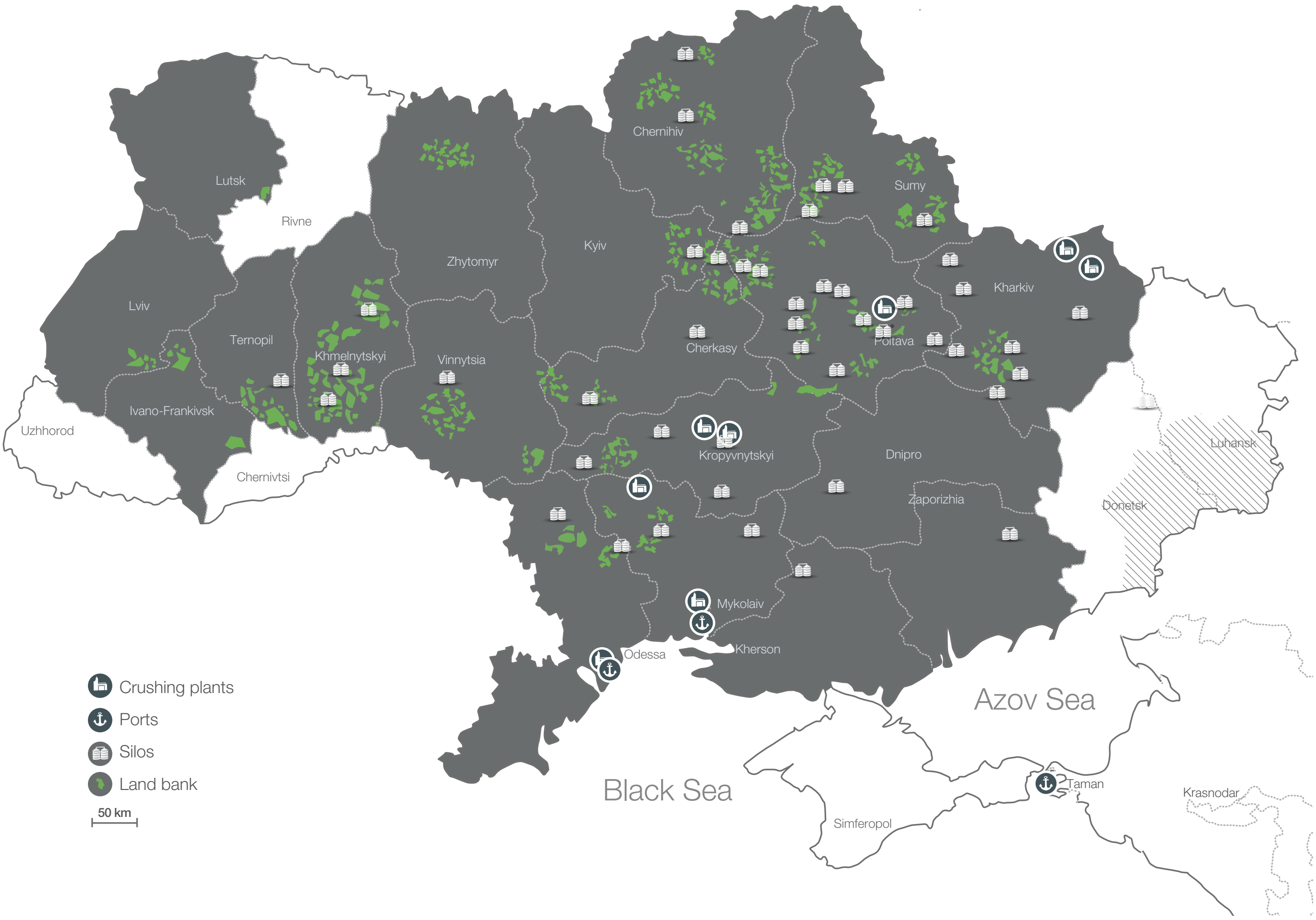
Our operations are structured within 10 production clusters, with functions and decision-making sufficiently decentralized. It allows us to speed-up the decision-making process and ensures a lightning reaction of the production teams to various external factors. While the regional clusters oversee operations, the head-office is responsible for setting up the strategic direction and key inputs procurement.

Approximately 36% of our farming areas are attributable to corn, 21% to wheat, 21% to sunflower, 15% to soybean, and the balance to other crops.

Apart from approximately 1,500 irrigated hectares that are dedicated to in-house seed production, all our farmland relies on natural precipitation.

Our production technology and approach is designed to ensure the long-term productivity of our soil. We use non-GMO seeds either supplied by top international suppliers or grown internally from high-quality parent seeds.

Kernel at a Glance



Segment results summary

	Revenue, US$ million			EBITDA, US$ million			Volumes, thousand tons[1,2]			EBITDA margin	
	FY2016	FY2017	y-o-y	FY2016	FY2017	y-o-y	FY2016	FY2017	y-o-y	FY2016	FY2017
Sunflower oil											
Sunflower oil sold in bulk	1,032.1	**1,067.5**	3.4%	113.0	**83.2**	(26.4%)	983.9	**1,083.7**	10.1%	11.0%	**7.8%**
Bottled sunflower oil	102.6	**140.7**	37.1%	15.8	**16.6**	4.6%	93.7	**131.4**	40.3%	15.4%	**11.8%**
	1,134.7	**1,208.2**	6.5%	128.8	**99.8**	(22.6%)					
Grain and infrastructure											
Grain	821.7	**923.3**	12.4%	46.3	**22.7**	(51.0%)	4,409.5	**5,060.5**	14.8%	5.6%	**2.5%**
Export terminals	57.3	**58.8**	2.6%	37.5	**47.6**	27.0%	5,343.3	**6,101.3**	14.2%	65.4%	**80.9%**
Silo services	38.2	**60.7**	58.8%	23.4	**40.0**	1.7x	2,819.8	**3,254.9**	15.4%	61.2%	**65.9%**
	917.2	**1,042.8**	13.7%	107.1	**110.2**	2.9%					
Farming	358.1	**381.3**	6.5%	146.9	**143.8**	(2.1%)	1,818.3	**2,073.7**	14.0%	41.0%	**37.7%**
Discontinued operations[3]	(0.5)	**—**	n/m	1.7	**—**	n/m					
Unallocated corporate expenses	—	**—**	n/a	(37.2)	**(36.4)**	(2.3%)					
Reconciliation	(421.1)	**(463.4)**	10.0%	(1.0)	**1.8**	n/m					
Total	**1,988.5**	**2,168.9**	**9.1%**	**346.4**	**319.2**	**(7.8%)**				**17.4%**	**14.7%**

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

1 Million liters for bottled sunflower oil
2 Export terminals volumes include 1,619.7 thousand tons transshipped through Taman port in FY2016 and 1,645.1 thousand tons in FY2017. Earnings from the joint venture are accounted for below EBITDA.
3 Discontinued operations from assets held for sale.

Our Strategy

We aim to profitably double export volumes by FY2021, providing unique complex solutions to our clients (customers and suppliers), with balanced development of our business segments resulting from an efficient use of our asset base, investment in technology and innovation, strategic acquisitions, continuous development of our employees and strengthening of our operations.

Imperatives	Strategic pillars	Targets	Ultimate goal
Financial stability / Strong balance sheet	Geographic focus	Consolidate the oilseed crushing industry	Maximize shareholders' value
Integrity	Strong asset base	Double grain exports from FY2016 levels	
Professional team of leaders	Operational discipline	Achieve sustainable cost leadership in crop production	

	Mid-term targets in detail:	Key deliverables in 2017
Sunflower oil	• Construction of 1-million-ton per year greenfield crushing plant in Western Ukraine • Alternatively, acquisition of 1.0-1.5 million tons of additional crushing capacities in Western Ukraine	• Design and preparation works on greenfield crushing plant in Western Ukraine • Ongoing M&A dialogue with local producer
Grain and infrastructure	• Double grain exports in FY2021 through greenfield construction of up to 4.0 million tons deep-water transshipment facility in Ukraine • Expand and streamline silo network to serve growing in-house production and export volumes	• Active construction phase on our 2nd 4-million-ton deep-water grain transshipment terminal in Chornomorsk • Launched Avere – a knowledge and research platform to effectively hedge the expected increase of Kernel's export volumes to 12 million tons a year
Farming	• Achieve sustainable low-cost crop production through investments in technology • Smooth integration of recently acquired assets to uplift the operational efficiency and productivity levels to Kernel's high standard	• Acquisition of Ukrainian Agrarian Investments and Agro-Invest Ukraine expanded leasehold farmland bank by 200,000 hectares

Financial Performance in FY2017

Owing to our cohesive business model, Kernel has produced and handled record volumes across each segment during FY2017

Revenue

$2,168.9m

+9.1% y-o-y

EBITDA

$319.2m

-7.8% y-o-y

During FY2017 our EBITDA stood at US$ 319.2 million, down 7.8% y-o-y. Our leverage stayed at a comfortable 1.6x net-debt/EBITDA level as of 30 June 2017, growing from 1.1x level as of 31 March 2017 due to recent sizable investments into expansion of our farmland operations.

Notably, during FY2017 we continued to experience structural changes in our crushing business, as extremely high margins in the past six years drove sizable investments into the sector, thus yielding current overcapacity, which continues to push the margins down. As a result, the profitability of our sunflower oil business was weakened with EBITDA at US$ 99.8 million, down 22.6% y-o-y. Nonetheless, during FY2017 we crushed a record 3 million tons of sunflower seeds and achieved almost 90% utilization of our facilities[1]. Therefore, while we maintain a cautious outlook for crushing margins for the next year, we will strive to achieve full utilization of our facilities and to crush 3.2 million tons of sunflower seeds in FY2018, thus benefiting from our scale.

In contrast to the sunflower oil business, our grain and infrastructure division demonstrated robust financial performance during FY2017. Our transshipment terminals combined with our silo network handled the largest export volumes in their history, posting record EBITDA of US$ 47.6 million, up 27% y-o-y; and US$ 40 million, up 70.9% y-o-y, respectively. Reflecting a passive market environment, our grain marketing segment contributed only US$ 22.7 million to the overall division's EBITDA, which stood at US$ 110.2 million, up 2.9% y-o-y. Having recognized structural changes in grain and infrastructure business, for FY2018 we project to operate at full capacity with financial performance similar to FY2017.

Our farming division delivered another year of stellar performance, both operationally and financially. We benefited from favorable weather conditions, smart hedging and continuous productivity gains, which translated into a maintained EBITDA of US$ 143.8 million, marginally down 2.1% y-o-y. However, for the next marketing season, we anticipate the normalization of earnings, driven primarily by depressed global commodity prices, impaired crop yields due to a hot summer, accelerated local cost inflation and growing fuel prices. In addition, the on-going integration of recently acquired farmland shall require at least one season to uplift its productivity to Kernel's high standards, thus further diluting operational performance of farming in FY2018.

1 Excluding plant in Mykolaiv, which has been rented out to 3rd party since August 2016

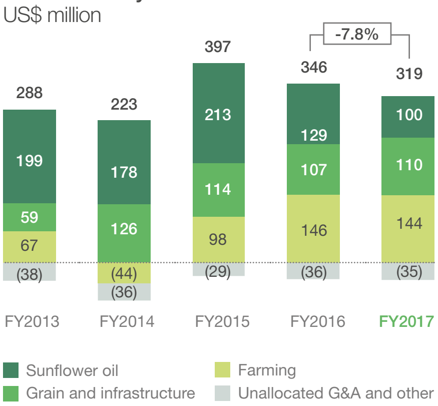
Financial Performance in FY2017 continued

Income statement highlights

During FY2017, our revenues stood at US$ 2,168.9 million, up 9.1% y-o-y, owing to record sales volumes across each business line. Similarly, our cost of sales increased by 11.3% y-o-y and amounted to US$ 1,722.8 million reflecting higher volumes of purchased commodities.

The net change in the fair value of biological assets and agricultural produce amounted to a negative US$ 2.9 million, compared to a positive US$ 20.1 million. This component included a loss from revaluing crops in fields to fair value less costs to sell as of 30 June 2017 and expensing of the respective gain booked a year earlier, as well as a gain from change in the fair value of livestock. Change in value for FY2017 reflects anticipation of a weaker y-o-y harvest.

Our EBITDA dynamics
US$ million



Gross profit declined to US$ 443.3 million during FY2017 versus US$ 460.2 million a year ago, reflecting compensated performance of our business lines: weaker crushing margins offset by stellar profitability from infrastructure and farming.

Our other operating income came to US$ 40.7 million, down 8.8% y-o-y. Most of the income, namely US$ 31.1 million in FY2017 vs. US$ 23.4 million a year ago, was attributable to VAT subsidy for our farming companies, which were entitled to retain the difference between VAT charged on products sold up to 1 January 2017 and input VAT on items purchased (or crops grown). Starting from 1 January 2017 the special VAT treatment regime has been abolished. Moreover, gains on operations with commodity futures and operations, which relate to hedging of our farming harvest, amounted to US$ 5.4 million vs. US$ 9.1 million last year. For a detailed breakdown, please, refer to Note 27 due to the financial statements on page 114.

Our distribution costs were flat y-o-y in absolute terms, but reduced from 8% to 7.3% of revenues in FY2017, or US$ 159 million, due to optimization of logistics chain.

While we increased our scale, we managed to maintain efficiency of our operations, leading to virtually unchanged general and administrative expenses of US$ 60 million or 2.8% of revenues in FY2017.

Profit from operating activities was US$ 265 million, down 7.7% y-o-y.

Finance costs for FY2017 increased by 9% y-o-y to US$ 62.3 million, as we unwinded US$ 5 million of financial expenses arisen from debt acquisition during purchase of Creative crushing plant.

The net foreign exchange loss stood at US$ 2.7 million in FY2017, compared to a US$ 30.4 million gain during last year, mostly reflecting in a lower non-cash gain recognized after the revaluation of our intra-group balances denominated in Ukrainian hryvnia. All of the Group's subsidiaries use the US Dollar as their functional currency, except for farming, export terminals and silo services which use the Ukrainian hryvnia and the Russian ruble. As a normal course of business, the Group's subsidiaries may issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Group's enterprises, if the lender and the borrower had different functional currencies.

Other expenses stood at US$ 1.5 million vs. US$ 16.6 million a year ago, caused mainly by US$ 9 million gains from disposal of non-core subsidiaries, and no revaluation losses of porperty, plant and equipment, comparing with US$ 6.6 million loss in FY2016.

Income tax expenses stood at US$ 18.8 million, a 4.8x increase from previous levels, as we exhausted our tax-deductible assets, accrued during the periods of devaluation of local currency in 2014-15. While current corporate income tax stood at level of US$ 7.7 million, down 40.1% y-o-y, additional tax expenses derived from temporary differences amounted to US$ 11.1 million, vs. tax benefit of US$ 9 million a year ago.

As a result, net profit attributable to shareholders of Kernel Holding S.A. amounted to US$ 176.2 million, down 21.7% y-o-y.

In accordance with our dividend policy, we paid the dividend of US$ 0.25 per share on 27 April 2017 for FY2016. For FY2017, the Board of Directors recommends the general meeting of shareholders to approve the dividend of US$ 0.25 per share to be paid during the financial year ending 30 June 2018.

Income statement highlights

US$ million	FY2016	FY2017	y-o-y
Revenue	**1,988.5**	**2,168.9**	**9.1%**
Net IAS 41 gain/(loss)	20.1	**(2.9)**	n/m
Cost of sales	(1,548.5)	**(1,722.8)**	11.3%
Gross profit	**460.2**	**443.3**	**(3.7%)**
Other operating income	44.6	**40.7**	(8.8%)
Distribution costs	(158.3)	**(159.0)**	0.4%
G&A expenses	(59.3)	**(59.9)**	1.1%
Operating profit	**287.2**	**265.0**	**(7.7%)**
Finance costs, net	(57.1)	**(62.3)**	9.0%
Foreign exchange gain/(loss)	30.4	**(2.7)**	n/m
Other expenses	(16.6)	**(1.5)**	(91.3%)
Share of gain in joint venture	3.9	**(1.1)**	(129.3%)
Profit/(Loss) before income tax	**247.8**	**197.4**	**(20.3%)**
Income tax expenses	(3.9)	**(18.8)**	4.8x
Loss from discontinued operations	(17.0)	**—**	n/m
Profit for the period	**226.8**	**178.6**	**(21.3%)**
Profit/(Loss) for the period attributable to:			
Equity holders of Kernel Holding S.A.	**225.2**	**176.2**	**(21.7%)**
Non-controlling interest	1.7	**2.4**	39.3%
EBITDA	**346.4**	**319.2**	**(7.8%)**

Source: Kernel.

Financial Performance in FY2017 continued

Kernel's debut on the Eurobond market – first Ukrainian corporate deal to the market since 2013

Transaction milestones

Market opening	• 1st international standalone bond issuance out of Ukraine since 2013 • 1st debut international agribusiness bond offering from Emerging Markets since 2013 • 1st international corporate bond issuance from CEEMEA in 2017
Strong investor demand	• Orderbook >US$ 2 billion at its peak; the deal >2.5x covered with final book • Anchor orders from international institutional investors (>90% of allocations from USA, UK, and W. Europe)
Key terms	• Amount: US$ 500 million • Maturity: January 31, 2022 • Coupon / yield: 8.750% / 8.875%
Results for Kernel	• Diversification of funding sources • Optimization of credit ratings profile • Extension of the overall debt portfolio maturity • Minimization of the refinancing risks in the volatile regional environment • Trust from international institutional investors • Pass to 2021 strategy execution

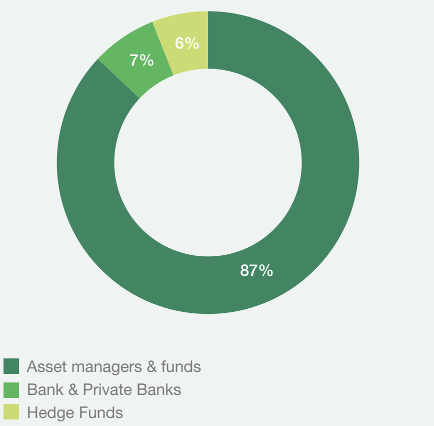
Leading credit rating position in Ukraine

The highest credit rating in Ukraine, 2 (Fitch) and 1 (S&P) notches above the Sovereign

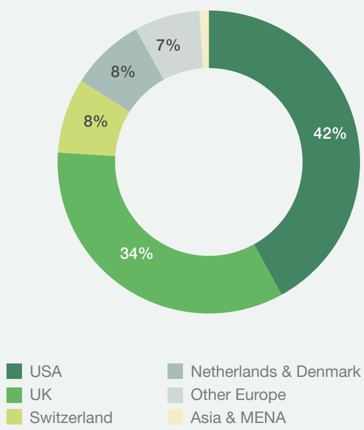
Credit ratings	S&P Global	Fitch Rating
Kernel	B St	B+ St
MHP	B St	B
Ukraine Sovereign	B- St	B- St
Ferrexpo	B- St	B- St
Metinvest	n / r	B St

Source: Bloomberg

Allocation by investor type



Allocation by geography



Financial Performance in FY2017 continued

Cash flow highlights

Operating profit before working capital changes stood at US$ 324.8 million, as compared to US$ 330.5 million a year earlier, lower 1.7% y-o-y.

During FY2017, our changes in working capital stood at negative US$ 206.2 million, versus negative US$ 136.3 million a year ago, stemming from inventories accumulation to secure high crushing volumes and utilization of our facilities, as well as to meet contractual demand in the forthcoming quarter. As of 30 June 2017, 91.5% of inventories consisted of readily marketable inventories, which were either presold or could be easily converted to cash being a commodity by nature.

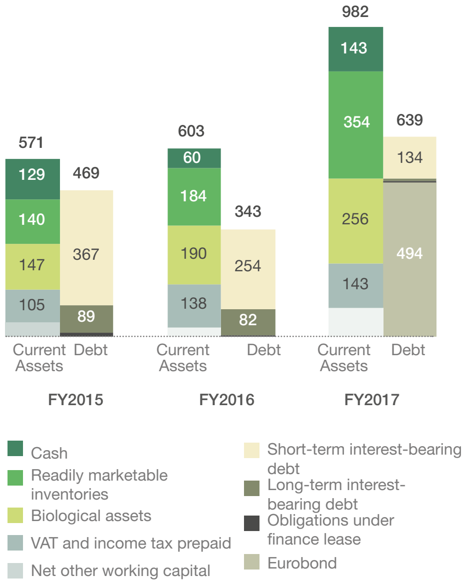
After accounting for financial expenses and income taxes paid, which together stood at US$ 41.1 million, net cash provided by operating activities reached US$ 77.4 million in FY2017 down from US$ 133.7 million a year ago, caused by negative working capital adjustment as discussed above.

Net cash used in investing activities stood at US$ 223.5 million in FY2017, up 3.7x times from its previous year levels of US$ 60.7 million, primarily driven by the expansion of our landbank through acquisition of Ukrainian Agrarian Investments with its 190 thousand hectares of prime farmland and 200 thousand tons of storage capacity.

Notably, during FY2017, Kernel has earned recognition for the strongest credit in Ukraine following US$ 500 million debut Eurobond issuance on January 2017, unlocking the country after a 4-year freeze.

The table below summarizes our outstanding debt profile as of 30 June 2016 and 2017, respectively. Our net debt stood at US$ 496 million as of the end of FY2017, compared to US$ 282.8 million a year ago, as shortly after the placement we have repaid all our short-term facilities, extending our debt maturity profile and focusing on our mid-term strategy implementation. Moreover, almost 70% of our net debt as of 30 June 2017 was covered by readily marketable inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism. As of 30 June 2017, the net debt to EBITDA ratio sits comfortably at 1.6x.

Working capital and debt position
US$ million



Source: Kernel.

Liquidity position and credit metrics

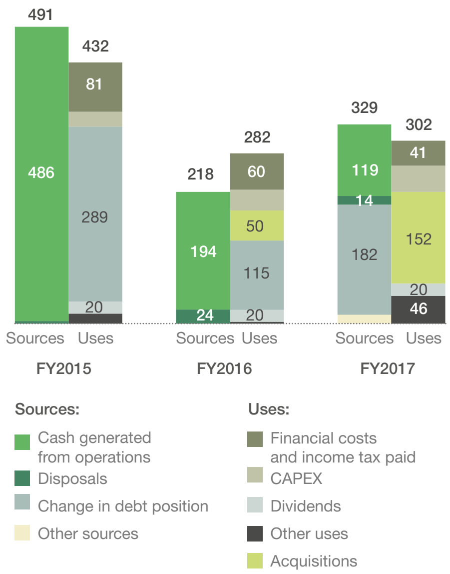
US$ million, except ratios	FY2016	FY2017	y-o-y
Short-term interest-bearing debt	254.5	134.5	(47.2%)
Long-term interest-bearing debt	81.8	5.6	(93.2%)
Obligations under finance lease	6.8	5.7	(16.1%)
Eurobond	—	493.6	n/m
Gross interest-bearing debt	**343.1**	**639.4**	**86.3%**
Cash	60.4	143.4	2.4x
Net interest-bearing debt	**282.8**	**496.0**	**75.4%**
Readily marketable inventories	183.7	353.9	92.7%
Adjusted net debt	**99.1**	**142.1**	**43.4%**
Shareholders' equity	995.3	1,153.0	15.8%
Net debt / EBITDA	0.8x	1.6x	
Adjusted net debt / EBITDA	0.3x	0.5x	
EBITDA / Interest	6.1x	5.1x	

Source: Kernel.

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

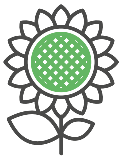
Net other working capital is the sum of trade accounts receivable, prepayments to suppliers and other current assets, other inventories minus trade accounts payable minus advances from customers and other current liabilities.

Sources and uses of cash
US$ million



Source: Kernel.

Sunflower Oil



Crushed
3 million tons of
sunflower seeds
in FY2017

Our business model is underpinned by management confidence in margin recovery and the ability to navigate sustainably through challenging times

Kernel has long been a recognized leader in the sunflower crushing industry. It is among the leading global sunflower oil producers that has been able to maintain a pattern of continued growth in sunflower oil exports over the past decade. As a testimony to Kernel's undisputed leadership position, during 2016/17 marketing season, our global market share stood at 7.3% of sunflower oil production and 11.2% of its exports[1].

However, our historic market environment is undergoing cyclical changes that is having a clear impact on our profitability: the demand for sunflower seeds in Ukraine continues to exceed its supply, thus pushing the margins down by shifting the bargaining power to producers of oil-bearing crops. Noticeably, local competition is becoming much stronger and more broadly based. As a result, our EBITDA came to US$ 99.8 million in FY2017, down 22.6% y-o-y.

Revenue
$1,208.2m
+6.5% y-o-y

EBITDA
(before unallocated head office expenses)
$99.8m
-22.6% y-o-y

Nonetheless, being a margin-driven business, we clearly recognize the need to increase sunflower oil production and sales, thus sustaining the performance of this segment at a viable level. Therefore, during FY2017 we crushed 3 million tons of sunflower seeds and strive to crush as much as 3.2 million tons of sunflower seeds during next season reaching previously unseen utilization of 95%[2].

1 Based on USDA data, October 2017
2 Excluding plant in Mykolaiv, which has been rented out to 3rd party since August 2016

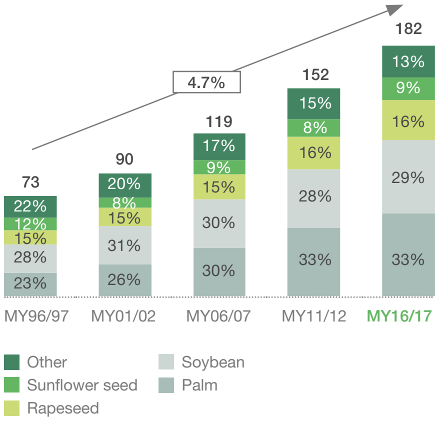
Sunflower Oil continued

Our Markets

Following the global demographic trends, world consumption of vegetable oils achieved healthy 2.5% y-o-y growth to 182 million tons in the 2016/17 marketing season. Sunflower oil was the fastest growing market segment, adding up to 9.0% y-o-y and reaching a record 16.5 million tons worldwide, thanks to changes in dietary patterns in India, EU and Northern Africa. As a result, the share of sunflower oil in the global consumption of vegetable oils increased to 9.1% in 2016/17 from 8.5% year ago. Global production of vegetable oil increased 5.3% y-o-y to 186 million tons, and the sunflower oil segment demonstrated 18.2% y-o-y growth to its highest ever 18.2 million tons, mainly due to the record harvest of sunflower seeds in Ukraine and Russia, which both account for 58% of global sunflower seeds production. As a result, the sunflower oil market felt the largest relative imbalance, which put downward pressure on prices, with Black Sea's sunflower oil FOB prices descending from US$ 800 to US$ 720 per ton during 2016/17 marketing year.

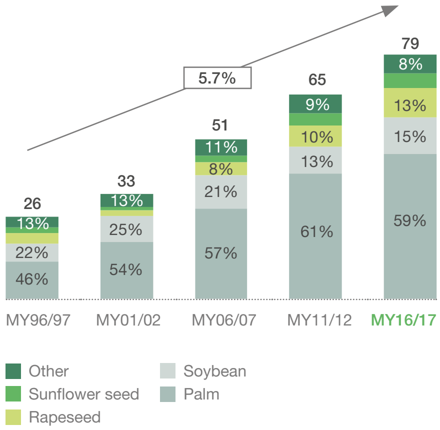
Ukraine remained the largest supplier of sunflower oil globally, exporting to international markets a remarkable 5.8 million tons of sunflower oil, or 57% of total international export in 2016/17 season.

Global Consumption of Vegetable Oils
million tons



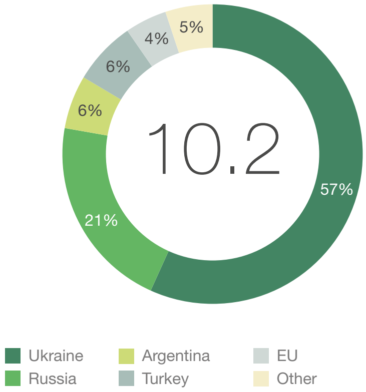
Source: USDA, October 2017.

Global vegetable oil Exports in 2016/17 MY
million tons



Source: USDA, October 2017.

Global Sunflower Exports in 2016/17 MY
million tons



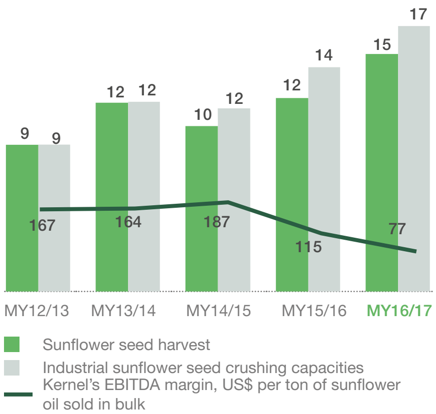
Source: USDA, as of October 2017.

Sunflower seed processing in Ukraine

In the 2016/17 marketing season, farmers in Ukraine enjoyed the record harvest of sunflower seed, both due to the largest ever harvested areas and unprecedented yields supported by favorable weather conditions. With negligible amounts of exports and virtually unchanged ending stocks, 96% of the harvested seeds were crushed domestically to produce 6.4 million tons of sunflower oil of which 5.8 million were exported.

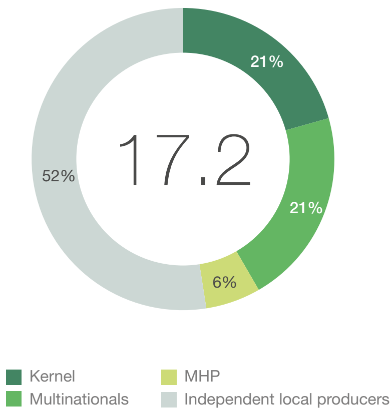
During 2016/17, Ukrainian farmers harvested 15.2 million tons of sunflower seeds, up 28.0% y-o-y, by increasing sowing areas to 6.4 million hectares, a 16% surge y-o-y, and advancing yields to 2.4 tons per ha – a new record for them. Additionally, effective crushing capacities continued to increase due to the commencement of brand new crushing facilities and modernization of existing capacities (done both by international and local players) and a return to the market of producers, which were not operating during previous seasons. On top of that, small producers became more active due to better access to working capital financing, thus increasing demand for sunflower seed. As a result, a mismatch between supply (sunflower seed harvested) and demand (crushing capacity) widened, thus shifting the bargaining power to farmers, depressing margins for processors and resulting in underutilization of crushing capacities.

Mismatch between supply and demand for sunflower seeds in Ukraine
million tons



Note: Differences are possible due to rounding.
Source: National Academy of Agricultural Sciences of Ukraine, USDA October 2017, Kernel

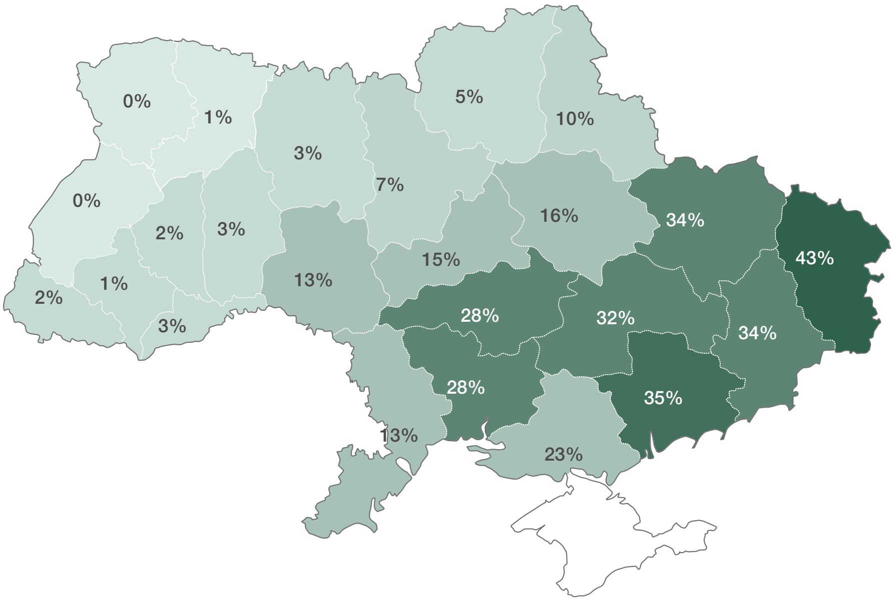
Crushing capacities as at MY 2016/17
million tons



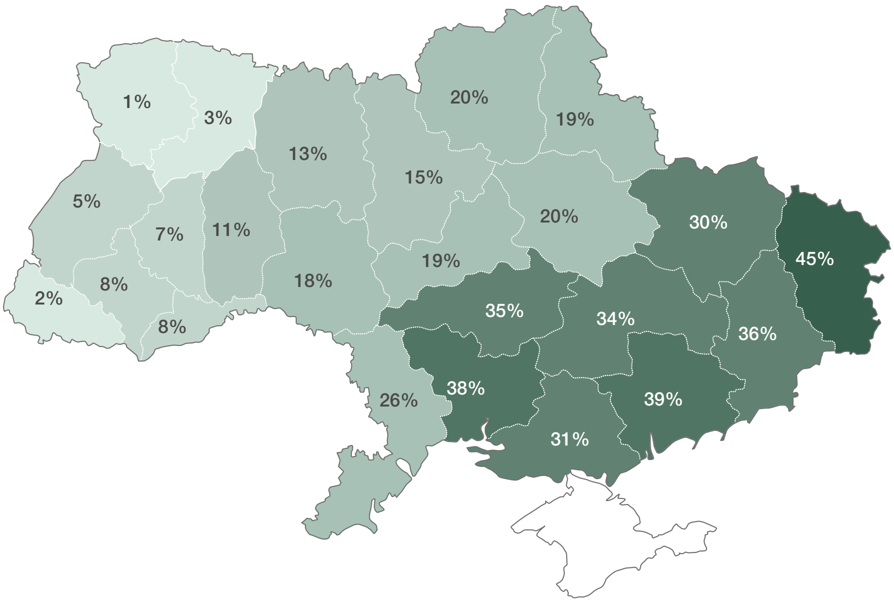
Source: National Academy of Agricultural Sciences. Kernel.

Sunflower Oil continued

Acreage harvested with sunflower in 2010/11MY
% of total



Acreage harvested with sunflower in 2016/17 MY
% of total



Source: State Statistics Service of Ukraine.

Market outlook

2017/18 is expected to be challenging for the crushing business in Ukraine. While no new crushing capacities are expected to be commissioned in 2017/18, we envisage the reduction of sunflower seed production volumes to 13.0 million tons keeping the supply gap wide. A summer drought negatively affected sunflower seed yields and oil content. Therefore, crushing margins will continue to be under pressure in 2017/18.

We estimate that independent local crushers, which account for 50% of installed capacity in Ukraine, financially are not capable of running the business in an ongoing basis, if crushing margins stay at the level of US$ 50-60 per ton of oil depending on their respective debt levels. Current crushing margins shall rationalize the near-term demand for sunflower seeds and fuel sector consolidation.

We remain more optimistic for the mid-term perspective. Sunflower has been the most profitable crop in Ukraine for 10 years, which translated into 14% CAGR in sunflower seeds production volumes during last 15 years.

Central and southeastern regions of Ukraine were historically the major areas of sunflower cultivation, and close to 90% of total crushing capacity is located there. But we see the clear tendency in its increase, particularly in the northern and western parts of Ukraine.

Sunflower Oil continued

Our financial and operating performance

We report our sunflower oil business under two segments: sunflower oil sales in bulk and bottled sunflower oil.

Growing imbalance between supply and demand for sunflower seeds in Ukraine had a clear impact on the level of our profitability in the sunflower oil business, which resulted in the weakening of our EBITDA by 22.6% y-o-y to US$ 99.8 million in FY2017 for our sunflower oil business.

At the same time, during FY2017 we experienced a 12.7% growth in sales owing primarily to higher crushing volumes, which have accelerated their momentum and surged by 10.2% y-o-y, almost two times higher than their five-year CAGR of 6.3%. Therefore, total revenues have increased by 6.5% y-o-y, reaching US$ 1,208.2 million, but double-digit growth in sales was largely offset by a continued decline in sunflower oil prices.

Sunflower oil sold in bulk		FY2016	FY2017	y-o-y
Revenue	US$ million	1,032.1	**1,067.5**	3.4%
EBITDA	US$ million	113.0	**83.2**	(26.4%)
Volumes sold	thousand tons	983.9	**1,083.7**	10.1%
Revenue per ton	US$ / ton	1,049.0	**985.0**	(6.1%)
EBITDA per ton	US$ / ton	114.9	**76.7**	(33.1%)
EBITDA margin	%	11.0%	**7.8%**	(3.2pp)
Bottled sunflower oil		FY2016	FY2017	y-o-y
Revenue	US$ million	102.6	**140.7**	37.1%
EBITDA	US$ million	15.8	**16.6**	4.6%
Volumes sold	million liters	93.7	**131.4**	40.3%
Revenue per thousand liters	US$ / 000 liters	1,095.4	**1,070.5**	(2.3%)
EBITDA per thousand liters	US$ / 000 liters	169.0	**126.0**	(25.5%)
EBITDA margin	%	15.4%	**11.8%**	(3.7pp)
Sunflower oil total EBITDA	**US$ million**	**128.8**	**99.8**	**(22.6%)**

Sunflower oil sold in bulk

Our major destinations for sunflower oil sold in bulk remained roughly the same y-o-y, with India being the key consumer. Revenues from the bulk sales segment amounted to US$ 1,067.5 million, up 3.4% y-o-y, as growth in volumes was offset by decline in prices.

EBITDA margins amounted to US$ 76.7 per ton of oil sold in bulk during FY2017, down 33.2% y-o-y. During the 2016/17 marketing season, the conditions remained supportive for the farmers, as dryer than usual weather during harvest allowed them to extend on-farm storage, thus evening out the pace of new harvest selling across the whole season at virtually no incremental costs. Moreover, high volatility of local currency, combined with anticipation of domestic price elevation and an ebbing vegetable oil market, has led to EBITDA margin squeeze during FY2017.

Bottled sunflower oil

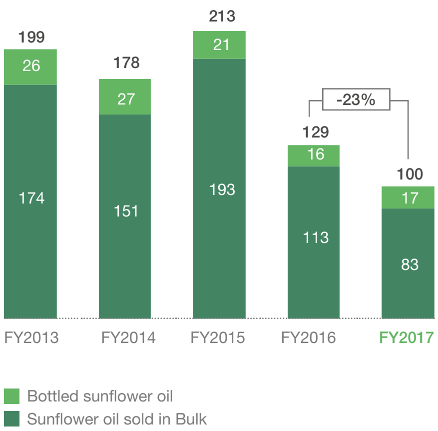
Notably, we have doubled the exports of bottled oil over the course of FY2017, bringing the share of exports to an astounding 73.8%, or a little over 95 million liters. The remainder was sold domestically under our well-recognized brands and private-labels. As a consequence, owing to growing exports, we managed to increase the sales volumes by 40.3% y-o-y, to 131 million liters in FY2017. Even with squeezed margins mirroring the profitability of the bulk oil segment, higher sale volumes drove segment EBITDA up by 4.6% y-o-y, reaching US$ 16.6 million.

FY2018 Outlook

We expect FY2018 to be another challenging year for the crushing business. Some independent medium- and small-sized players shall streamline the demand for sunflower seeds to not dip below the break-even level. A still lower sunflower seed harvest of 13.0 million tons shall keep the crushing margins under pressure.
In this environment, we will continue to focus on nearly full-capacity utilization, benefiting from our scale and cost leadership. At the same time, we expect a margin recovery in 2-3 years following the anticipated sunflower seed production growth mainly coming from Western Ukraine.

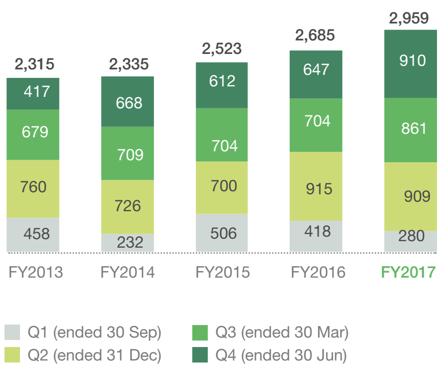
We announced the construction of a greenfield 1-million-ton per year crushing plant in that region to be commissioned in 2020.

Sunflower oil business EBITDA
US$ million



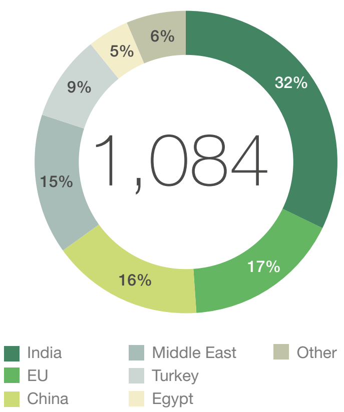
Note: Differences are possible due to rounding
Source: Kernel.

Crushing volumes
thousand tons



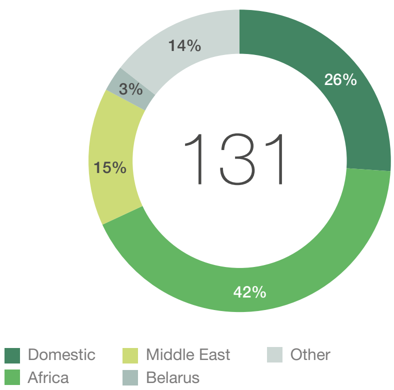
Note: Differences are possible due to rounding
Source: Kernel.

Sunflower oil sold in bulk destinations
thousand tons



Source: Kernel.

Bottled sunflower oil destinations
million liters



Source: Kernel.

Sunflower Oil continued

Our non-financial performance

Health and safety

Fortunately, there were no fatal accidents at our sunflower oil production in FY2017. During the year ended 30 June 2017, there were 2 work-related injuries at our sunflower oil crushing facilities, comparable to previous year. Each processing site has a dedicated health and safety specialist who ensures that workplaces comply with safety requirements. Moreover, all of our workers are equipped with coveralls and receive proper health and safety training annually. For more details on our health and safety performance, please refer to page 38 of this report.

Employee training and development

During FY2017, we continued to extend our sunflower oil management training program for key experts at our sunflower oil production sites. More than a dozen managers were selected to go through this MBA Challenger module-based education program aimed to develop business skills, industry acumen and soft skills. With a total of 21.6 thousand hours of formal learning spent in FY2017. This educational program is designed to resemble executive business administration training, custom tailored for our employee's specific needs. See more details on page 37.

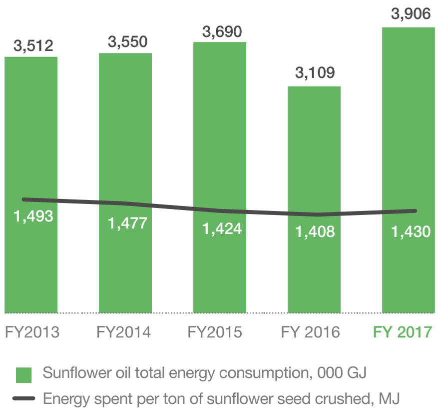
Energy consumption and emissions intensity

In FY2017, our energy consumed per ton of sunflower seed crush remained relatively unchanged despite at 1,430 MJ. During the year, we also benchmarked fuel efficiency at several our plants with global practice, revealing that our steam and electricity consumption is in line with the low end of the international range. All our oilseed crushing plants use sunflower seed husk, a waste by-product of processing, as a key energy source to produce the steam required for production.

Product safety

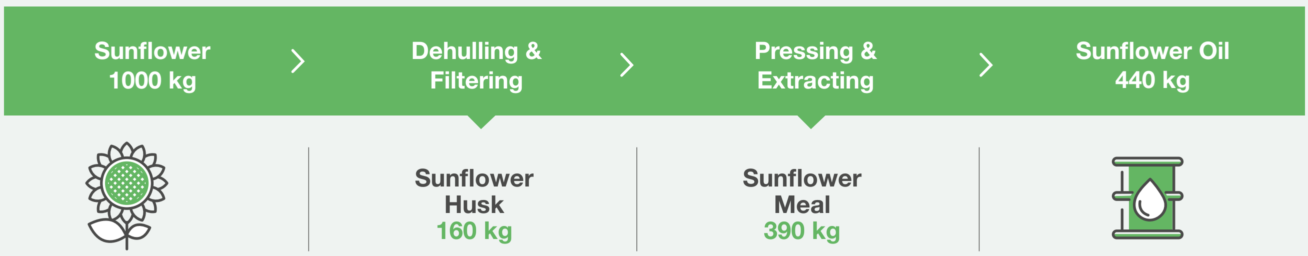
In FY2017, 100% of our sunflower oil and meal was produced at facilities certified at ISO 22000 standards, which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application procedures developed by the Codex Alimentarius Commission. Moreover, bottling facilities are certified under FSSC 22000 standard, and all production plants are certified under ISO 9001. We also ensure control over the food safety along the protein meal production and distribution value chain: production facilities are certified under GMP+B1, our truck company is certified under GMP+B4, transshipment and freight chartering is certified under GMP+B3. For more details on our health and safety, employee training and development, energy consumption and other sustainability performance and approach, please refer to pages 33-42 of this report.

Sunflower oil business energy consumption and intensity ration



Source: Kernel.

Sunflower oil production process



Sunflower husk

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

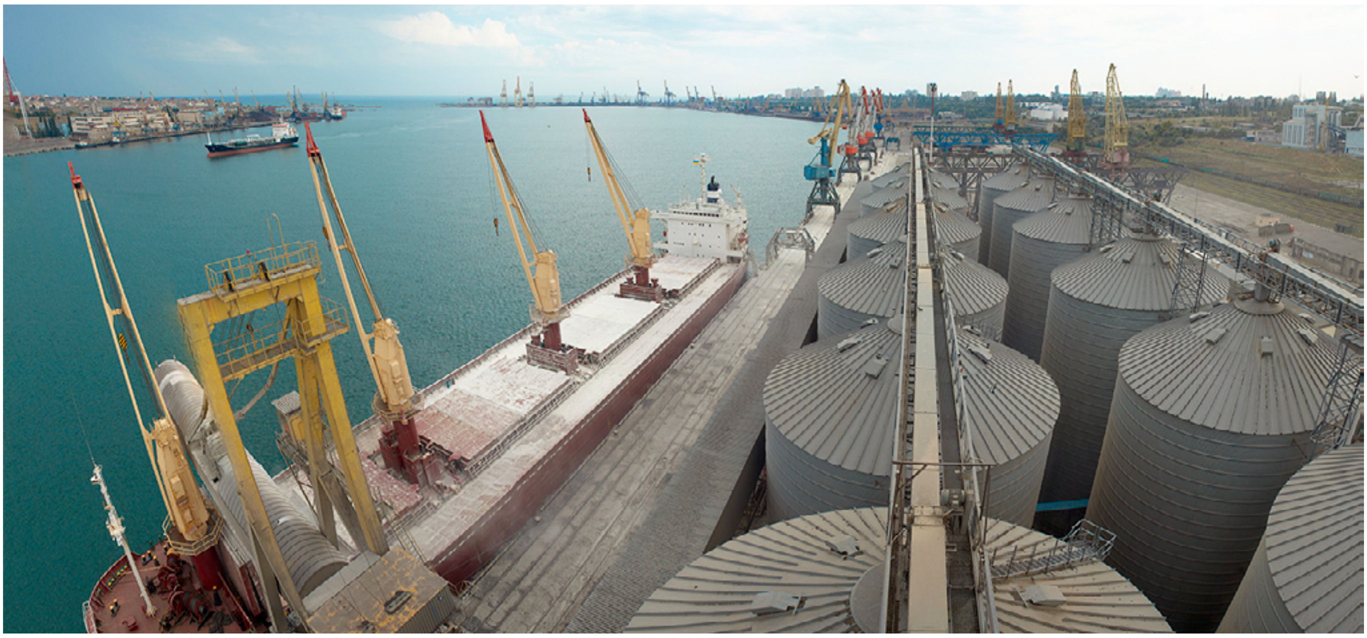
Sunflower meal

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

Sunflower oil

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

Grain and Infrastructure



Exported more than 5 million tons of grains in FY 2017

Leveraging Ukraine's natural advantage in agriculture

The farmers have been at the heart of Kernel's grain marketing operations. In just a little under a decade, we managed to connect more than 5,000 agricultural producers with global markets by developing an efficient supply chain through strategically located logistic assets in Ukraine. This irreplicable asset footprint has allowed us to profitably export more than 5 million tons of grains during 2016/17 marketing season and to secure the leading position in the Black Sea Region.

However, the competitive landscape has been gradually changing. With the imminent entry of new grain export operators as well as regulatory changes, the industry's previously inflated profitability of grain trading business has declined, thus promoting the effectiveness of grain handling/logistic operations. Consequently, our EBITDA stood at US$ 110.2 million, up 2.9% y-o-y.

Nevertheless, apt recognition of the above-mentioned transformation in Kernel's business environment allowed us to focus on advancing infrastructure, increasing export volumes and maintaining the loyalty of local farmers. We believe that the grain handling business shall continue wielding high barriers to entry, hence creating a unique opportunity for Kernel to foster its grain exports, supporting Ukraine on its road to be a breadbasket to the World.

Revenue

$1,042.8m

+13.7% y-o-y

EBITDA
(before unallocated head office expenses)

$110.2m

+2.9% y-o-y

Grain and Infrastructure continued

Our Markets

Global markets

Two global trends make us confident in the further growth of global demand for grains with global population growth being the first basic trend, and changes in population structure contributing on top of that:

- Increasing urbanization. The world's urban population is expected to increase by 25% over the next decade, mostly due to growing cities in the developing parts of the globe.
- With income growth in developing countries, population change its dietary patterns by consuming more protein-rich calories such as meats and dairy, thus supporting demand for grains and meals as key components for animal feed

Additionally, increasing biofuel production continue to drive demand for corn, soybean and rapeseed used for that production.

As a result, we observe a steady growth in demand for agricultural commodities, with global consumption of grains increasing by 3.9% and exports climbing by 14.2% y-o-y in 2016/17. At the same time, we observe an abundant supply of wheat and coarse grains depressing grain prices, having virtually unchanged ending stocks.

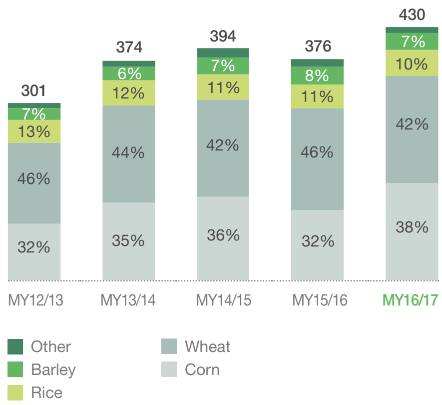
While imports become more dispersed over a larger number of countries, exports of agricultural commodities continue to become concentrated in fewer countries, with Black Sea being one of the leading export regions. Ukraine is already the 2nd largest grain exporter in the world after USA with 10.5% share of total world grain export.

Domestic market

Over recent years, Ukraine harvested more than 60 million tons of grains annually. Nonetheless, 2016/17 was an exceptionally good year for the Ukrainian agronomist, yielding 66.1 million tons of grains, up 9.9% y-o-y, primarily due to heftier yields, which reached their all-time high across major crops. Notably, with plateaued domestic consumption, all excess production is being automatically exported. As a result, in 2016/17, Ukrainian grain exports soared by 17% y-o-y, reaching a record 45.2 million tons. Despite lower harvesting areas, yields were extremely good, supporting overall growth in tonnage. Corn was the main driver of harvest growth, adding almost 5 million tons in production y-o-y.

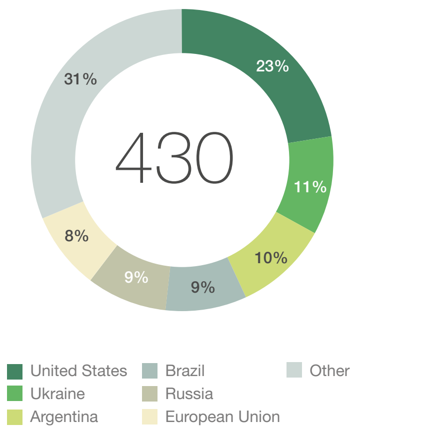
«Growing demand for food, feedstock and biofuels advance grain exports across the globe»

Global grain exports
million tons



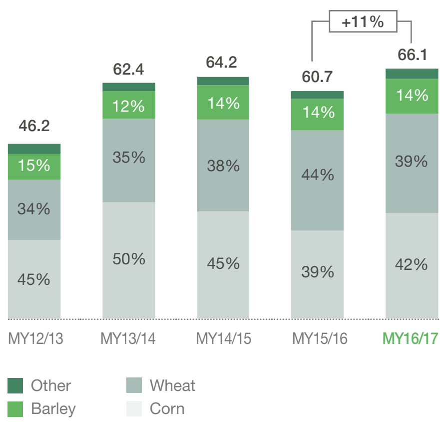
Source: USDA, October 2017.

Top grain exporting countries
million tons



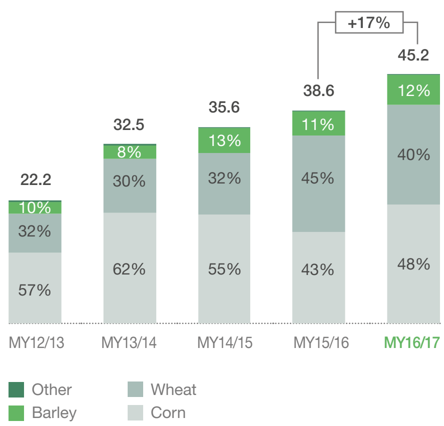
Source: USDA, October 2017.

Ukrainian grain production
million tons



Source: USDA, October 2017.

Ukrainian grain exports
million tons



Source: USDA, October 2017.

Grain and Infrastructure continued

Market outlook

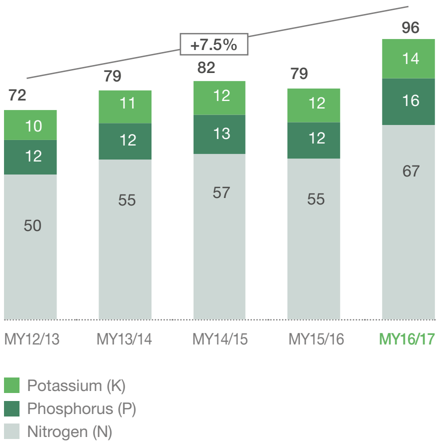
In the 2017/18 marketing year, we expect a decline in domestic yields for such key grains as corn and wheat, but total production volumes will remain relatively unchanged due to increased harvested areas.

In the long-term perspective, we remain very optimistic on Ukraine since there remains a good potential for average market productivity growth. Having tremendous improvement during the last 5 years, average grain yields in Ukraine are still 20-40% lower than those of developed producers (USA, EU, Canada, Argentina) despite much higher quality soils in Ukraine. With improved financial position and recovered access to funding, farmers in Ukraine will start applying more intensive crop production technology by investing in better seeds and more productive machinery and applying fertilizers and crop protection agents more effectively, targeting the yields of such established local producers as Kernel. Continuously improving management practices and access to knowledge and know-how will also contribute to productivity growth.

Remarkably, unlike other large producing countries, such as China, India and Brazil, where domestic production is mostly used to supply local markets, less than half of Ukraine's grain output is usually consumed domestically.

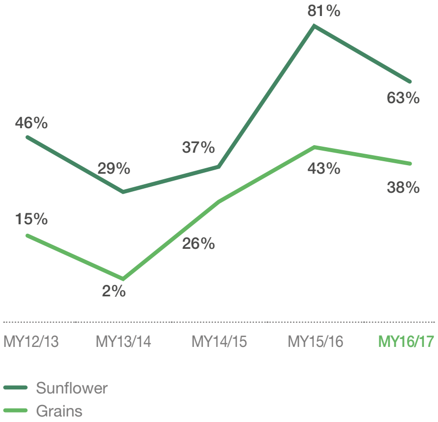
Consequently, due to stagnant domestic demand against the backdrop of a falling population, any additional volume of production in Ukraine shall be marked for the export markets. However, to fully realize Ukraine's export potential, significant investments are required, especially in infrastructure. As a result, companies that would be ready with logistic assets and throughput facilities shall benefit from potential grain export growth.

Ukraine's mineral fertilizer application
kg per ha of sowing areas



Source: State Statistics Service of Ukraine
Note: N - leaf growth; P - development of roots, flowers, seeds, fruit; K - Strong stem growth, movement of water in plants, promotion of flowering and fruiting;

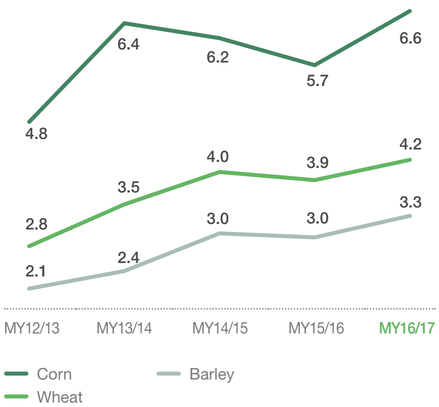
Gross profit margin for key crops in Ukraine
%



Source: State Statistics Service of Ukraine.

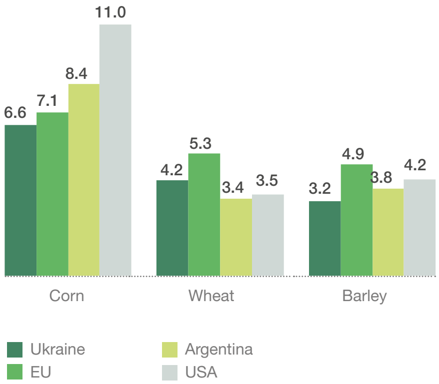
«Ukrainian farmers are in a privileged position to play a dominant role in global food supply»

Ukrainian grain yields
tons per ha



Source: USDA, October 2017.

Ukrainian yields vs yields in other countries in MY 2016/17
tons per ha



Source: USDA, October 2017.

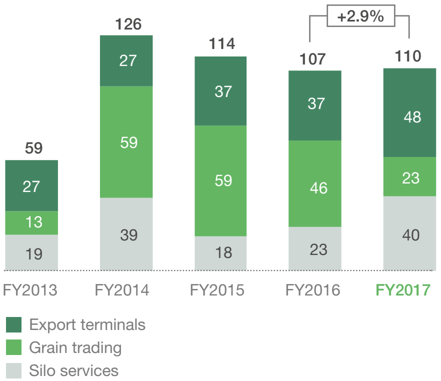
Grain and Infrastructure continued

Our financial and operating performance

Our grain and infrastructure business is reported under three segments: silo services, grain marketing and export terminals. While these operations are closely interconnected, internal transactions are reported on an arm's-length basis. The overall EBITDA contribution of these segments reached US$ 110.2 million in FY2017, with 2.9% increase y-o-y.

Grain and infrastructure business EBITDA

US$ million



Source: Kernel.

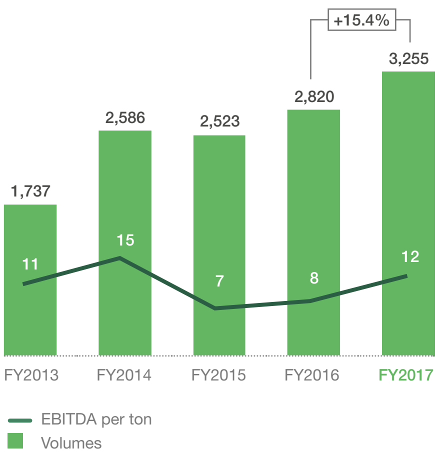
Grain and infrastructure segments' performance

Grain marketing		FY2016	FY2017	y-o-y
Revenue	US$ million	821.7	**923.3**	12.4%
EBITDA	US$ million	46.3	**22.7**	(51.0%)
Volumes sold	thousand tons	4,409.5	**5,060.5**	14.8%
Revenue per ton	US$ / ton	186.3	**182.5**	(2.1%)
EBITDA margin	US$ / ton	10.5	**4.5**	(57.3%)
EBITDA margin	%	5.6%	**2.5%**	(3.2pp)
Silo services		FY2016	FY2017	y-o-y
Revenue	US$ million	38.2	**60.7**	58.8%
EBITDA	US$ million	23.4	**40.0**	70.8%
In-take volumes	thousand tons	2,819.8	**3,254.9**	15.4%
Revenue per ton	US$ / ton	13.5	**18.6**	37.6%
EBITDA margin	US$ / ton	8.3	**12.3**	48.0%
EBITDA margin	%	61.2%	**65.9%**	4.6pp
Export terminals[1]		FY2016	FY2017	y-o-y
Revenue	US$ million	57.3	**58.8**	2.6%
EBITDA	US$ million	37.5	**47.6**	27.0%
Throughput volumes	thousand tons	3,723.6	**4,456.1**	19.7%
Revenue per ton	US$ / ton	15.4	**13.2**	(14.3%)
EBITDA margin	US$ / ton	10.1	**10.7**	6.1%
EBITDA margin	%	65.4%	**80.9%**	15.6pp
Grain and infrastructure total EBITDA	**US$ million**	**107.1**	**110.2**	**2.9%**

1 excluding results from Taman operations, which is owned via joint venture and accounted for under equity method of accounting.

Volume of grains received in inland silos

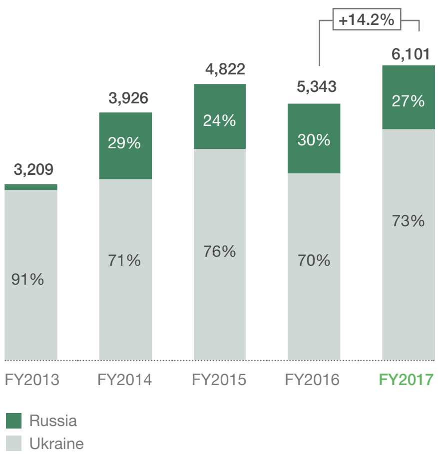
thousand tons



Source: Kernel.

Transshipment volumes

thousand tons



Source: Kernel.

Grain marketing

During FY2017, we have exported a record volume of 5.1 million tons of grains, up 14.8% y-o-y. This accounted for 9% of the Ukrainian and 3% of Russian grain export volumes respectfully, making Kernel the leading grain exporter from the Black Sea region, that has connected local farmers with more than 30 countries across the globe.

Being an easy-to-enter asset-light business, grain trading faced intensified competition both from international competitors and local players in FY2017. Together with regulatory changes and farmers' reluctance to sell their crops over the year, it resulted in a substantial decline of EBITDA margins. As a result, our grain trading EBITDA stood at US$ 22.7 million, down 51% y-o-y.

Silo services

During FY2017, our silo network has delivered an astonishing performance both in volume and profitability. The combination of record production during harvesting season and above-average rainfalls during November-December 2016 has significantly improved the demand for grain drying and storage services, hence increasing the third-party farmers' use of the off-farm storage, primarily for corn.

Consequently, total EBITDA contribution stood at US$ 40 million, up by an overwhelming 70.8% y-o-y and volumes increased by 15.4% y-o-y to 3.3 million, increasing our operating efficiency and turnover.

Export terminals

Having recognized the transformation of the business environment, Kernel has managed to secure its leading position in infrastructure, thus transshipping a staggering 6.1 million tons, up 14.2% y-o-y, which was driven primarily by stunning grain exports and full utilization of our own export terminal in Chornomorsk, as well as robust performance in Taman. As a result, our Transbulkterminal and Oiltransterminal earned EBITDA of US$ 10.7 per ton, up 6.1% y-o-y, bringing EBITDA contribution to a record US$ 47.6 million, up 27% y-o-y. Taman results are reported below EBITDA.

FY2018 Outlook

We remain confident in the stability of our grain and infrastructure business. Increasing grain production in Ukraine will support the demand for infrastructure and high barriers to entry shall protect the profitability of this business in the mid-term perspective. Therefore, we expect comparable operational and financial performance of this business in FY2018, continuing to operate at full capacity utilization.

We are in the active phase of our TransGrain-Teminal construction, with up to US$ 60 million CAPEX budgeted for FY2018. The project is expected to start generating earnings in FY2020, entering the market just in line with increased domestic grain production.

Grain and Infrastructure continued

Our non-financial performance

Health and safety performance

During FY2017, there was a comparable number of work-related injuries – 2 in our grain and infrastructure business. As a part of a group-wide initiative to align our health and safety management practices with OHSAS 18001 standards, we trained our health and safety specialists under these standards two years ago and launched comprehensive hazard risk identification and mapping. For more details on our health and safety performance, please refer to page 38 of this report.

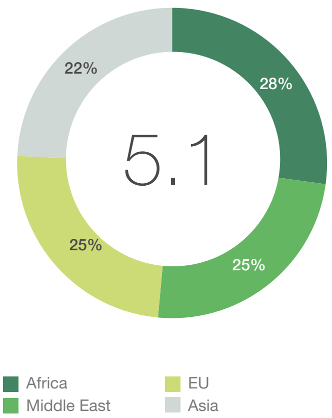
Employee training and development

In addition to our regular activities to train and develop our personnel, we expanded our dedicated corporate MBA for the middle management of our grain and infrastructure segments. The two-year part-time program consists of a mix of case studies, lectures and team projects, taught and led by lecturers who also teach at certified MBA programs. See more details on page 37.

Energy consumption and emissions intensity

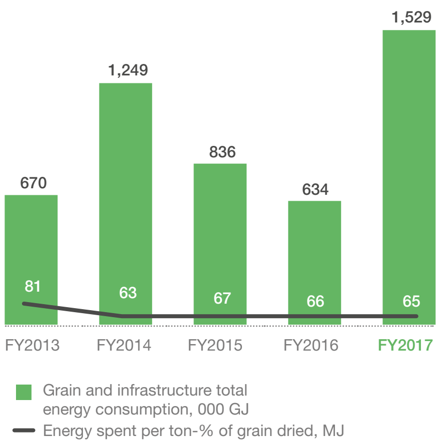
Our energy consumption within the grain and infrastructure segments increased 2.4x y-o-y to 1,529 gigajoules in FY2017, mainly due to drying services provided by our silos during wet harvesting campaign in autumn 2016. At the same time, energy intensity remained unchanged with the previous year, with 65 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 66 megajoules a year ago. For full group disclosure of energy consumption, emissions and intensity ratios, see pages 33-42 of this report.

Kernel's top grain export destinations
million tons



Source: Kernel.

Grain and infrastructure business energy consumption and intensity ratio



Source: Kernel

Farming

Produced over 2 million grains and oilseeds in FY2017

Kernel is a leading agricultural producer in Ukraine, operating 600 thousand hectares[1] of prime farmland

Ukraine is on the road to position itself as a major player in global food security. In little under a decade, crop yields have increased substantially for Ukrainian farmers, as they have made advancements in seed production and continued to employ western techniques in farm management. For instance, just in a couple of years, local agronomists have invested in better machinery, optimized breeds and seeds production and, most importantly, gained access to better data and advisory systems. The combination of the latter has led to record harvests of oilseed and grains in the 2016/17 marketing season: 85.2 million tons, up 10.6% y-o-y, a new record in Ukraine's history.

During FY2017, Kernel once again has proven itself as a leader in both application of cultivation technologies and prime farmland management. Our yields have increased by 15.3% y-o-y on average across the entire crop mix and stood at 18% - 35% above Ukraine's counterparts. The combination of efficient cost management and favorable weather conditions allowed our farming division's EBITDA to stand at a US$ 143.8 million, negligibly down 2.1% y-o-y in FY2017.

Revenue

$381.3m

+6.6% y-o-y

EBITDA
(before unallocated head office expenses)

$143.8m

-2.1% y-o-y

However, being an upstream business, our farming division's profitability directly correlates with global commodity prices' dynamics which kept the top line growth under pressure. Still, devaluation of local currency substantially reduced the cost base in US$, offsetting the prolonged weakness of global prices and supporting profitability of the segment.

Moreover, in line with the growth plan announced last year, we have completed a strategic bolt-on acquisition of more than 200 thousand hectares of leasehold farmland in summer 2017.

1 Following acquisition of Ukrainian Agrarian Investments and Agro-Invest Ukraine in summer 2017.

Farming continued

Our Markets

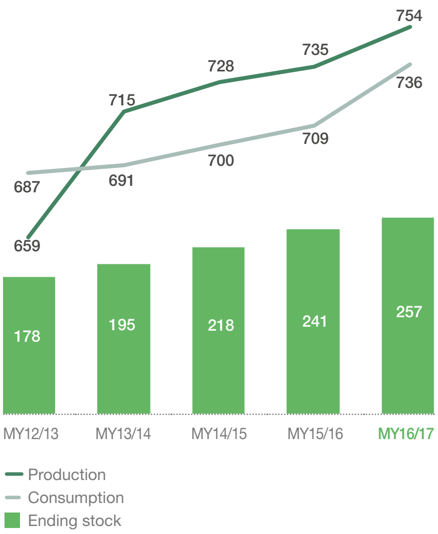
In contrast to our 'Grain and infrastructure' segment, which is margin driven business, our farming business remains heavily influenced by the global commodity prices dynamics.

Four years of strong harvest have put pressure on prices of cereals and oilseeds worldwide, but the most significant impact on crops prices was the decline in crude oil prices. Over the course of last couple of seasons, the correlation between the crude oil price index and those of cereal and vegetable oils was very tight, principally through its impact on energy, fertilizer costs and biofuels. At the same time, the decline in crude oil prices was much more substantial than those of grains and other agricultural produce, as high demand for these commodities limit price decline.

Moreover, agricultural production is not elastic in the short-term – simply, the farmers cannot respond quickly to demand changes. Therefore, grain stocks play a vital buffering role in mitigating short-term disruption in food supply, which assists in smoothening the price fluctuations.

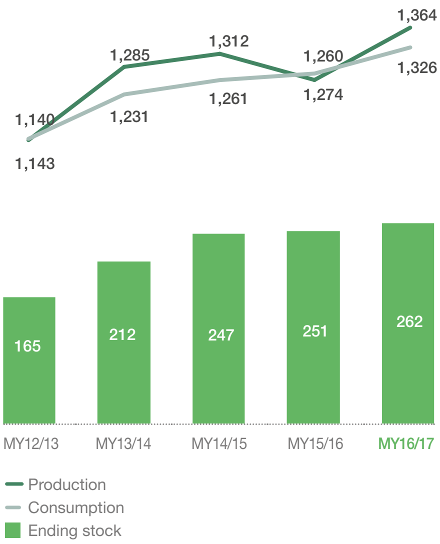
Meanwhile, during the 2016/17 marketing season, major commodities continue picketing deeper into lower cycles. Combined with Ukraine's stabilization, we might experience a normalization of the farming business profitability in the future, thus pulling it back from circumstantially inflated positions in the past. However, under current trends, agricultural stocks are not likely to increase. This means that future disruptions to the global agro market will likely trigger a stronger price increase than in the past.

Global wheat production, consumption and ending stocks
million tons



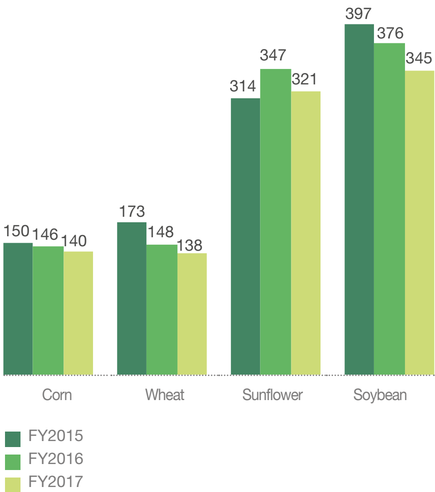
Source: USDA, October 2017.

Global coarse grains production, consumption and ending stocks dynamics
million tons



Source: USDA, October 2017.

Kernel's average farm-gate prices
US$ per ton, excl. VAT



Source: Kernel

Farming continued

Our operations

Large-scale farming

Kernel kicked-off the 2017/18 marketing season as the largest and most efficient crop producer in Ukraine, controlling over 600,000 hectares of farmland in Ukraine. During FY2017, we have produced over 2 million tons of grains and oilseeds on our 385 thousand hectares. We strive to retain a simple crop mix, and as a result, during the 2016/17 marketing season, corn accounted for 36%, sunflowers and wheat 21% each, and soybeans stood at 15%.

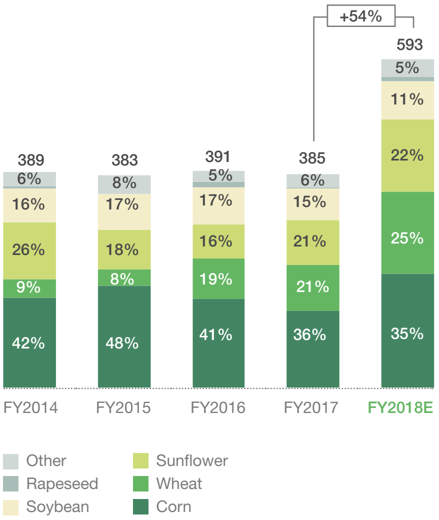
Leasehold land operations

As per Ukrainian legislation, agricultural land cannot be traded, and all farmers lease land from its current owners. Approximately 75% of land is owned by private individuals in small land plots as a consequence of the land distribution process in the 1990s after the collapse of the Soviet Union. Another 25% of agricultural land is owned by the state and state-owned enterprises.

We lease this land through contracts with an average maturity of 10 years, with such contracts containing the right of first refusal to prolong leases or buyout the land should the land market open in the future. With a recently enacted law that introduced a minimum land lease term of seven years and improved security for land lessees.

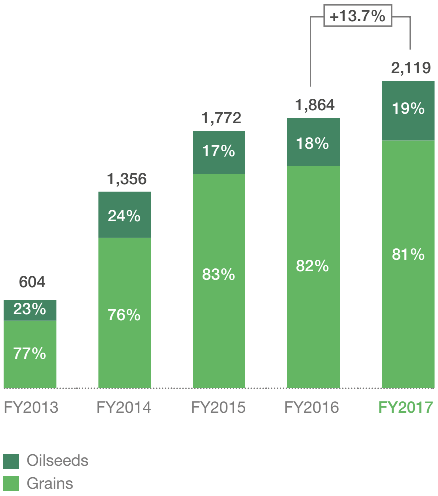
During FY2017, there was an extensive debate around the benefits and possible prospects of lifting the moratorium on land trading, but as of the date of this report's publication the topic is still under discussion. IMF and World Bank, as key donors to Ukraine, declare full support of the liberal land market reform.

Kernel's acreage harvested by crops
thousand ha



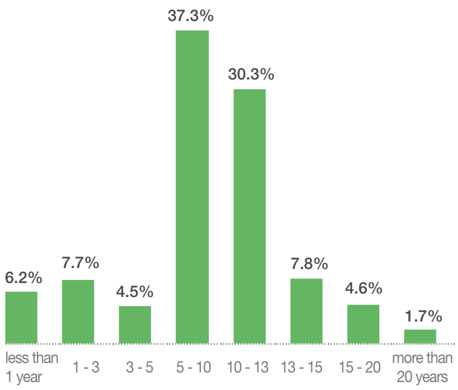
Source: Kernel.

Kernel's production of key crops
thousand tons



Source: Kernel.

Kernel's farmland lease rights maturity
as % of total landbank



Source: Kernel.

Farming continued

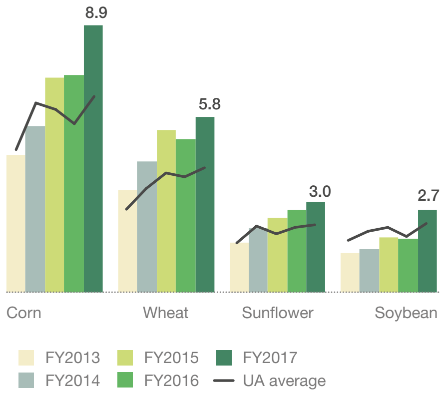
Modern and sustainable production technology.

Kernel continues to apply a balanced fertilization technique aimed at enriching its soil by utilizing both organic and mineral nourishments. Unlike many Ukrainian farmers, we apply most of our fertilizers in autumn, ahead of the spring planting campaign. Autumn application is beneficial for several reasons, the major ones include: a longer time for the nourishments to be absorbed by the land, the capability of applying fertilizers in liquid or fast-dissolving form, and the ability to finish the spring planting campaign within a shorter timeframe. We apply fertilizers to around 25cm deepness, ensuring close proximity to the crops' root system and fostering overall development. Also, we applied approximately 20% of our fertilizer during our planting campaign, thus boosting plant cultivation during the most crucial period.

Our crop rotation cycle is designed to mitigate the buildup of pathogens and pests while improving soil structure. We procure only high-quality crop protection agents from well-known international companies, never compromising on environmental risks and dealing only with pesticides approved by the local regulator. We test all of pesticides at our modern laboratories as an additional measure of control.

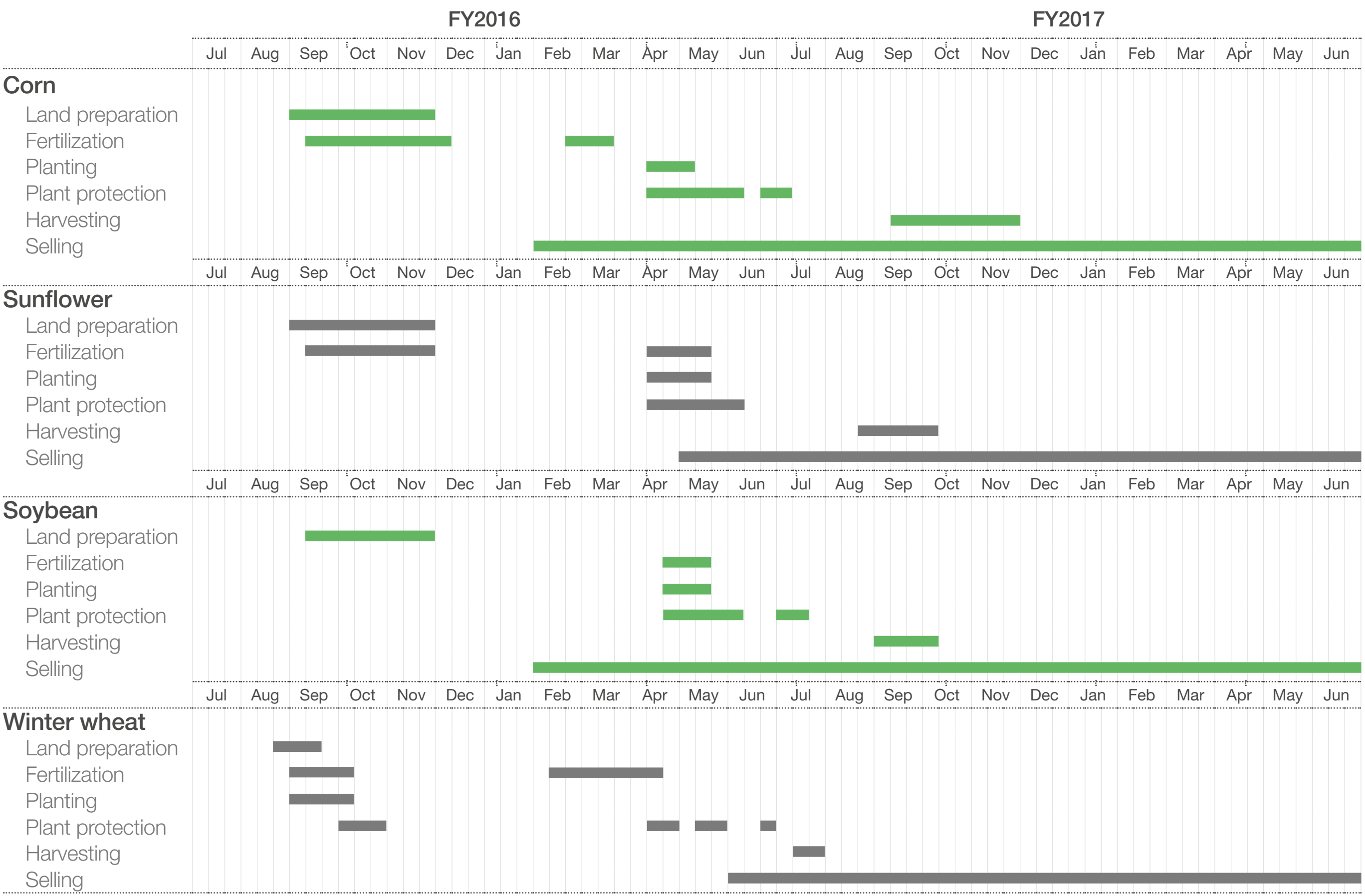
We do the significant portion of tillage and soil leveling in autumn, thus completing our spring planting campaign within a shorter time frame.

Kernel's crop yields
tons per ha



Source: Kernel, USDA October 2017

FY2017 crop production cycle



Farming continued

Case study: Landbank increase

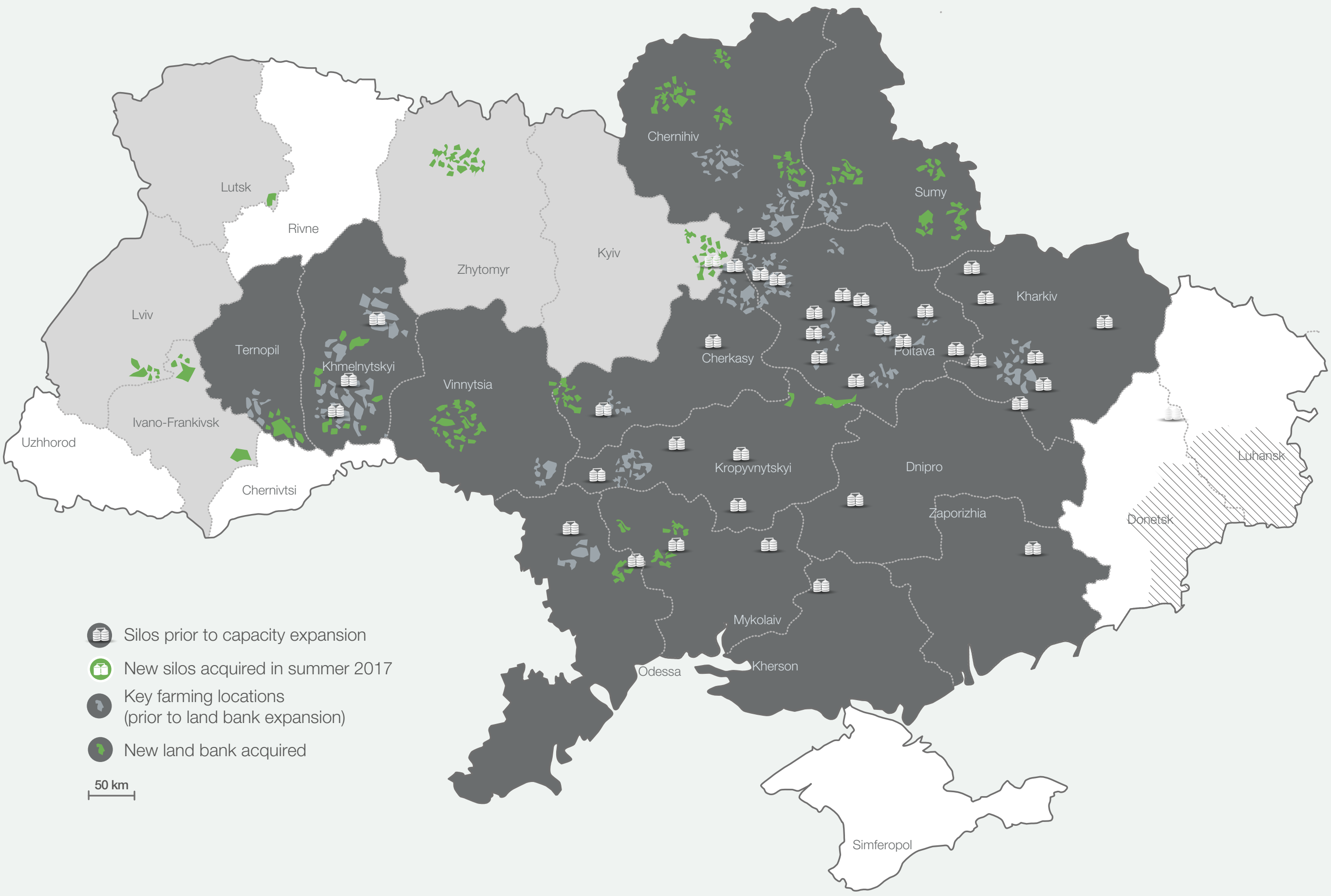
At the end of FY2017, we realized the farmland expansion strategy announced in 2016. In June 2017, the company completed the acquisition of Ukrainian Agrarian Investments (UAI), which managed one of the largest prime quality farmland banks in Ukraine (more than 190,000 hectares) and approximately 200,000 tons of grain storage capacity. UAI lands are in proximity to our existing operations, and we integrated all UAI lands into our nine existing production clusters, creating only one new cluster, thus realizing synergies we were targeting.

At the beginning of July 2017, we acquired Agro Invest Ukraine, which operates more than 170,000 tons of grain storage capacity and over 27,500 hectares of leasehold farmland. World-class grain storage infrastructure was our main target in this acquisition, and it complemented the recent expansion of our farmland bank in the region.

Today, we focus on the integration of acquired assets to uplift the operational efficiency and productivity levels to Kernel's high standard. Cultivation applied for the lands acquired assumed a 'low-cost, low-output' approach in contrast to the intensive farming we are doing at Kernel. Therefore, it will take us at least one marketing season to bring those lands up to speed and reach the productivity levels of Kernel.

The acquired land bank will not contribute to FY2018 EBITDA significantly, since crop in the ground was remeasured to fair value as at 30 June 2017, leaving limited upside to further gain recognition due to low crop yields.

As a result, we entered FY2018 as the largest crop producer in Ukraine controlling over 600,000 hectares of farmland in Ukraine.



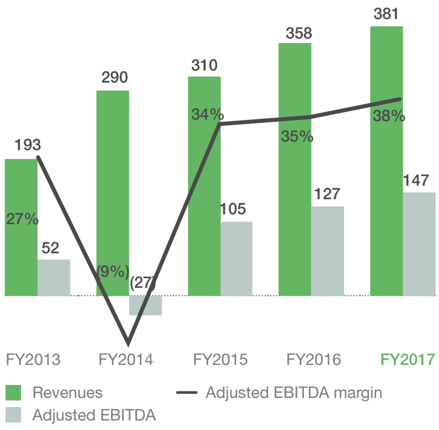
Farming continued

Our operating and financial performance

FY2017 has been a challenging but rewarding year for our farming division. Hence, efficient in-house production was the major point for our management during the 2016/17 marketing seasons. Consequently, a mix of a significantly better crop yields along with the right hedging policy were the grounds for maintaining our performance, resulting in EBITDA of US$ 143.8 million, negligibly down 2.1% y-o-y.

On 1 January 2017, the VAT subsidy for farmers was canceled. Notwithstanding that, the Kernel VAT subsidy for FY2017 (harvest 2016) amounted to US$ 31 million, and in FY2018 (harvest 2017) Kernel will also recognize a VAT subsidy, which refers to crop inputs for harvest 2017 purchased prior to 1 January 2017.

Profitability dynamics
US$ million



Source: Kernel

Farming performance

		FY2016	FY2017	y-o-y
Revenue	US$ million	358.1	**381.3**	6.5%
EBITDA	US$ million	146.9	**143.8**	(2.1%)
Net IAS 41 gain/(loss)	US$ million	20.1	**(2.9)**	n/m
Adjusted EBITDA	US$ million	126.8	**146.8**	15.7%
Volumes sold	thousand tons	1,818.3	**2,073.7**	14.0%
Acreage harvested	thousand ha	390.5	**385.3**	(1.3%)
Revenue per hectare	US$ / ha	915.7	**989.5**	8.1%
Adjusted EBITDA per hectare	US$ / ha	324.6	**380.6**	17.2%
Adjusted EBITDA margin	%	35.4%	**38.5%**	3.0pp

Adjusted EBITDA per hectare is calculated as the farming segment's EBITDA excluding net IAS 41 effect, divided by acreage harvested.

FY2018 Outlook

We expect FY2018 to be challenging for our farming division.

We expect a 13% average decline in yields on our initial lands (prior to expansion) due to unfavorable weather conditions during the pollination period and a bit delayed sowing campaign. Moreover, our combined yields will face the dilution effect due to mixing up Kernel's high yield initial lands and newly acquired lands with low yields. In addition, we expect an increase in cost base, stemming from accelerated local currency inflation eliminating the benefits of UAH devaluation in 2014-2015 and overall increase of global fuel costs.

Following our recent acquisitions, we will focus on smooth integration of newly acquired assets and organic growth through implementation of numerous ongoing operational advances to uplift both effectiveness and output to Kernel's high standard. Additionally, we also plan to divest several tens of thousands of hectares of suboptimal land, which is now under Kernel's control following UAI acquisition, but which are not economically efficient to cultivate due to distant location from Kernel's initial lands or infrastructure. Our aim is to keep the landbank concentrated, thus ensuring the efficient use of resources, a simple crop mix and continued investment in the development of our staff.

Farming continued

Our non-financial performance

Health and safety

Fortunately, there were no fatal incidents at our farming division. Overall, there were 10 work-related injuries at our farming division in the year under review, comparable y-o-y. However, we continue to enhance our health and safety team, and trained specialists in accordance with the requirements of OHSAS 18001.

Employee training and development

We focused on training for our farming division within three primary categories: improving the managerial skills of our middle management, developing professional knowledge and competencies across personnel, and keeping health and safety knowledge fresh. During the year ended 30 June 2017, with a total of almost two hundred hours of lectures and training, the group of our middle-management and specialists was taught by lecturers hired from certified MBA programs, and by the top management of our company. To develop the general professional skills of our agronomists, machinery engineers, and finance and human resource specialists, we operate a dedicated learning center where we teach primarily short-term courses. Additionally, we conduct annual and semi-annual in person meetings to foster knowledge and best practice sharing across our operations, which are spread across the country.

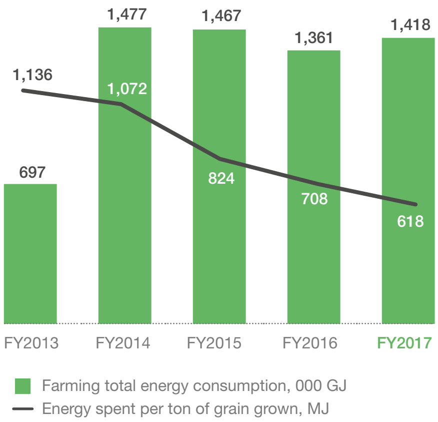
Energy consumption and emissions intensity

Growth in the productivity of our crop production has also resulted in a material decline in our energy consumption in FY2017. Wet conditions during our harvesting campaign required us to spend more on natural gas for drying crops, resulting in a total energy consumption being increased by 4.2% y-o-y compared to the previous year. However, as our technology improvements resulted in sustainability of our total production tonnage at the level of more than 2 million tons of grains and oilseeds, average energy spent per ton of product decreased 12.6% y-o-y.

Giving back to local communities

Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than two hundred of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct contact with local residents allows us to plan and execute our social activities in the most efficient way and receive direct feedback on the impact of our operations on communities. Our key areas of investments in communities in FY2017 were improvements in local schools and kindergartens, infrastructure and healthcare. For comprehensive detail on our activities, please refer to page 39 of this report and the website of our charitable foundation, razom.kernel.ua (in Ukrainian).

Farming business energy consumption and intensity ration



Source: Kernel

Sustainability

Kernel continues to be a responsible partner for local communities, sustainable farmer and high-quality producer for our customers.

As of FY2017, Kernel has become the largest farmer in Ukraine, operating over 600 thousand hectares of farmland. As a result, we continue to aspire the long-term sustainability of our business. Hence, we aim to operate in effective and efficient way, with sustainable energy consumption and strict compliance with regulatory, safety and product quality standards. Moreover, we strive to grow crops to maximize the long productivity of our soils and guarantee the efficient use of resources. In addition, we continue to develop our personnel's potential through the variety of means and assurance of their health and safety is a top priority for us. Finally, we support local communities, where we have a presence, by investing in social development programs with a focus on rural regions.

As a company, our carbon footprint in FY2017 stood at 273 thousand tons of CO_2 equivalent, up 32.1% y-o-y, as wet harvesting campaign required higher levels of natural gas consumption to dry harvested crops. Additionally, we increased our biomass energy production, which saved nearly 87 million cubic meters of natural gas during FY2017. Our farming division advances the monitoring and controls over the fuel usage and enjoyed boosted productivity for several regions on account of using larger machinery. During FY2017, we advanced the communication with rural regions by extending the number of dedicated relationship managers and listening directly to representatives in those communities. As a result, our social spending increased by 52.9% y-o-y to US$ 2.6 million. Additionally, we have invested in the development of our personnel through extending the number of participants in our Corporate MBA programs and maintaining the number of personnel covered by performance review systems at 1.1%.

For our next season, we aim to integrate newly acquired farmlands into our existing structure. Moreover, we continue development and testing of our #DigitalAgriBusiness project, fostered the feasibility study for biomass electricity generation as well as advanced the infrastructure, medical care and education standards in rural areas, where we operate.

Social spending

$2.6m

+52.9% y-o-y

Energy consumption

6,879 terajoules

+34% y-o-y

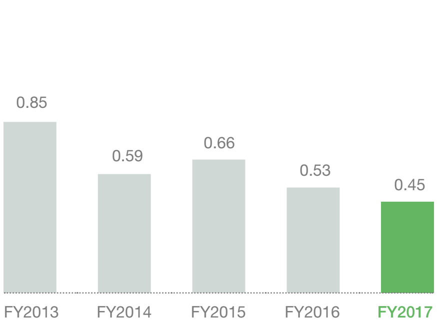
Sustainability section is prepared with applying the guidance of GRI Sustainability Reporting principles for defining report content and quality.

Key non-financial KPIs

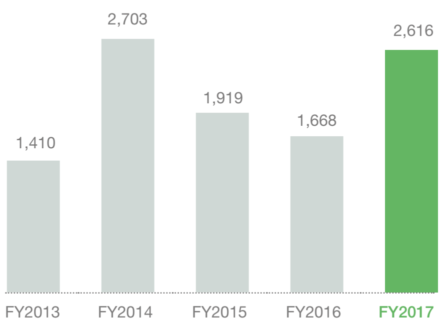
		FY2013	FY2014	FY2015	FY2016	FY2017
Total number of full-time employees		17,603	16,518	15,229	14,075	**16,103**
sunflower oil		17%	17%	18%	17%	**16%**
grain and infrastructure		18%	20%	20%	23%	**22%**
farming		61%	60%	58%	55%	**58%**
headoffice and other		4%	3%	4%	5%	**4%**
Total injury accidents		25	18	19	16	**14**
incl. fatalities		—	2	1	1	**—**
Injury frequency rate	accidents/million worked hours	0.85	0.59	0.66	0.53	**0.45**
Total training expenditures	thousand US$	244	254	241	194	**269**
Total social spending	thousand US$	1,410	2,703	1,919	1,668	**2,616**
Direct (Scope 1) GHG emissions	thousand tons of CO_2 equivalent	274	284	248	207	**273**
Total energy consumption	thousand gigajoules	6,279	6,321	6,026	5,132	**6,879**
incl. renewable	thousand gigajoules	2,462	2,549	2,849	2,561	**3,090**
Renewable energy produced and sold	thousand gigajoules	46	42	45	46	**42**
Energy spent per ton of sunflower seed crushed	megajoules	1,536	1,525	1,463	1,408	**1,430**
Energy spent per ton-% of grain dryed	megajoules	81	63	67	66	**65**
Energy spent per ton of grain grown	megajoules	1,136	1,072	824	708	**618**
Sunflower oil produced at ISO 22000 certified plants	%	92%	94%	96%	100%	**100%**

Source: Kernel.

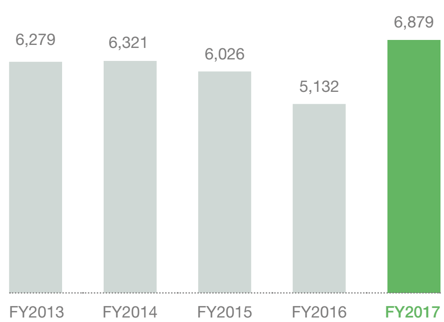
Injury frequency rate
accidents/million worked hours



Total social spending
US$ thousand



Total energy consumption
thousand gigajoules



Source: Kernel.

Our approach to materiality and report content

We have thought to apply the guidance of GRI Sustainability Reporting principles for defining report content and quality. As a result, management considers capital providers and employees to be key target audiences for the annual report of the company, while communication with other stakeholder groups is primarily done through other communication channels. This report focuses on material issues determined as such based on responses to questionnaires run separately for employee and capital provider groups and a managerial assessment of the aspects' importance for the sustainable development of the company. Following the materiality exercise, the list of aspects to be disclosed was approved by the executive management. See an index of GRI content on page 43.

Sustainability continued

Key stakeholder groups and engagement channels

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

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

Mapping material topics to external stakeholder groups

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

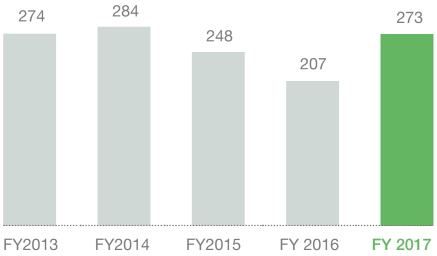
Our environmental mission is two-pronged: avoid adverse material harm and improve energy efficiency.

Sustainability continued

Environment

It is important to understand that improvement in energy efficiency and avoidance of material harm to the environment is a shared responsibility. As a result, we have adopted those statements as our primary objective.

Total GHG emissions,
thousand tons of CO_2 equivalent



Energy consumption within organization

Our farming operations are the most energy intense business line, as machinery, equipment and harvesters use diesel. Our network of inland storage facilities is a runner-up for fossil fuel consumption, as natural gas is used to dry freshly harvested crops and oilseeds. Our transportation division and crushing plants came to be the least intensive, thus only complementing the list.

Firstly, to enhance energy efficiency of our crop cultivation division, we concentrate on two principal areas. For starters, we apply large machinery, simply for being more fuel efficient. As a result, we cooperate with the top industry brands and routinely replace machinery after seven years to maintain effectiveness of our farming operations. Our current replacement program ensures that new equipment is at least 20% more powerful than the substituted units.

Secondly, we aim at improving effectiveness of utilization as we implement various operational changes annually. Although our fuel consumption per hectare rose, when we increased the share of corn in our crop mix and implemented deeper tillage practice to intensify our yields, the amount of fuel utilized per tonnage of output has notably decreased. Moreover, we continue to benefit from installation of GPS trackers and control centers to monitor vehicular movement and telemetry, allowing us to take advantage and decrease fuel theft, spillage and overall loss by approximately 10%. For the second year in a row, we benchmark our fuel consumption to internationals and learn that our diesel consumption per hectare inside is the comparable range.

Over the years, we have advance the quality of our drying services throughout the silo network to maintain the high quality of our grains during the subsequent storage. Moreover, we continued to test the drying equipment with sunflower seed husk and to divert the commodity flows to silos with more efficient equipment, thus ensuring energy conservation.

All our crushing facilities employ sunflower seed husk as a primary source for steam production, needed for the sunflower oil production process. Moreover, we launched the three-year project to replace existing biomass boiler and ancillary facilities at our crushing plants. Upon completion, the new boilers shall further increase fuel efficiency and decrease emissions generated during sunflower seed husk burning. The average steam and electricity consumption of our major plants is in accordance with the lower end of the international range.

As a greater part of our carbon emissions are identified with energy consumption, we deal with our emissions by concentrating on the enhancement of our energy resource utilization. In the meantime, we control other emissions that are naturally generated at our sunflower oil production plants, which are fully adherent to local legislation and prescribed limits set for our production facilities by regulators. For details, please refer to page 42 of the report.

Producing green energy from waste

All our sunflower oil producing facilities use sunflower seed husk, a waste by-product of the crushing process, as their fuel source to deliver the steam required for processing. Roughly half of sunflower seed husk produced is burned to generate steam, a process that saved us 87 million cubic meters of natural gas in FY2017. One of our plants also co-generates and sells green electricity to the national grid.

The rest of the volumes of sunflower seed husks are pelletized and sold to 3rd party plants in Poland. These plants mix sunflower seed husk with coal to decrease their consumption of non-renewable energy sources. The portion of electricity created thusly covers annual demand for approximately 300,000 households.

Sustainable approach to cultivation

Our sustainable approach in dealing with cultivation technologies accentuates on long-term soil productivity rather than short-term profit margins. We continue prudently design our crop mix with the goal of guaranteeing an appropriate replenishment of nutrients in the soil, and apply balanced fertilization to any depletions during the crop's cultivation periods. We leave straw on the fields to act as a natural manure and to help lessen soil erosion. In applying the tillage technology, we develop a balance between root development and soil erosion risk, therefore applying various methods depending on crop, location and dirt patterns. Intermittently, we conduct soil examination and analysis, which is used to modify our crop mix plans, production technology and nutrients application.

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

Waste management

Our waste management approach depends on the universal principals of waste hierarchy. Sunflower seed husk is, by volume, our primary waste produced by our oilseeds crushing business. Out of 475 thousand tons of sunflower seed husk produced in FY2017, 51% was burned at on-site boilers to deliver the stream required for our production process, while the rest was pelletized and sold to 3rd party co-generation plants.

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

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

Biodiversity

Kernel farms only agricultural land historically used for crop cultivation. We do not operate in protected areas or areas with a high biodiversity value, and our operations do not affect endangered species. At the same time, our farming operations cover a significant acreage of 6,000 square kilometers, and thus could have some unintended impact on biodiversity. The crops we grow are typical to the regions we operate in, and the company utilizes well-established farming practices with proper oversight from our agronomy team. The Company applies only pesticides approved for use by the Ministry of Ecology and Natural Resources of Ukraine.

Sustainability continued

Human capital

Competitive remuneration

People has always been at the center of Kernel's operations. Moreover, investment in our personnel is a strategic objective for our company, namely, we aim to become the leading company from the Black Seas region by developing our people's potential. Therefore, we consider personnel as our key competitive advantage. Accordingly, we endeavor to streamline our employees' capabilities with achieving sustainable growth of our business.

As a result, we have created copious retention programs including, among other things, a competitive remuneration. With that in mind, we strive to increase the level of social benefits for our employees. Kernel's compensation approach depends on giving focused remuneration that matches or surpasses the levels saw in our industry. In addition, we entirely conform to work enactment and pay all salary-related taxes and social contributions.

Investing in professional development

We encourage our employees to take advantage of our numerous educational platforms to continuously develop new capabilities and share knowledge. Major portion of our training exercise and seminars covers wide range of employees and is aimed at developing both their professional competencies and soft skills, as well as enhance overall specialized qualification. Our training is provided by both internal and external providers. As of this year, we are launching a coaching program, entitled 'Internal Trainer', where we shall encourage employees to share their valuable expertise with the rest of the company, thus fostering the sustainable development of our staff.

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

Our values and principles

Our core values and principles are the following:

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

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

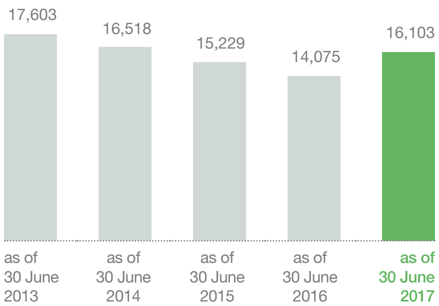
During FY2017, we further promoted the idea of creating an internal talent pool to encourage both personal and professional development of a designated number of employees who have taken initiative and shown themselves as suitable and competent specialists. Over 10,000 employees spend approximately 7,000 hours of training every month to advance not only their professional skills but also develop their personal competencies.

Individual development system and career planning

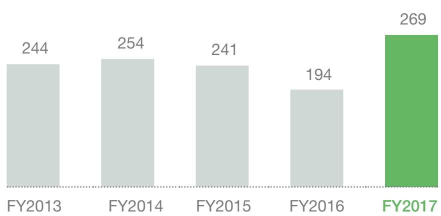
Throughout the year ended 30 June 2017, we continued to foster the development of our unified approach to planning individual assessment. As a result, we almost doubled the number of covered employees, branching out to our oilseed production facilities. The primary objective of this program is to improve career planning and provide a clearer visibility of the ambitious talent pool, their training needs and prospects.

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

Total number of full-time employees



Total training expenditures
US$ thousand



Sustainability continued

Working with universities

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

In FY2017, following the successful years at Sumy Agrarian University, we continued our cooperation with a similar project at Kamenets-Podilsky University in western Ukraine.

Labor practices

We continue our commitment to providing safe working conditions in compliance with labor legislation. Our commitments, among other things, include: compliance with minimum wage requirements; respect for working hours, vacations and sick leave; full payment of taxes and social contributions related to salaries; and retaining positions for employees on maternity/paternity leave.

Health and safety

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

Most of our production units employ dedicated health and safety specialists, all of whom are supervised by a group-level health and safety committee. All of our specialists underwent training to improve their knowledge and skills under OHSAS 18001. With a medium-term goal of making the health and safety systems at most of our production units fully compliant with OHSAS 18001, we have also launched a process of hazard risk identification and ranking which should serve as a backbone for building a proper preventive system. We also strengthened our health & safety team last year. Fortunately, during the year ended 30 June 2017, there were no fatalities. Moreover, taking precautions, we have reduced the number of non-fatal injuries at our enterprise from 15, last year, to 14 this year.

Injuries and fatalities by business division

	FY2013	FY2014	FY2015	FY2016	FY2017
Fatalities	**–**	**2**	**1**	**1**	**–**
Sunflower oil	–	1	–	–	–
Grain and infrastructure	–	1	1	–	–
Farming	–	–	–	1	–
Non-fatal injuries	**25**	**16**	**18**	**15**	**14**
Sunflower oil	6	3	2	2	2
Grain and infrastructure	4	7	11	3	2
Farming	15	6	5	10	10
Total accidents	**25**	**18**	**19**	**16**	**14**

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

Social responsibility

Giving back to local communities

Local communities are one of the prime stakeholders, playing a crucial role for Kernel's operations. Consequently, we are to continue building and advancing our long-term partnerships with the neighboring municipals. With significant portion of our operations and two-thirds of our employees working in rural regions, we aim to act with integrity and take responsibility in fostering the development of those areas.

Our social activities are organized through social partnership agreements, with more than 70% of municipalities where we operate, being covered. Moreover, to act effectively and with integrity, we have employed more than two hundred of employees as relationship managers, who ensure sustainable communication channels with local councils, key opinion leaders and residents. As a result, our approach entails structuring our activities based on key matters for those communities and conducting direct face-to-face feedback on the impact of our operations.

During FY2017, our direct spending to support local communities came to US$ 2.6 million. The most substantial amounts were allocated to municipal schools and kindergartens, along with investments in infrastructure and healthcare. Additionally, we carried out numerous activities to engage rural residents through facilitation of local sport tournaments, art competitions for children and site visits to our production facilities.

Every year we contribute extensive efforts to sustain a continuous dialogue with our communities. As a result, we publish a company newspaper with total monthly circulation of more than 50,000 copies. There we provide updates on our social responsibility activities and advice on other critical matters raised by our neighboring communities. In addition, we operate a toll free Ukrainian hot line (0 800 50 14 83) to receive direct feedback from the locals, which helps us to advance the efficiency of our social investments and deepen our understanding of the community needs.

Significant support is structured around our charitable foundation 'Together with Kernel', which operates as a standalone website, aimed at broadening the awareness about our presence and enhancing stakeholder feedback.

Economic impact

During FY2017, our total infrastructure spending amounted to US$ 1,049 thousand, 40% y-o-y. Those amounts excluding spending related to our business needs. Also, Kernel is one of the largest taxpayers to local budgets in rural areas, as we committed to adhere with the good social responsibility image. As a result, in FY2017 we paid US$ 62 million in taxes, as compared to US$ 32 million a year ago.

With increasing urbanization, Ukrainian towns and villages remain unattended and in degrading state, which enables Kernel to help neighboring groups with job creation, dissemination of the best farming practices, thus enriching the knowledge and competencies of people living there. Especially, when more than 60% of our staff are occupied in those areas.

In addition, we have developed a retention policy for our workers in provincial districts, motivating them with competitive remuneration packages, as well as demonstrating to them that being employed in agriculture is a promising and aspiring career. In the meantime, we do concede that Kernel's productivity improvements do result in a gradual decrease in full-time headcount of our farming operations.

Sustainability continued

Anti-fraud and anti-corruption

During the year ended 30 June 2017, Kernel has finalized the development of the group-wide Global Corporate Code and Anti-Corruption Policy. As a result, by employing those policies Kernel confirms its adherence to the principles of legality, transparency and social responsibility to maintain its high business reputation to all its stakeholders. Moreover, the Policy is developed in accordance with the requirements of the anti-corruption legislation of Ukraine, the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the 'OECD Convention'), as well as the anti-corruption legislation of the countries in which Kernel operates, not to mention the Codex and other internal documents.

For instance, several anti-corruption measures have been introduced already:

- Anti-corruption clauses have been developed and implemented in all financial agreements, contracts and bilateral arrangements with counterparties, business partners and third parties
- Anti-corruption measures as well as Codex rules have been integrated in Internal Labor Regulations, and
- Anti-corruption questionnaires have been updated in accordance with the guiding principles for all candidates and existing employees to reflect relevant controls

Throughout the year we continued to make anti-corruption and anti-fraud efforts within our farming division. With a post-soviet legacy system being part of the mentality for many people in our regions of operations, our efforts have been designed to break through this mentality by showing strict non-tolerance to incidents of fraud and corruption. For instance, during the year ended 30 June 2017, we have fired 740 people for fraudulent activity and corruption. Meanwhile, throughout all our operations we strive to assess risks related to fraud and corruption. Key identified risks include general procurement, inventory theft, conflict of interest, raw materials procurement from unreliable suppliers, fuel consumption expensing and excessive delegation of power.

Product responsibility

Being the world's largest sunflower oil producer, with nearly 8% international market share in 2017, we endeavor to guarantee our produce meets the highest quality benchmarks. Therefore, the food safety administration frameworks at all our sunflower oil crushing facilities in Ukraine are certified under ISO 22000 standard, which coordinates the standards of the Hazard Analysis and Critical Control Point (HACCP) system and application of methods created by the Codex Alimentarius Commission. Our food management system is preventive, and is aimed at addressing the risks of potential organic, compound, and physical hazards and guarantees the traceability of items in our value chain.

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

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

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

Product labeling and packaging

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

All of our crushing facilities are ISO 22000 certified

Sustainability continued

1. Human capital indicators

	FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Total number of employees	**17,603**	**16,518**	**15,229**	**14,075**	16,103	**102-7**
by geography						
Ukraine	95.1%	96.5%	96.1%	99.5%	**99.7%**	102-7
Russia & Other	4.9%	3.5%	3.9%	0.5%	**0.3%**	102-7
by age						
less than 30 years old	18.4%	20.9%	20.3%	19.6%	**17.2%**	102-7
up to 50 years old	56.2%	54.9%	55.4%	55.6%	**53.4%**	102-7
more than 50 years old	25.4%	24.2%	24.2%	24.9%	**29.4%**	102-7
by gender						
Male	70.4%	67.7%	72.6%	71.4%	**70.2%**	102-7
Female	29.6%	32.3%	27.4%	28.6%	**29.8%**	102-7
by level						
Managers	8.4%	7.3%	7.7%	7.4%	**7.2%**	102-7
Specialists	18.6%	18.6%	20.2%	22.3%	**23.9%**	102-7
Workers	73.0%	74.0%	72.1%	70.3%	**69.0%**	102-7
by business division						
sunflower oil	18.6%	17.2%	17.1%	15.2%	**16.1%**	102-7
grain and infrastructure	19.9%	20.2%	19.3%	20.2%	**21.9%**	102-7
farming	66.9%	61.7%	54.5%	48.2%	**58.3%**	102-7
headoffice and other	3.9%	3.4%	3.8%	3.7%	**3.7%**	102-7
Percentage of women in executive management	29.0%	29.0%	29.0%	40.0%	**33.3%**	102-7
Percentage of women on Board of Directors	25.0%	25.0%	25.0%	25.0%	**37.5%**	102-7

Note: Differences are possible due to rounding. Headcount data include full-time employees as at 30 June of the respective period.

2. Health and safety indicators

	FY2013	FY2014	FY2015	FY2016	FY2017	GRI index
Total fatalities	**—**	**2**	**1**	**1**	—	**403-2**
Sunflower oil	—	1	—	—	—	403-2
Grain and infrastructure	—	1	1	—	—	403-2
Farming	—	—	—	1	—	403-2
Total non-fatal injuries	**25**	**16**	**18**	**15**	14	**403-2**
Sunflower oil	6	3	2	2	**2**	403-2
Grain and infrastructure	4	7	11	3	**2**	403-2
Farming	15	6	5	10	**10**	403-2
Total accidents	**25**	**18**	**19**	**16**	14	**403-2**
incl. Ukraine	24	16	18	16	**14**	403-2
incl. Russia	1	2	1	—	—	403-2
Injury frequency rate	0.85	0.59	0.66	0.53	**0.45**	403-2

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

3. Talent development

		FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Training expenditures	thousand US$	244	254	241	194	**269**	404-1
Training hours	hours	n/a	88,382	135,426	150,612	**83,943**	404-1
Average hours of training	hours per year per employee	n/a	5.4	8.9	10.7	**5.2**	404-1
% of workforce taking part in standardized performance appraisals		n/a	n/a	1.0%	1.3%	**1.1%**	404-3

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

4. Community

		FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Total social spending	thousand US$	1,410	2,703	1,919	1,668	**2,616**	413-1
incl. infrastructure	thousand US$	n/a	n/a	1,025	749	**1,049**	413-1
Operations with implemented local community engagements	% of total	n/a	n/a	64.0%	63.0%	**63.0%**	413-1

Social spending includes only direct expenses by the Company.

Sustainability continued

5. Greenhouse gas emissions

		FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Direct (Scope 1) GHG emissions	**thousand tons of CO_2 equivalent**	**274**	**284**	**248**	**207**	**273**	**305-1**
sunflower oil	thousand tons of CO_2 equivalent	33	30	19	7	**14**	305-1
grain and infrastructure	thousand tons of CO_2 equivalent	39	70	46	31	**87**	305-1
farming	thousand tons of CO_2 equivalent	114	182	181	168	**170**	305-1
other	thousand tons of CO_2 equivalent	88	2	2	1	**2**	305-1
Biogenic (Scope 1) GHG emissions	thousand tons of CO_2 equivalent	244	252	282	253	**306**	305-1
Gross indirect (Scope 2) GHG emissions	thousand tons of CO_2 equivalent	174	182	183	163	**199**	305-2
GHG emissions intensity ratio							
per ton of sunflower seed crushed	tons CO_2 equivalent	0.014	0.013	0.008	0.003	**0.005**	305-4
per ton of grain grown	tons CO_2 equivalent	0.187	0.132	0.094	0.087	**0.074**	305-4

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

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

6. Energy consumption

		FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Total energy consumption	**thousand gigajoules**	**6,279**	**6,320**	**6,026**	**5,130**	**6,879**	**302-1**
by division							
sunflower oil	thousand gigajoules	3,512	3,550	3,690	3,109	**3,906**	302-1
grain and infrastructure	thousand gigajoules	670	1,249	836	634	**1,529**	302-1
farming	thousand gigajoules	697	1,477	1,467	1,361	**1,418**	302-1
other	thousand gigajoules	1,400	45	33	25	**26**	302-1
by source							
natural gas	thousand gigajoules	2,172	1,435	834	592	**1,193**	302-1
diesel, gasoline	thousand gigajoules	950	1,608	1,607	1,322	**1,795**	302-1
electricity	thousand gigajoules	695	727	732	652	**798**	302-1
other non-renewable	thousand gigajoules	0	0	4	3	**2**	302-1
sunflower seed husk (renewable)	thousand gigajoules	2,462	2,549	2,849	2,561	**3,090**	302-1
by country							
Ukraine	thousand gigajoules	5,869	5,874	5,732	5,129	**6,876**	302-1
Russia	thousand gigajoules	410	447	294	1	**2**	302-1
Renewable energy produced and sold	**thousand gigajoules**	**45**	**42**	**45**	**46**	**42**	**302-1**
electricity	thousand gigajoules	31	30	32	35	**41**	302-1
heating	thousand gigajoules	15	12	13	10	**1**	302-1
Energy intensity							
Energy spent per ton of sunflower seed crushed	megajoules	1,536	1,525	1,463	1,408	**1,430**	302-3
Energy spent per ton-% of grain dried	megajoules	81	63	67	66	**65**	302-3
Energy spent per ton of grain grown	megajoules	1,136	1,072	824	708	**618**	302-3

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

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

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

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

Sustainability continued

7. Materials used in production

		FY2013	FY2014	FY2015	FY2016	FY2017	GRI Index
Sunflower oil production							
Sunflower seeds	thousand tons	2,286	2,335	2,523	2,208	**2,732**	301-1
% of renewable	%	100%	100%	100%	100%	**100%**	301-1
Associated process materials	thousand tons	2	1	1	1	**1**	301-1
% of renewable	%	0%	0%	0%	0%	**0%**	301-1
Packaging	thousand tons	5	4	5	4	**4**	301-1
% of renewable	%	42.2%	43.2%	43.3%	60.9%	**48.4%**	301-1
Crop production							
Seeds	thousand tons	25	22	26	26	**41**	301-1
Fertilizer	thousand tons	206	285	260	260	**221**	301-1
% of organic fertilizer	%	56.7%	44.0%	50.8%	50.8%	**18.1%**	301-1
Other non-renewable	thousand tons	1	2	2	2	**2**	301-1
Sunflower oil produced at ISO 22000 certified plants	%	92%	94%	96%	100%	**100%**	301-1

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

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

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

In our farming operations, we use seeds, fertilizer and plant protective production techniques as primary inputs (diesel spent is calculated in a separate disclosure). Seed usage varies based on shifts in crop mix and technology. For example, wheat planting requires 0.2 tons per hectare, while corn planting requires 0.02 tons per hectare of the respective seeds. Similarly, fertilizer usage varies because of changes in technology and the variety of available fertilizers with different nitrogen, phosphorus and potassium content.

8. Aspect boundaries

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

Sustainability continued

9. GRI Content Index

GRI Standard	Disclosure	Reference or direct response
GRI 101: Foundation 2016		
General Disclosures		
GRI 102: General disclosures 2016		
102-01	Name of the organization	Kernel Holding S.A.
102-2	Activities, brands, products, and services	Our business model (page 8-9),Kernel at a Glance (page 10)
102-3	Location of headquarters	Kyiv, Ukraine
102-4	Location of operations	Ukraine and Russia
102-5	Ownership and legal form	Note 2 'Change in Issued Capital' to the Consolidated Financial Statements (page 75)
102-6	Markets served	Kernel at a Glance (page 10), Sunflower oil (page 16), Grain and Infrastructure (page 21)
102-7	Scale of the organization	Employee structure (page 40), Key highlights (page 3)
102-8	Information on employees and other workers	Employee structure (page 40)
102-9	Supply chain	Our Business Model (page 8-9)
102-10	Significant changes to the organization and its supply chain	Note 1 to the Consolidated Financial Statements (page 74), Our Business Model (page 8-9)
102-11	Precautionary Principle or approach	Product responsibility (page 39)
102-12	External initiatives	International Labour Organization's Fundamental Principles and Rights at Work, United Nations Global Compact (UNGC), United Nations Universal Declaration of Human Rights
102-13	Membership of associations	Kernel, through its subsidiaries, is a member of several industry associations, including the Federation of Oils, Seeds and Fats Associations, the Grain and Feed Trade Association, the Ukrainian Grain Association, the Ukrainian Agribusiness Club, the Ukrainian Agrarian Association, the American Chamber of Commerce, and the European Business Association.
102-14	Statement from senior decision-maker	Chairman's speech (page 6)
102-16	Values, principles, standards, and norms of behavior	Our values and principles (page 37)
102-18	Governance structure	Corporate governance (page 47)
102-40	List of stakeholder groups	Key stakeholder groups and engagement channels (page 35)
102-41	Collective bargaining agreements	Approximately 95% of total employees are covered by collective bargaining agreements
102-42	Identifying and selecting stakeholders	Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' on page 35-36. Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest
102-43	Approach to stakeholder engagement	
102-44	Key topics and concerns raised	'Mapping material issues to external stakeholders' (page 35), 'Our approach to materiality and report content' (page 34). Also discussed throughout this report.
102-45	Entities included in the consolidated financial statements	Notes 1 to the Consolidated Financial Statements (page 74). Certain sustainability information does not include data for all entities, which is highlighted in each case
102-46	Defining report content and topic Boundaries	Aspects boundaries (page 42)
102-47	List of material topics	page 35
102-48	Restatements of information	none
102-49	Changes in reporting	none
102-50	Reporting period	Fiscal year 2017 ended 30 June 2017. See also Note 1 to the Consolidated Financial Statements (page 74).
102-51	Date of most recent report	24 October 2016, as a sustainability section of the FY2016 annual report
102-52	Reporting cycle	annually
102-53	Contact point for questions regarding the report	Jamil Zakaraiev, j.zakaraiev@kernel.ua; sustainability@kernel.ua
102-56	External assurance	Financial data in Consolidated Financial Statements for 12 months ended 30 June 2017 was audited by Deloitte Audit; see Report of the Reviseur d'Entreprises agree on page 64

Material topics		
Economic performance		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	The Group's strategy defines shareholders' value creation as an ultimate goal, which makes economic performance a material aspect. See also 'Strategy' (page 11). Also discussed throughout this report.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 201: Economic performance 2016		
201-1	Direct economic value generated and distributed	Page 68. See Consolidated financial statements
201-4	Financial assistance received from government	Note 27 'Other operating income' to the Consolidated Financial Statements (page 114).
Indirect Economic Impacts		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Economic impact (page 38), Giving back to local communities (page 38), Sustainable approach to cultivation (page 36)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 203: Indirect Economic Impacts 2016		
203-1	Infrastructure investments and services supported	Economic impact (page 38), Giving back to local communities (page 38), Sustainable approach to cultivation (page 36)
Anti-corruption		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Anti-corruption (page 39), Our approach to materiality and report content (page 34).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 205: Anti-corruption 2016		
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption (page 39)
205-1	Operations assessed for risks related to corruption	Anti-corruption (page 39), Corporate Governance (50)
Materials		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Materials used in production (page 42), Our approach to materiality and report content (page 34)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 301: Materials 2016		
301-1	Materials used by weight or volume	Materials used in production (page 42)
Energy		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	The Company is not subject to any government or industry-specific policy for energy use. Management approach disclosed in 'Energy consumption within the organization' (page 36), Our approach to materiality and report content (page 34).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 302: Energy 2016		
302-1	Energy consumption within the organization	Energy consumption (page 41)
302-3	Energy intensity	Energy consumption (page 41)
Biodiversity		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34). Biodiversity (36)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 304: Biodiversity		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity (36)

Sustainability continued

Emissions		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34). Environment (page 36)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 305: Emissions		
305-1	Direct (Scope 1) GHG emissions	Greenhouse gas emissions (page 41)
305-2	Energy indirect (Scope 2) GHG emissions	Greenhouse gas emissions (page 41)
305-4	GHG emissions intensity	Greenhouse gas emissions (page 41)
Occupational health and safety		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34), Health and safety (page 38)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 403: Occupational Health and Safety		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Health and safety (page 38). Health and safety indicators (page 40)
Training and education		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34), investing in professional development (page 37)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 404: Training and Education		
404-1	Average hours of training per year per employee	The Company is assessing ways to incorporate this data into its management accounting system. Talent development (page 40) only for aggregated data.
404-3	Percentage of employees receiving regular performance and career development reviews	Talent development (page 40)
Local Communities		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34), Giving back to local communities (page 38).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 413: Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	Giving back to local communities (page 38). Social responsibility (page 38). We calculate that 63% of our operations (by labor count) are actively involved in local community engagements, though the frequency and depth of engagement differs by region
Customer health and safety		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 34), Product responsibility (page 39)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 416: Customer Health and Safety		
416-1	Assessment of the health and safety impacts of product and service categories	Product responsibility (page 39), product labeling and packaging (page 39). 90% of produced products by value (excluding products that were traded and services).

Corporate Governance

Kernel Holding S.A. Corporate Structure

Board of Directors

Responsible for providing effective leadership and direction in order to enhance the long-term value of the Company for the benefit of all stakeholders, and:

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

Executive Management Team

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

Nomination and remuneration committee

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

Audit committee

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

Kernel Holding S.A. is a holding company for the Kernel group of companies, which includes Kernel Holding S. A. and its subsidiaries (hereinafter 'the Group' or 'the Company'). A public limited liability company (société anonyme), Kernel Holding S.A., was incorporated on 15 June 2005, under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and has been the holding company of the Group since incorporation. The Company's shares are listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. Kernel Holding S.A.'s registered address is 19 rue de Bitbourg, L-1273 Luxembourg. The list of the Group's primary subsidiaries is presented on page 74 of this report.

Kernel Holding S.A. has a single class of shares, all ranking pari passu, having equal voting rights and no special control rights attached to any of the shares. As of 30 June 2017, there were 81,941,230 ordinary shares issued and fully paid. Two shareholders owned more than 5% of the Company's shares as of 30 June 2017, based on the notifications received from them:

As of 30 June 2017, the Company did not own any of its own shares. As part of the management incentive program, the Company grants options to the members of the management team. There were a total of 5,150,000 options outstanding, out of which 3,075,000 were vested, with each option representing the right to acquire one ordinary share of the Company.

Kernel Holding S.A. continually seeks to uphold to a high standard of corporate governance to safeguard the interests of all its stakeholders. As a result, the Group is fully adhering to the corporate law of the Grand Duchy of Luxembourg. Moreover, the Company voluntarily aims to comply with the Best Practice for companies listed on the Warsaw Stock Exchange and the Ten Principles of Corporate Governance issued by the Luxembourg Stock Exchange, with a few exceptions, mentioned further in this section. The core system of governance is defined in articles of association, available on www.kernel.ua.

Kernel's management envisioned the Company to become the leader of global agriculture and to make the Black Sea region a key supplier of agricultural products to the world. As a result, in pursuing its objectives, the Group continues to strive for the highest level of corporate governance, namely promoting the culture that rewards and values ethical standards, personal integrity and respect for others. For Kernel Holding S.A., corporate governance assures the following:

- the directors are acting in a good faith with a view to the best interest of the Company and its stakeholders to exercise care, diligence and skill;
- the business is taking the direction prescribed by its strategy;
- there is open and transparent communication with all stakeholders;and
- there are efficient and effective internal control, risk management and compliance systems in place to identify and mitigate risks.

Finally, the Company's balanced approach to the Board's composition ensures that its governance is continuously reviewed in order to assure that all necessary safeguards are in place to protect stakeholders' interests.

Shareholders owning above 5% of the Company

	Shares owned	Percentage owned
Namsen Ltd.	31,245,878	38.13%
TFI PZU S.A. (1)	8,151,113	9.95%

(1) TFI PZU SA with its registered office in Warsaw, Poland, acting on behalf of investment funds under management: PZU Fundusz Inwestycyjny Otwarty Parasolowy, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamkniety Akcji Focus, PZU Fundusz Inwestycyjny Zamkniety Dynamiczny as of 24 January 2017, according to the fund's notification.

Corporate Governance continued

Board of directors

The Board of Directors (hereinafter 'the Board', 'the Directors') is the ultimate decision-making body except for the matters reserved to the shareholders' meeting by law or as specified in the Company's Articles of Association. Nevertheless, the Board is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Group's corporate objective. Moreover, the Directors resolve to make their decisions objectively and in the best interest of the Company and its stakeholders.

The Board's function is to provide effective leadership and direction to enhance the long-term value of the Company to its shareholders and other stakeholders. Therefore, the Board's role includes, but is not limited to: revision of strategic plans and objective performances; financial plans and annual budget; key operational initiatives; major funding and investment proposals; financial and performance reviews; and oversight of the Group's corporate governance practices. In addition, the Board receives regular presentations from the management team, thus exploring specific matters in much greater details.

Hence, the schedule of matters reserved for the Board includes:

- Revision and approval of financial statements and presentation of an annual report to the shareholders at a general meeting,
- Revision of matters to be resolved by the general meeting of shareholders,
- Approval of agreements between the Company and its related parties, and
- Interim dividends decisions.

Board composition

Currently, the Board comprises a Chairman, four executive and three independent directors. The Nomination and Remuneration Committee regularly reviews the composition of the of the Board to ensure that the Company has an appropriate and diverse mix of competencies, experience and knowledge of the Group's affairs. Moreover, the Directors act on the opinion that diversity among the Board's members contribute to a high-performing and efficient Board.

Board diversity

In recent years, Kernel Holding S.A. has accelerated its efforts toward gender diversity, as more women have filled senior management positions across major divisions of the Company. The Directors strongly consider diversity within the composition of the Board as part of their evaluation of the Board's effectiveness.

As Kernel continues to pursue this vision, the Board recognizes the importance of employing the diversity policy to reflect not only international experience and industry outlook, but also to serve the interests of the Company's key stakeholders.

During the year ended 30 June 2017, as a part of the Board annual evaluation process, all Directors have been consulted on the composition of the Board as to its size, range of skills and balance between executive and non-executive directors.

Directors' Independence

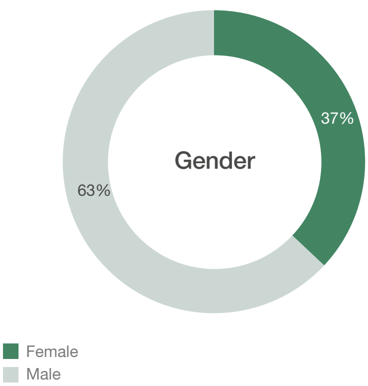
The Company follows directors' independence criteria set up in Annex II of the European Commission Recommendation of 15 February 2005. To fulfill the criteria of independence, the director should:

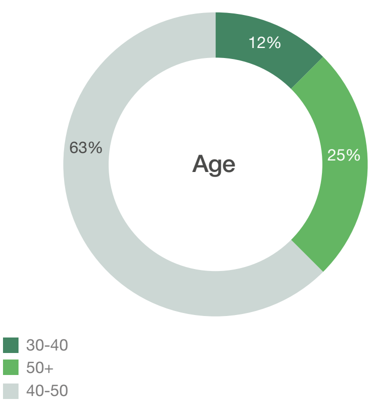
- not be an executive director (or manager) of the Company or an associated company, and have not been in such a position over the past five years;
- not be an employee of the Company or associated companies, and have not been in such a position during the past three years;
- not receive and have not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

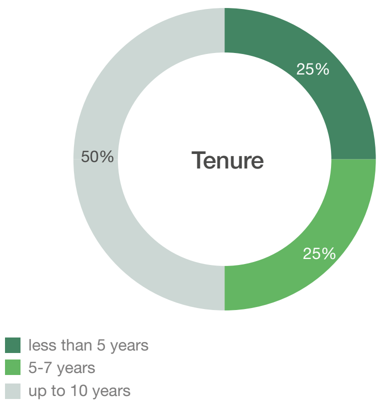
The non-executive directors are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees.

All directors are equally accountable for the proper stewardship of the Company's affairs. The non-executive directors have a responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the Directors to promote the success of the Company for the benefit of its shareholders, while having regard to, among other matters, the interest of employees, the fostering of business relationships with customers, suppliers and other stakeholders, as well as promoting the impact of the Company's operations on the communities and the environment in which the business operates.

Composition of the Board of Directors as of 30 June 2017







Board of Directors

Effective and experienced leadership
Kernel Holding S.A. is governed by the Board of Directors, composing of eight directors (incl. three non-executive independent directors). Biographical details of the board and executive management team as at 30 June 2017 are as follows (with details available at kernel.ua/en/management/directors/)

Andriy Verevskyy, 43
Chairman of the Board,
Founder

Tenure: 10 years
Skills and experience:
Founded the Group's business in 1995, holding various executive positions within the Group. Presently, he oversees the strategic development and overall management of the Group.

Board Committee:
Nomination & Remuneration Committee.

Nathalie Bachich, 43
Non-executive independent director

Tenure: 1 years
Skills and experience:
With over 15 years experience in international investment banking, Nathalie spent the majority of that time in Equity Capital Markets.

Board Committee:
Nomination & Remuneration Committee, Audit Committee.

Andrzej Danilczuk, 54
Non-executive independent director

Tenure: 10 years
Skills and experience:
Rare know-how which combines a very good understanding of western corporate culture and modus operandi with a deep knowledge of local culture and business practices in the Black Sea region.

Board Committee:
Chairman of Nomination & Remuneration Committee, Audit Committee.

Sergei Shibaev, 58
Non-executive independent director

Tenure: 5 years
Skills and experience:
Occupied different managerial roles with international consultancy and financial services firms including PWC, ING Barings, Deloitte & Touche and Roland Berger, among others.

Board Committee:
Chairman of the Audit Committee.

Anastasiia Usachova, 46
Chief financial officer

Tenure: 10 years
Skills and experience:
Ms. Usachova holds a MBA degree from IMD (Switzerland), CMA and CFM certification from the Association of Accountants and Financial Professionals in Business (IMA).

Board Committee:
None.

Kostiantyn Lytvynskyi, 44
Chief operating officer

Tenure: 6 years
Skills and experience:
Mr. Litvinskyi is responsible for the export of grains and sunflower oil, raw material procurement, purchase of grains and logistics.

Board Committee:
None.

Viktoriia Lukianenko, 42
Chief legal officer

Tenure: 10 years
Skills and experience:
Ms. Lukianenko is responsible for providing legal advice and counseling in all aspects of Kernel's business operations.

Board Committee:
None.

Yuriy Kovalchuk, 36
Corporate investment director

Tenure: 6 years
Skills and experience:
Mr. Kovalchuk contributes to strategy formulation and is responsible for executing of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013.

Board Committee:
None.

Corporate Governance continued

Conflict of interest
As ethics and integrity are central to its core values, the Board will adopt procedures for authorization of existing and new situations which may give rise to a conflict of interest in the part of any director. For example, these rules provide statutory duties, which include, but are not limited to:

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

With the help of these procedure, the Directors have clear guidance as to what situation and/or circumstance should be disclosed to the Board to avoid apparent misconduct. Additionally, those directors shall refrain from deliberating or voting on the issues concerned in accordance with relevant legal provisions, except for day-to-day transactions entered under normal conditions.

Any abstention arisen from conflict of interest, shall be indicated in the minutes of the meeting and disclosed at the next general meeting, in accordance with applicable legal provisions.

Nomination, appointment and re-election
According to the Articles of Association, all directors are appointed by the shareholders at the annual general meeting, which determines their number, remuneration and term of office. The proposed term of office cannot exceed six years and the director shall hold its office until his/her successor is elected. The Directors are elected by a simple majority of vote of the shares, presented and/or represented. Any director may be removed at any time with or without cause by the general meeting of shareholders.

The Directors plan their own succession with the assistance of the Nomination and Remuneration Committee. In doing so, the Board:

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

When considering new appointments to the Board, the Nomination and Remuneration Committee, among other matters, oversees the preparation of a position's specification.

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

Board committees
In compliance with the best corporate governance, the Board has created specialized committees to ensure its efficient performance. This structure contributes to the diversification of the workload, thus allowing motions and resolutions on certain matters to be heard first by a specialized and independent body with explicit professional experience.

The major purpose is to guarantee the required objectivity and to ensure that matters are discussed thoroughly before being passed by the Board.

Therefore, the Board has two special committees: the Audit Committee, and the Nomination and Remuneration Committee. Annually, the Board reviews the necessity to establish new committees.

Executive management team
The Group's daily operations are managed by the team of nine professionals, employed by the subsidiaries of Kernel Holding S.A., who are responsible for heading operating segments and providing support functions. The full list of managers with short biographies is available on the Company's website under www.kernel.ua/en/management.

Board evaluation
Following the Ten Principles of Corporate Governance issued by the Luxembourg Stock Exchange, the Board assesses its operating efficiency, performance and relationship with executive management. The evaluation is conducted through an online questionnaire with each director anonymously assessing the Board's effective fulfillment of its merit, composition, organizational structure and its effectiveness as a collective body, among other things. The evaluation of the Board typically takes place in the autumn.

Corporate secretary and independent advice
All directors can consult with the corporate secretary. The corporate secretary is available to provide assistance and information on governance, corporate administration and legal matters as appropriate. Directors may also seek advice on such matters, or on other business-related matters relating to the performance of his duties, directly from independent professional advisors if so desired at the Company's expense.

Performance report
The Board has held seven scheduled meetings and three unscheduled during the year ended 30 June 2017. Typically, at each meeting, the Chairman of the Board, together with the Chief Financial Officer, report on strategy implementation. Twice a year, the Board revises, if necessary, its operation plan for the forthcoming season, thus continuously adjusting to the current market conditions. The Directors also receive reports on each of the functions and main businesses from its managers to assess the performance as well as consider if any adjustments to the strategy are necessary. Additionally, the Directors continuously receive updates from the Company Secretary on the corporate governance matters, which are deemed to be necessary for the efficient and compliant functioning of the Board.

During the financial year, ended 30 June 2017, the Board allocated its scheduled meeting to the following:

- discussing the reviewing reports from the Chairman on strategic progress, matters considered by the executive management team and peers activities;
- analyzing reports from the Chief Financial Officer on the financial position and performance of the Company, which included updates on segments results, liquidity, indebtedness and treasury operations;
- discussing and reviewing reports from its committees;
- discussing and analyzing reporting on risk management and mitigating activities, as well as legal standings;
- discussing, analyzing and approving financial reports and material transactions by the Company;
- discussing and reflecting upon its own effectiveness, following the performance review;
- discussing the necessity to introduce changes to the Boards composition and develop succession plans; and
- analyzing and discussing reports on the corporate governance issues, and updates on changes concerning company law.

Most of the directors attended all meetings of the Board during the reporting period.

Corporate Governance continued

Accountability and audit

The Group's business activities, together with matters affecting its performance, positions and future developments are discussed in the strategic report, laid out on pages 3-32.

The current economic environment has advanced the development of certain risks and uncertainties for the Company: a low cycle of global commodity prices, aspirations concerning harvesting campaigns in Ukraine and the political landscape. Details, together with mitigation plans, are outlined in the Risk and Uncertainty section of this report, pages 54- 58.

The Board has reviewed current and forecasted financials of the Group, making reasonable, often rather conservative, assumptions about the future performance, as well as required debt level. Consequently, the results discussed in this annual report clearly show that the Group is fully capable of operating within the levels of available capital. Therefore, the Board has reasons to expect that the Company shall have adequate resources to continue its operations for the foreseeable future. Hence, the Directors continue to adopt the going concern basis when preparing the annual report and accounts.

Corporate policies and compliance

Acting with integrity is at the core of all Kernel's policies and values. To maintain the high principles of fair competition, transparency and zero-tolerance to corporate fraud and corruption, the Company has employed the Global Corporate Code and in a final stage of adopting Anti-corruption Policy as well as many other regulations to advance professionalism and honestly among its employees.

The Global Corporate Code (hereinafter 'the Code') and the Anti-Corruption Policy (hereinafter 'the Policy') shall be applicable to all Kernel employees, its affiliated subsidiaries worldwide and third parties, who may act on behalf of Kernel Holding S.A. By employing those policies, Kernel confirms its adherence to the principles of legality, transparency and social responsibility to maintain its high business reputation to all its stakeholders. Moreover, the Policy is developed in accordance with the requirements of the anti-corruption legislation of Ukraine, the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the 'OECD Convention'), as well as the anti-corruption legislation of the countries in which Kernel operates, not to mention the Code and other internal documents.

Within the framework of the Code and implementation of the Policy, all of the internal regulations are being updated with the introduction of relevant controls on compliance with the requirements of above-mentioned documents, as well as applicable national and international regulations on prevention of fraud, corruption and money laundering.

For instance, several anti-corruption measures have been introduced already:

- → Anti-corruption clauses have been developed and implemented in all financial agreements, contracts and bilateral arrangements with counterparties, business partners and third parties;
- → Anti-corruption measures as well as Code rules have been integrated in Internal Labor Regulations; and
- → Anti-corruption questionnaires have been updated in accordance with the guiding principles for all candidates and existing employees to reflect relevant controls.

Examples of on-going measures include, but are not limited to:

- → Assessment of the Company's corruption risks;
- → Establishing the groupwide controls to assess the existing counterparties, business partners and third-party compliance with international sanctions, corruption risks, AML/FT, conflict of interest and/or PEP;
- → Implementing compliance-controls for CSR transactions, charity and sponsorships;
- → Introducing restrictions on means of communications with the government officials; and
- → Monitoring of adherence to compliance measures and controls when entering financial agreement or transaction.

Above all, the Company has launched a Hot Line, as a mechanism to facilitate informing about any possible illegal, unethical and/or improper behavior of employees, counterparties or business partners. Moreover, the Company has implemented a policy of no proceedings against applicants, who use the Hot Line.

Finally, Kernel aims at the continuous and systematic increase of compliance-culture awareness for all its employees. As a result, the following measures have been successfully implemented:

- → Systematic trainings on the requirements of the Codex and the Policy,
- → Launch of compliance@kernel.ua for individual consultations for the Company's stakeholders, and
- → Communication sessions with employees as well as the creation of a 'Compliance FAQ' available to all employees via intranet.

Takeover disclosure

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

The Company in the ordinary course of business has entered into various agreements with customers and suppliers around the world. Some of the Company's borrowing agreements, which either by their nature or value may represent significant agreements, do provide for the right of termination upon a change of control of the Company. The commercial sensitivity of these agreements prevents their details from being disclosed.

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

Audit Committee

Following best practice, the Board has established an Audit Committee, consisting of independent non-executive directors with the chair having extensive audit experience. As a result, being independent from the Company, the Audit Committee is fully capable of overseeing the affairs of the Group, thus ensuring that the Company conducts its business affairs ethically and responsibly, specifically in the areas of financial reporting, internal controls and risk management.

The key objectives of the Audit Committee could be summarized, as follows:

- → to provide effective governance over the fairness of the Company's financial reports, including adequacy of the related disclosures,
- → to oversee the performance of both internal audit function and external auditors, and
- → to monitor the internal controls, business risks and related compliance activities.
- → The Audit Committee consists of three non-executive directors, headed by the chair of the committee. All members are appointed by the Board from the pool of independent directors.

The Audit Committee's major responsibilities include, but are not limited to, the following:

- → assisting the Board in monitoring the reliability and integrity of all financial information provided by the Company, especially by reviewing the relevance and consistency of the accounting standards applied by the Group, including consolidation criteria;
- → supporting the Board in formulating a description of the risks, specific to the Group;
- → assisting the Board in the implementation of a risk control system;
- → monitoring the effectiveness of the internal audit function;
- → making recommendations to the Board regarding an internal audit workplan;
- → making recommendation to the Board regarding selection, appointment (re-appointment) and dismissal of the external auditor;
- → monitoring the objectivity and independence of the external auditor;
- → examining the scope and nature of the non-audit services to be provided by an

Corporate Governance continued

external auditor with the view to avoid any conflict of interest; and
- preparing the recommendations on the issues relating to its competencies and presenting them to the Board.

During the year ended 30 June 2017, the new EU Audit Market Reform took force, which identified requirements of the Company and enhanced responsibilities for the Audit Committee which included:

- the Company is to have an Audit Committee composed of non-executive directors appointed by the general meeting of shareholders,
- the majority of its members shall be independent,
- the chairman of the committee shall be appointed by its members and shall be independent of the Company,
- at least one member of the Audit Committee shall have competence in accounting and/or auditing,
- members, as a whole, shall have competence relevant to the sector in which the Company is operating, and
- perform an assessment of the composition and competences of the Audit Committee on individual/collective basis.

The Company has been in line with all of the abovementioned requirements, except for the self-assessment, which is in-progress and shall be completed shortly after this report publication.

Audit Committee's performance report

The Audit Committee has met six times over the course of the financial year, ended 30 June 2017. Its major activities have been dedicated toward the integrity of the Company's financial accounting and reporting together with a related external audit, as well as periodic revision of the implementation of risk mitigation plan. Overall activities of the Audit Committee can be summarized in the following areas:

- Integrity of the financial reports
  - Quarterly, semi-annual and annual financial reports,
  - Critical accounting policies and management estimates.
- Oversight of external auditor
  - Annual audit plan and areas of focus,
  - Management letter review,
  - Face-to-face discussion with the auditors in absence of executives,
  - Review of the contract with the auditors.
- Supervision of internal audit function
  - Quarterly reports on internal audit projects and recommendations for implementation dynamics,
  - Internal audit projects' planning
  - Face-to-face discussion with the Head of Internal Audit in absence of executives.
- Risk management
  - Identification of top risks for the Group,
  - Risk monitoring,
  - Periodic reports on risk mitigation activities.
- Compliance
  - Review of compliance with the best corporate governance practice,
  - Monitoring of subsidiaries' compliance outside of Ukraine with local regulatory requirements.

After each meeting, the chairman of the committee reports to the Board on key matters. The internal and external auditors have free access to the audit committee meetings in the ordinary course of business. Periodically, the Audit Committee meets in the absence of executives with both auditors.

Internal Audit

Internal audit endeavors to maintain continuous support for the Directors on risk management, internal controls and mitigation activities by undertaking regular or ad hoc reviews.

The Group's internal audit division is headed by an experienced professional, who reports to the Audit Committee and works closely with the Board.

Key objectives of Internal Audit are to provide independent and unbiased evaluations of the effectiveness of risk management and internal control systems within the operational and financial framework of the Company, i.e., internal audit is a crucial component of good corporate governance, which helps to enhance transparency to the Board, the Company's shareholders and stakeholders.

Major responsibilities include, but are not limited to:

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

External Auditor

The Company's annual consolidated and standalone reports are audited by an external auditor appointed by the annual general meeting of shareholders. On 12 December 2016, the general meeting of shareholders appointed Deloitte Audit S.a.r.l., having its registered office at 560 rue du Neudorf, L-2220 Luxembourg, and registered with the Luxembourg Trade and Companies' Register under number B67895 as independent auditor of the consolidated and unconsolidated annual accounts of Kernel Holding S.A. for the year ended 30 June 2017. Deloitte has audited the Company's accounts since the financial year ended 30 June 2012.

The Audit Committee regularly meets with the auditors, including meetings without the presence of executive management, to discuss the audit process and management letter among other things, and to make recommendations on the external auditor's work program.

The amount of non-audit services provided by external auditors amounted to US$ 6 thousand during the year ended 30 June 2017 (US$ 18 thousand a year ago), compared to the audit fees of US$ 534 thousand in FY2017 (US$ 500 thousand a year ago). While services are authorized ex officio, the Audit Committee periodically examines the nature and scope of the non-audit services provided with a view to avoid any conflicts of interest.

Nomination and remuneration

Following the principles of 'Best Practice in Corporate Governance', the Board has established the Nomination and Remuneration Committee (hereinafter 'NRC'), which purpose is to provide an adequate succession plan for the Company, as well as compensate its directors competitively, so that directors' interests are aligned with both the Group's strategy and stakeholders' aspirations without jeopardizing the compliance with regulatory requirements.

In brief, the Company's compensation policies and management incentive plans reward performance, sustainable growth and long-term value creation for all stakeholders. Moreover, the remuneration programs for the Board and executive management team are competitive, internally equitable and straight-forward.

Remuneration policies and incentive plans, as well as amounts, are reviewed by the NRC on an annual basis and, if required, adjusted by the Board.

Nomination and Remuneration Committee

The NRC assists the Board in nominating and assessing candidates for both directorship and managerial positions, as well as in establishing and reviewing the compensation principles and strategy. Finally, NRC supports the Board in preparing the Board's remuneration proposals to the shareholders' general meeting.
Members of the NRC are appointed by the Board from the pool of directors. The committee consists of a maximum of three members and is chaired by the non-executive director, who is elected by its members.

The key objective of the Nomination and Remuneration Committee is to assist in reviewing, advising and making recommendations to the Chairman of the Board and the Board itself on its membership structure and respective levels of compensation for individual members of both the Board and the executive management team. Major responsibilities of the NRC could be split into two categories as in table below.

Nomination

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

Remuneration

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

Base salary	The fixed salary is determined at the discretion of the Board commensurate with the respective position and the individual profile of the manager in terms of qualifications, skill set, and experience. All amounts are fixed and paid in cash, monthly.
Short-term variable bonus	The bonus rewards the financial performance of the Company, as well as the achievement of individual KPIs over a period of one year. The target bonus expressed as a percentage of EBITDA minus financial expenses, with a minimum threshold level required to activate the payout.
Long-term management incentive plan	The management incentive plan rewards performance of the Company over the long-term period and aligns the interests of the executive management team with those of the shareholders by delivering a substantial portion of the compensation as company share options. The plan is duly reviewed by NRC and approved by the Board. Each option is granted non-vested, with a vesting period from three to five years, carrying no rights to dividends, voting and to be executed in cash.

Compensation principles

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

Compensation of the executive management team is based on pay-for-performance principle. Therefore, any incentive plans are designed to reward performance, sustainable growth and long-term value creation for stakeholders. Remuneration of the management team is determined by the Chairman of the Board, but reviewed and, if necessary, adjusted by NRC on an annual basis. Further, the Board may approve the proposed adjustments.

Following the pay-for-performance principle, a significant portion of compensation derives from variable incentives based on the Company's performance. Therefore, the elements of the remuneration policy for executive management team is summarized in the figure blow:

Nomination and Remuneration Committee's performance report

The NRC held two scheduled and one unscheduled meeting during the reporting period, discussing the succession for the resigned board member, as well as evaluating prospective candidates. Moreover, the NRC has settled on management compensation for the financial year ended 30 June 2017, which amounted to US$ 3,290 thousand, as compared to US$ 6,476 thousand a year ago. For details on the Directors compensation, please, see to the figure below.

During the year ended 30 June 2017, there were no new management incentive plans proposed. Although, as of the 30 June 2017, there are a total of 5,150,000 options outstanding, out of which 3,075,000 were vested, with each option representing the right to acquire one ordinary share of the Company. For any further details regarding option plans, please, refer to Note 2 of the financial statements on page 75.

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

Kernel Holding S.A. Group of Directors
in thousand US$

	FY2015	FY2016	FY2017
Chairman of the Board	116.7	200.0	**200.0**
Three non-executive directors	215.0	251.5	**259.6**
Four executive directors	50.0	44.1	**40.0**
Total Board of Directors	**381.7**	**495.6**	**499.6**

Corporate Governance continued

Investor Relations

The Group recognizes the importance of adequate and efficient communication with shareholders and responses on a wide range of issues. Moreover, Kernel Holding S.A. maintains ongoing contact with its investors through its investor relations team. All materials, presentations and reports are available to shareholders on the Company's website – www.kernel.ua.

Annual general shareholders' meeting

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

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

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

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

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

During the annual general meeting held on 12 December 2016, the Company approved the management report and annual accounts for the financial year ended 30 June 2017 and approved the Board's proposal to distribute US$ 0.25 per share dividend. The meeting also granted discharge to the directors of the Company and its independent auditor, while it also renewed the mandates of seven of the Company's directors, approved directors' remuneration, and reappointed Deloitte Audit S.a.r.l. as its independent auditor.

Kernel Holding S.A. Investor Calendar

Q1 FY2018 Operations Update	23 October 2017
Q1 FY2018 Financial Report	27 November 2017
Annual general shareholders' meeting	11 December 2017
Q2 FY2018 Operations Update	20 January 2018
H1 FY2018 Financial Report	28 February 2018
Q3 FY2018 Operations Update	18 April 2018
Q3 FY2018 Financial Report	25 May 2018
Q4 FY2018 Operations Update	17 July 2018
FY2018 Financial Report	22 October 2018

Risks and Uncertainties

Kernel's risk identification and mitigation system

At Kernel Holding S.A., management defines risk as an event, action of lack of action, which can lead to non-achievement of the Company's objectives.

Moreover, the Board has recognized the importance of risk management, which is defined as a process, realized by all branches of the Company, starting with strategy development and communication all the way to the activities aimed at providing reasonable assurance that the Company's goals are deemed to be achieved.

Therefore, risk management aims at risk identification, assessment and prioritization, as well as monitoring and feedback. Moreover, it is embedded in decisions made by the management and the Board.

As a part of the Group's strategy management process, the Directors identify and manage key (top) risks through development of a detailed mitigation plans. The process of key risks identification, prioritization and mitigation is facilitated by the working group, headed by CFO and includes Head of Controlling and Head of Internal Audit functions.

As a result of the latest review cycle, the following list was approved by the Board as the key risks faced by the Group:

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

Risks and Uncertainties continued

Industry-wide risks

Country harvest level

Sunflower seed harvest in Ukraine

Possible impact

Utilization of oilseed crushing plants depends on the availability of the sunflower seeds with producers in the domestic market. Low availability might have a negating effect on crushing margins, thus adversely affecting the Company's earnings.

Mitigating approach

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

Grain harvest in Ukraine and Southern Russia

Possible impact

Significant portion of our grain exports and infrastructure throughput is originated from third-party farmers. Therefore, low harvest may lead to lower profitability throughout the entire value chain.

Mitigating approach

Over the last several years, we have significantly diversified our origination base and increasing owr own farming contribution to export and export terminal throughput volumes. We introduced a harvest report based on data from our silo network, thus monitoring overall regional grain production.

Agricultural commodities price volatility

Sunflower oil price volatility

Possible impact

Significant movements in sunflower oil prices within short period of time during the year might have an adverse effect on the Company's earnings, especially when it has a short open position.

Mitigating approach

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

Corn price volatility

Possible impact

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

Mitigating approach

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

Prolonged period of low global soft commodity prices

Possible impact

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

Mitigating approach

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

Risks and Uncertainties continued

Operational risks

Land lease prolongation and land-bank size

Land lease prolongation & relations with local communities

Possible impact

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

Mitigating approach

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

Late harvesting

Possible impact

There is a risk of partial loss of crop due to late harvesting, as a consequence of the lack of capacity for its transportation and storage. Untimely preparation for a new sowing campaign due to late harvesting can lead to a decrease in next year yields.

Mitigating approach

Management might consider concluding agreements with other export terminal facilities to ensure timely turnover of its silo network to support the growing volume of in-house crop production. Moreover, several silos are undergoing capacity expansion projects aimed at increasing their turnover and throughput volumes.

Integration of newly acquired companies

Possible impact

The workload on key personnel significantly increasing, which may lead to a decrease in the efficiency of the existing business and not optimal integration of the newly acquired companies.

Mitigating approach

Following the successful acquisition of prime farmlands, the Company tends to set up territorial operational management teams from existing experienced employees to smooth the integration process over the next season. Moreover, application of modern project management software solutions shall aid in-field teams to adequately monitor and control the pace of integration, as well as set financial KPIs.

Fraud and fraudulent activities

Possible impact

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

Mitigating approach

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

Inventory safety

Possible impact

Risk of financial losses resulting from theft / loss of products during transportation.

Mitigating approach

Creation of a 'black' list of drivers and carriers for which thefts were identified. Meanwhile, conclusion of contracts with new carriers after thorough background checks for all new hires.

Risks and Uncertainties continued

Business Continuity Risks

Information security risks

Possible impact

The loss or disclosure of key information may threaten business operations and development of business. With the implementation of business applications that are part of the operational processes and provide the basis for making key decisions, the company has become dependent on the continuity of these applications, as well as on the IT infrastructure that supports these applications.

Mitigating approach

Implementation of recommendations developed to increase resistance to virus attacks in the part of: protection against malicious software, protecting network segments, protecting employee data, managing continuity, managing privileged accounts.

Sustainability concerns

Possible impact

Risk of significant financial losses due to interruptions in the supply of electricity and gas.

Mitigating approach

Global program for the construction of biomass turbines at the crushing plants, as well as centralized procurement of natural gas to fulfill silo network requirements during peak season.

Compliance with environmental standards

Possible impact

Risk of plants stoppage in view of the violation of environmental legislation and possible local population protests associated with environmental risks.

Mitigating approach

Creation of working groups to synchronize measures to control compliance with environmental standards.

Training of the staff of the production assets business division and the agricultural business division on compliance with environmental norms.

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.

Alternative Performance Measures

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

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

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

EBITDA and EBITDA margin

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

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

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

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

in thousand US$	30 June 2016	30 June 2017
Profit before income tax	247,789	**197,439**
add back:		
Financial costs, net	(57,121)	**(62,280)**
Foreign exchange gain/(loss), net	30,442	**(2,729)**
Other expenses, net	(16,608)	**(1,452)**
Share of income/(losses) of joint venture	3,886	**(1,139)**
Amortization and depreciation	59,163	**54,140**
EBITDA	**346,353**	**319,179**

Alternative Performance Measures continued

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 loans for stock option execution.

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 30 June 2016	As of 30 June 2017
Total current assets	**720,467**	**1,120,688**
less:		
Cash and cash equivalents	60,372	**143,392**
Assets classified as held for sale	3,602	**—**
Total current liabilities	373,305	**293,851**
add back:		
Short-term borrowings	179,615	**131,679**
Current portion of long-term borrowings	74,835	**2,782**
Current portion of obligations under finance lease	4,570	**2,842**
Interest on bonds issued	—	**17,949**
Working capital	**542,208**	**838,697**

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

in thousand US$	30 June 2016	30 June 2017
Net cash used in investing activities	**(60,732)**	**(223,463)**
add back:		
Purchase of intangible and other non-current assets	(525)	**(702)**
Disposal of subsidiaries	13,689	**5,644**
Acquisition of subsidiaries	(49,957)	**(151,705)**
Amount advanced for subsidiaries	6,417	**4,995**
Purchases of financial assets	—	**(34,575)**
Loans for stock options execution	—	**(6,650)**
Fixed assets investments	**(30,356)**	**(40,470)**

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

in thousand US$	30 June 2016	30 June 2017
Net cash used in investing activities	**(60,732)**	**(223,463)**
less:		
Purchase of property, plant and equipment	(33,863)	**(43,432)**
Proceeds from disposal of property, plant and equipment	3,507	**2,962**
Investing cash flows	**(30,376)**	**(182,993)**

Alternative Performance Measures continued

Funds from Operations

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

Free Cash Flows

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

The following table reconciles profit before income tax to funds from operations for the periods indicated:

in thousand US$	30 June 2016	30 June 2017
Profit before income tax	**247,789**	**197,439**
add back:		
Financial costs, net	(57,121)	**(62,280)**
Foreign exchange gain/(loss), net	30,442	**(2,729)**
Other expenses, net	(16,608)	**(1,452)**
Share of profit/(losses) of joint venture	3,886	**(1,139)**
Amortization and depreciation	(59,163)	**(54,140)**
EBITDA	**346,353**	**319,179**
less:		
Purchase of property, plant and equipment	(33,863)	**(43,432)**
Proceeds from disposal of property, plant and equipment	3,507	**2,962**
Finance costs paid	(57,595)	**(34,632)**
Income tax paid	(2,811)	**(6,484)**
Result from discontinued operations	(1,676)	**—**
Movement in allowance for doubtful receivables	1,595	**2,961**
Net change in fair value of biological assets and agriproduce	(20,134)	**2,875**
Net non-realizable foreign exchange loss/(gain)	(765)	**(3,446)**
Other accruals	4,452	**10,468**
Other	628	**(7,279)**
Funds from operations	**239,691**	**243,172**

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

in thousand US$	30 June 2016	30 June 2017
Profit before income tax	**247,789**	**197,439**
add back:		
Financial costs, net	(57,121)	**(62,280)**
Foreign exchange gain/(loss), net	30,442	**(2,729)**
Other expenses, net	(16,608)	**(1,452)**
Share of profit/(losses) of joint venture	3,886	**(1,139)**
Amortization and depreciation	59,163	**54,140**
EBITDA	**346,353**	**319,179**
less:		
Net cash used in investing activities	(60,732)	**(223,463)**
Changes in working capital	(136,324)	**(206,236)**
Finance costs paid	(57,595)	**(34,632)**
Income tax paid	(2,811)	**(6,484)**
Dividends paid	(19,921)	**(20,175)**
Result from discontinued operations	(1,676)	**—**
Movement in allowance for doubtful receivables	1,595	**2,961**
Net change in fair value of biological assets and agriproduce	(20,134)	**2,875**
Net non-realizable foreign exchange loss/(gain)	(765)	**(3,446)**
Other accruals	4,452	**10,468**
Other	628	**(7,279)**
Free cash flows	**53,070**	**(166,232)**

Alternative Performance Measures continued

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 weather 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 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 30 June 2016	As of 30 June 2017
Sunflower oil and meal	131,410	**221,432**
Sunflower seed	13,098	**89,644**
Grains	38,390	**42,085**
Other	17,315	**33,499**
Total	**200,213**	**386,660**
of which: Readily marketable inventories	183,675	**353,947**

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

in thousand US$	As of 30 June 2016	As of 30 June 2017
Short-term interest bearing debt	254,450	**134,461**
Long-term interest bearing debt	81,841	**5,562**
Eurobond	—	**493,648**
Obligations under finance lease	6,845	**5,744**
Gross interest-bearing debt	**343,136**	**639,415**
Cash and cash equivalents	60,372	**143,392**
Net interest-bearing debt	**282,764**	**496,023**
Readily marketable inventories	183,675	**353,947**
Adjusted net financial debt	**99,089**	**142,076**

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Kernel Holding S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 30 June 2017, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the period from 1 July 2016 to 30 June 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Valuation of biological assets	
Under IAS 41, the Group has to measure biological assets at fair value as of reporting date. As of 30 June 2017, the carrying amount of biological assets consisted primarily of current biological assets (mainly crops in fields) of an amount of USD 256,247 thousand. Crops in fields are measured using the discounted cash flow technique. The key assumptions used in the preparation of forecasts (see Note 13 to the consolidated financial statements) are: → expected yields; → prices; → discount rates.	We obtained an understanding of controls surrounding valuation of biological assets. We challenged management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (prices) and market data noting the assumptions used fell within an acceptable range. We performed an independent recalculation of fair value of biological assets as of 30 June 2017 using actual prices subsequent to year end, average actual yields for last three years and a discount rates calculated by our internal valuation specialists. We tested the accuracy and methodology of valuation models. We tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations. We considered the appropriateness of the related disclosures provided in the consolidated financial statements (Note 13 to the consolidated financial statements).
Key observations communicated to those charged with governance	Based on our audit procedures performed no material issues identified.

Independent Auditor's Report continued

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of goodwill	
Annually, as of its selected date of 30 June as required per IAS 36 "Impairment of Assets" more frequently, if there are indicators that the carrying amount of goodwill is no longer recoverable, the Group is required to perform an impairment test. The Group manages its goodwill at the group of cash generating unit ("CGU") level. Impairment is tested with reference to fair value less cost to sell or the value-in-use, typically based on the cash flow forecast for each CGU. Impairment considerations were significant to our audit because the goodwill balance of USD 114,110 thousand as of 30 June 2017 is material to the consolidated financial statements. In addition, management's assessment process is complex, involves judgment and is based on assumptions, which are affected by expected future market and economic conditions. The key assumptions with the most significant impact on the cash flow forecasts were: → The discount rate ("WACC"), which is based on the weighted average cost of capital. → Terminal growth rate. → Exchange rates. → Business assumptions, including but not limited to expected operating margins, future production and sales volumes, which are volatile. Further, key considerations included determination of CGUs, whether the value in use calculation and valuation method used complied with the requirements of IFRS.	Our procedures included, among other, using internal valuation experts to assist us in evaluating the assumptions and valuation methodologies used by the Group, in particular those relating to the methodology and data used to estimate the WACC used in each CGU's value-in-use estimate. We have also focused on those assumptions that have the most significant effect on the determination of the recoverable amount of goodwill by performing sensitivity analyses. More specifically: We performed audit procedures on impairment models relating to sunflower oil and export terminal CGUs. We evaluated reasonableness of the models by comparing the assumptions made to internal and external data. In particular, we: → compared short-term revenue growth rates to the latest approved budgets and found them to be consistent; → challenged the reasonableness of the assumptions in management's forecasts with reference to past performance, market conditions and external benchmarks, where applicable; → assessed the historical forecasting and budgeting accuracy; → tested the integrity and mathematical accuracy of the models; → tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations; → compared the Group's performance during the most recent quarter with the projections used in the models; → prepared our independent estimation of value-in- use for the tested CGUs and compared amount obtained to the carrying value of non-current assets of these CGUs. We also considered the adequacy of the Group's disclosures in respect of goodwill impairment testing (Note 17 to the consolidated financial statements) and whether disclosures, related to the sensitivity of the valuation model used, properly reflecting the risks inherent in such assumptions. As disclosed in Note 17, an impairment of goodwill amounting to USD 6,810 thousand was recognized in the current year based on the assumptions disclosed therein.
Key observations communicated to those charged with governance	Based on our audit procedures performed no material issues identified.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Business combination	
As disclosed in Note 7 to the consolidated financial statements, as of 30 June 2017, the Group acquired agricultural holding Ukrainian Agrarian Investments ("UAI") for a total consideration of USD 155,350 thousand. As disclosed in Note 7, the Group recognized provisionally the purchase price allocation, which resulted amongst others in a gain amounting to USD 1,344 thousand on a bargain purchase. Valuation of net assets as of acquisition date and assessment of the result of the transaction is complex and highly judgmental by nature as it is based on assumption on future market and economic conditions (especially in terms of valuation of property, plant and equipment and land-lease rights of the acquired entities as of acquisition date). The Group hired third party independent valuation experts to assist in the valuation.	We obtained an understanding of controls around the accounting for business combinations. We have analyzed agreements and substance of transactions regarding acquisition of UAI and evaluated if the appropriate accounting policy (IFRS 3 "Business Combination") has been applied for the UAI acquisition. We tested: → the methodology and the model used, for the computations of the fair value of the net assets acquired, → we tested the material assumptions and inputs used in this valuation model and; → we compared the fair value of the acquired assets with the value of other comparable assets as a reasonable test. We have involved with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity analysis. We have tested determination of consideration and net assets made by the Group as of the acquisition date. We re-performed calculation of the consolidation entries. We also confirmed that disclosures required by IFRS 3 "Business Combination" appropriately presented in the consolidated financial statements.
Key observations communicated to those charged with governance	Based on our audit procedures performed no material issues identified.
Revenue recognition	
The Group sells different commodities, goods and services to various counterparties as disclosed in Note 25, and operates in different business and geographical segments as described in Note 6 in the consolidated financial statements. ISAs require an auditor in assessing risk of material misstatement to presume fraud risk in revenue recognition. Given the high volume of underlying transactions and high number of counterparties, we considered a risk that goods can be sold to certain counterparties per prices lower than market prices, with part of the profit margin arising from those sales not included into the consolidated statement of profit or loss.	We obtained an understanding of controls in respect of completeness of revenue. We have disaggregated revenue population for first-class counterparties (public companies, companies with good reputation identified in prior periods), and less known counterparties or new counterparties ("second tier counterparties"). For second tier counterparties we have performed background search to obtain information about these counterparties. We have compared sales prices for such counterparties to market prices at the date of transaction. Additionally, we have performed analysis for companies owned by management and the Major Equity Holder and ensured that no such companies are relating to the Group's customers.
Key observations communicated to those charged with governance	Based on our audit procedures performed no material issues identified.

Independent Auditor's Report continued

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we concluded that there is a material misstatement of this other information; we are required to report this fact. We have nothing to report in this regards.

Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the « Réviseur d'Entreprises Agréé » for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N°537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions the users take based on of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identity and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor’s Report continued

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have been appointed as « Réviseur d’Entreprises Agréé » by the General Meeting of the Shareholders on 12 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the management report (in corporate governance section) and as published on the Group’s website http://www.kernel.ua is the responsibility of the Board of Directors. The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audited services referred to in the EU Regulation No 537/2014 on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, Cabinet de révision agréé

Sophie Mitchell,
Réviseur d’entreprises agréé
Partner

20 October 2017

Statement of Management Responsibilities

for the year ended 30 June 2017

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

→ The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Company and the undertakings included within the consolidation taken as a whole; and

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

20 October 2017

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Selected Financial Data

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

		USD		PLN		EUR	
		30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016
I.	Revenue	**2,168,931**	1,988,520	**8,590,919**	7,696,766	**1,991,079**	1,791,855
II.	Profit from operating activities	**265,039**	287,190	**1,049,793**	1,111,598	**243,306**	258,787
III.	Profit before income tax	**197,439**	247,789	**782,036**	959,092	**181,249**	223,283
IV.	Profit for the period from continuing operations	**178,603**	243,879	**707,429**	943,958	**163,958**	219,759
V.	Net cash generated by operating activities	**77,406**	133,723	**299,608**	517,588	**71,059**	120,498
VI.	Net cash used in investing activities	**(223,463)**	(60,732)	**(864,936)**	(235,069)	**(205,139)**	(54,726)
VII.	Net cash generated by/(used in) financing activities	**172,953**	(136,843)	**669,432**	(529,665)	**158,771**	(123,309)
VIII.	Total net cash flow	**26,896**	(63,852)	**104,104**	(247,146)	**24,691**	(57,537)
IX.	Total assets	**2,009,083**	1,509,355	**7,446,063**	6,007,686	**1,761,765**	1,357,514
X.	Current liabilities	**293,851**	373,305	**1,089,071**	1,485,866	**257,678**	335,751
XI.	Non-current liabilities	**557,623**	138,995	**2,066,662**	553,242	**488,980**	125,012
XII.	Issued capital	**2,164**	2,104	**8,020**	8,375	**1,898**	1,892
XIII.	Total equity	**1,157,609**	997,055	**4,290,330**	3,968,578	**1,015,107**	896,751
XIV.	Number of shares	**80,338,776**	79,683,410	**80,338,776**	79,683,410	**80,338,776**	79,683,410
XV.	Profit per ordinary share (in USD/PLN/EUR)	**2.19**	2.83	**8.69**	10.94	**2.01**	2.55
XVI.	Diluted number of shares	**82,407,733**	81,384,851	**82,407,733**	81,384,851	**82,407,733**	81,384,851
XVII.	Diluted profit per ordinary share (in USD/PLN/EUR)	**2.14**	2.77	**8.47**	10.71	**1.96**	2.49
XVIII.	Book value per share (in USD/PLN/EUR)	**14.35**	12.49	**53.18**	49.72	**12.58**	11.23
XIX.	Diluted book value per share (in USD/PLN/EUR)	**13.99**	12.23	**51.85**	48.68	**12.27**	11.00

Consolidated Statement of Financial Position

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2017	As of 30 June 2016
Assets			
Current assets			
Cash and cash equivalents	8	143,392	60,372
Trade accounts receivable, net	9	87,192	75,207
Prepayments to suppliers and other current assets, net	10, 34	82,701	52,983
Corporate income tax prepaid		8,198	7,400
Taxes recoverable and prepaid, net	11	135,257	130,378
Inventory	12	386,660	200,213
Biological assets	13	256,247	190,312
Other financial assets	37	21,041	—
Assets classified as held for sale	14	—	3,602
Total current assets		1,120,688	720,467
Non-current assets			
Property, plant and equipment, net	15	569,714	538,728
Intangible assets, net	16	104,861	36,818
Goodwill	17	114,110	121,912
Investments in joint ventures	33	51,025	52,164
Deferred tax assets	24	11,924	20,161
Corporate income tax prepaid		5,028	8,056
Other non-current assets	18, 34	31,733	11,049
Total non-current assets		888,395	788,888
Total assets		2,009,083	1,509,355
Liabilities and equity			
Current liabilities			
Trade accounts payable	34	52,776	41,910
Advances from customers and other current liabilities	19, 34	88,665	76,945
Short-term borrowings	20	131,679	179,615
Current portion of long-term borrowings	21	2,782	74,835
Interest on bonds issued	23, 30, 36	17,949	—
Total current liabilities		293,851	373,305
Non-current liabilities			
Long-term borrowings	21	5,562	81,841
Obligations under finance leases	22	2,902	2,275
Deferred tax liabilities	24	24,865	17,143
Bonds issued	23	493,648	—
Other non-current liabilities	7, 34	30,646	37,736
Total non-current liabilities		557,623	138,995
Equity attributable to Kernel Holding S.A. equity holders			
Issued capital		2,164	2,104
Share premium reserve		481,878	463,879
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve		7,014	6,582
Revaluation reserve		43,815	43,815
Translation reserve		(707,458)	(691,885)
Retained earnings		1,285,671	1,130,890
Total equity attributable to Kernel Holding S.A. equity holders		1,153,028	995,329
Non-controlling interests		4,581	1,726
Total equity		1,157,609	997,055
Total liabilities and equity		2,009,083	1,509,355
Book value		1,153,028	995,329
Number of shares	38	80,338,776	79,683,410
Book value per share (in USD)		14.35	12.49
Diluted number of shares	38	82,407,733	81,384,851
Diluted book value per share (in USD)		13.99	12.23

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Profit or Loss

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2017	30 June 2016
Revenue	25	**2,168,931**	1,988,520
Net change in fair value of biological assets and agricultural produce	13	**(2,875)**	20,134
Cost of sales	26, 34	**(1,722,756)**	(1,548,474)
Gross profit		**443,300**	**460,180**
Other operating income, net	27	**40,684**	44,617
Operating expenses			
Distribution costs	28	**(159,022)**	(158,323)
General and administrative expenses	29	**(59,923)**	(59,284)
Profit from operating activities		**265,039**	**287,190**
Finance costs, net	30	**(62,280)**	(57,121)
Foreign exchange (loss)/gain, net	31	**(2,729)**	30,442
Other expenses, net	32, 34	**(1,452)**	(16,608)
Share of (loss)/income of joint ventures	33	**(1,139)**	3,886
Profit before income tax		**197,439**	**247,789**
Income tax expenses	24	**(18,836)**	(3,910)
Profit for the period from continuing operations		**178,603**	**243,879**
Discontinued operations:			
Loss for the period from discontinued operations	14	**—**	(17,035)
Profit for the period		**178,603**	**226,844**
Profit for the period attributable to:			
Equity holders of Kernel Holding S.A.		**176,243**	**225,150**
Non-controlling interests		**2,360**	1,694
Earnings per share			
From continuing and discontinued operations			
Weighted average number of shares	38	**80,338,776**	79,683,410
Profit per ordinary share (in USD)		**2.19**	2.83
Diluted number of shares	38	**82,407,733**	81,384,851
Diluted profit per ordinary share (in USD)		**2.14**	2.77
From continuing operations			
Weighted average number of shares	38	**80,338,776**	79,683,410
Profit per ordinary share (in USD)		**2.19**	3.04
Diluted number of shares	38	**82,407,733**	81,384,851
Diluted profit per ordinary share (in USD)		**2.14**	2.98
From discontinued operations			
Weighted average number of shares	38	**80,338,776**	79,683,410
Loss per ordinary share (in USD)		**—**	(0.21)
Diluted number of shares	38	**82,407,733**	81,384,851
Diluted loss per ordinary share (in USD)		**—**	(0.21)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

	30 June 2017	30 June 2016
Profit for the period	**178,603**	226,844
Other comprehensive loss		
Items that will not be reclassified subsequently to profit or loss:		
Gain on revaluation of property, plant and equipment	–	5,314
Income tax related to components of other comprehensive income	–	(955)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(15,706)**	(98,101)
Share of other comprehensive loss of joint ventures	–	(8,759)
Other comprehensive loss, net	**(15,706)**	(102,501)
Total comprehensive income for the period	**162,897**	124,343
Total comprehensive income attributable to:		
Equity holders of Kernel Holding S.A.	**160,670**	123,907
Non-controlling interests	**2,227**	436

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 30 June 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 2015	**2,104**	**463,879**	**39,944**	**4,793**	**39,456**	**(586,283)**	**925,661**	**889,554**	**1,290**	**890,844**
Profit for the period	—	—	—	—	—	—	225,150	**225,150**	1,694	**226,844**
Other comprehensive income/(loss)	—	—	—	—	4,359	(105,602)	—	**(101,243)**	(1,258)	**(102,501)**
Total comprehensive income/(loss) for the period	**—**	**—**	**—**	**—**	**4,359**	**(105,602)**	**225,150**	**123,907**	**436**	**124,343**
Distribution of dividends (Note 2)	—	—	—	—	—	—	(19,921)	**(19,921)**	—	**(19,921)**
Recognition of share-based payments (Note 2)	—	—	—	1,789	—	—	—	**1,789**	—	**1,789**
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	—	—	—	—	—	—	176,243	**176,243**	2,360	**178,603**
Other comprehensive loss	—	—	—	—	—	(15,573)	—	**(15,573)**	(133)	**(15,706)**
Total comprehensive (loss)/income for the period	**—**	**—**	**—**	**—**	**—**	**(15,573)**	**176,243**	**160,670**	**2,227**	**162,897**
Distribution of dividends (Note 2)	—	—	—	—	—	—	(20,175)	**(20,175)**	—	**(20,175)**
Disposal of subsidiaries	—	—	—	—	—	—	—	**—**	(197)	**(197)**
Acquisition of subsidiaries (Note 7)	—	—	—	—	—	—	—	**—**	825	**825**
Issue of ordinary shares under employee share option plan (Note 2)	60	17,999	—	432	—	—	(1,287)	**17,204**	—	**17,204**
Balance at 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**

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Cash Flows

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2017	30 June 2016
Operating activities:			
Profit before income tax		197,439	231,664
Adjustments for:			
Amortization and depreciation		54,140	60,002
Finance costs, net	30, 34	62,280	58,798
Movement in allowance for doubtful receivables		2,961	1,595
Other accruals		10,468	4,452
(Gain)/Loss on disposal of property, plant and equipment	32	(1,684)	1,079
Net foreign exchange gain	32	(717)	(28,991)
Write-offs and impairment loss		7,529	16,672
Net change in fair value of biological assets and agricultural produce	13	2,875	(20,134)
Gain on bargain purchase	7, 32	(1,344)	—
Share of loss/(income) of joint ventures	33	1,139	(3,886)
(Gain)/Loss on sales of Subsidiaries	7, 14, 32	(9,068)	3,595
Net gain arising on financial assets classified as held for trading		(1,260)	—
Other losses		—	5,607
Operating profit before working capital changes		324,758	330,453
Changes in working capital:			
Change in trade accounts receivable		(7,909)	(17,204)
Change in prepayments and other current assets		(19,308)	396
Change in restricted cash balance		(3,824)	4,897
Change in taxes recoverable and prepaid		(2,021)	(50,904)
Change in biological assets		9,868	(13,857)
Change in inventories		(193,472)	(87,671)
Change in trade accounts payable		7,979	15,787
Change in advances from customers and other current liabilities		2,451	12,232
Cash generated from operations		118,522	194,129
Finance costs paid		(34,632)	(57,595)
Income tax paid		(6,484)	(2,811)
Net cash generated by operating activities		77,406	133,723
Investing activities:			
Purchase of property, plant and equipment		(43,432)	(33,863)
Proceeds from disposal of property, plant and equipment		2,962	3,507
Purchase of intangible and other non-current assets		(702)	(525)
Acquisition of subsidiaries	7	(151,705)	(49,957)
Disposal of subsidiaries	7	5,644	13,689
Amount advanced for subsidiaries		4,995	6,417
Purchases of financial assets		(34,575)	—
Loans for stock options execution		(6,650)	—
Net cash used in investing activities		(223,463)	(60,732)
Financing activities:			
Proceeds from borrowings		91,956	391,425
Repayment of borrowings		(407,313)	(505,973)
Payment of dividends	2	(20,175)	(19,921)
Proceeds from share premium reserve increase		14,934	—
Issued capital		60	—
Proceeds from bonds issued	23	497,520	—
Transactions costs related to corporates bonds issue		(3,872)	—
Net cash generated by/(used in) financing activities		173,110	(134,469)
Effects of exchange rate changes on the balance of cash held in foreign currencies		(157)	(2,374)
Net increase/(decrease) in cash and cash equivalents		26,896	(63,852)
Cash and cash equivalents, at the beginning of the year	8	60,269	124,121
Cash and cash equivalents, at the end of the year	8	87,165	60,269

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Consolidated Financial Statements

for the year ended 30 June 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. As of 30 June 2017, the Group employed 16,103 people (14,075 people as of 30 June 2016).

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

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

As of 30 June 2017 and 30 June 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 30 June 2017	Group's effective ownership interest as of 30 June 2016
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%
Ukragroinvest LLC		Ukraine	100.0%(1)	0.0%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%(1)	0.0%
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%
Vyshneve Agro ALLC(2)		Ukraine	100.0%	100.0%
Palmira LLC		Ukraine	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%(1)	0.0%
Buymerske PE		Ukraine	100.0%(1)	0.0%

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 20 October 2017.

(1) The company was acquired on 30 June 2017.

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'). The issued capital of the Holding as of 30 June 2017, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value (2016: 79,683,410). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 June 2017		As of 30 June 2016	
Equity holders	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	31,245,878	38.13%	31,345,878	39.34%
Free float	50,695,352	61.87%	48,337,532	60.66%
Total	**81,941,230**	**100.00%**	**79,683,410**	**100.00%**

As of 30 June 2017 and 2016, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

In December 2016, with purpose to exercise vested options granted to the management (657,820 vested options with a strike price of PLN 24.00 and 360,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 1,017,820 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital was set at USD 2,131 thousand divided into 80,701,230 shares without indication of nominal value and share premium reserve increased by USD 7,778 thousand.

In June 2017, with purpose to exercise vested options granted to the management (1,240,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 1,240,000 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital is set at USD 2,164 thousand divided into 81,941,230 shares without indication of nominal value and share premium reserve increased by USD 10,221 thousand.

As of 30 June 2017, the fair value of the share-based options granted to the management was USD 7,014 thousand and USD 2,210 thousand was recognized as an expense (part of payroll and payroll related expenses) during the year ended 30 June 2017, with a corresponding increase in equity over the vesting period (30 June 2016: USD 6,582 thousand and USD 1,789 thousand, respectively) and USD 1,778 thousand decrease in the fair value of the share-based options was recognized as a result of exercised share-based options (30 June 2016: nil).

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

On 27 April 2017, the dividends were fully paid to the shareholders.

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

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

hereinafter referred to as the 'TFI PZU Funds', that it had acquired 85,024 shares in Kernel Holding S.A., as a result of which it had crossed on 20 January 2017 the threshold of 10%. As of 30 June 2017, TFI PZU Funds owned 8,151,113 shares in the Company, representing 9.95% of the share capital.

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 30 June 2017 and 2016, respectively, may not be distributed as dividends.

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

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

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

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

Adoption of New and Revised Standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 July 2016:

- Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 27 'Separate Financial Statements' (revised 2011) – Equity Method in Separate Financial Statements
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception
- Amendments to IFRSs – Annual Improvements to IFRSs 2012-2014 Cycle

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

Standards and Interpretations Issued but not Effective

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

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 7: Disclosure Initiative	1 January 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
IFRS 9 'Financial Instruments' (2014)	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 16 'Leases'	Not yet adopted in the EU
IFRS 17 'Insurance Contracts'	Not yet adopted in the EU
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Not yet adopted in the EU
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions	Not yet adopted in the EU
Amendments to IFRSs – Annual Improvements to IFRS Standards 2014–2016 Cycle	Not yet adopted in the EU
Amendments to IAS 40: Transfers of Investment Property	Not yet adopted in the EU
Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance contracts'	Not yet adopted in the EU
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Not yet adopted in the EU
IFRIC 23 Uncertainty over Income Tax Treatments	Not yet adopted in the EU
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	EU endorsement currently halted

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Standards and Interpretations Issued but not Effective continued

IFRS 16 has been published in January 2016 and establishes a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. For the Group the standard is expected to be effective for annual period beginning on 1 July 2019 if endorsed by EU. The standard distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance lease have been removed for lessee accounting, and are replaced by a model where a right-of-use asset and corresponding liability have to be recognised in the statement of financial position for all leases by lessees except for short-term leases and leases of low value assets.

The Group has significant number of non-cancellable operating land lease agreements. Related commitments under these agreements amounted USD 468,776 as at 30 June 2016. IAS 17 'Leases' does not require the recognition of any right-of-use asset or liability for future payments for such land lease agreements, instead, it requires to disclose operating lease commitments in notes to the consolidated financial statements. Based on the Group's assessment these arrangements will meet the definition of a lease under IFRS 16, and thus, the Group may need to recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the Group's consolidated financial statements. The Group finds impracticable to provide a reasonable estimate of the effect of IFRS 16 until it performs a detailed review of all land lease agreements.

IASB has published a new Standard, IFRS 15 'Revenue from Contracts with Customers' (IFRS 15).

The standard has been issued in May 2014 and it establishes single model to deal with revenue from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

This standard introduces a 5-step approach to revenue recognition and measurement:

- Step 1: Identify the contract with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

For the Group the standard is effective for annual period beginning on 1 July 2018. IFRS 15 applies to new contracts created on or after the effective date and to existing contracts that are not yet complete as of the effective date. Therefore, the current year figures reported in the first year of adoption will be prepared as if the standard`s requirements had always been applied.

The Group anticipates that the application of IFRS 15 in the future will have an impact on it export sales of sunflower oil and grain as it may be necessary to recognize a separate performance obligation and allocate part of the transaction price to a carriage and fright services incorporated in some contracts as well as timing of revenue recognition from these services. The Group finds impracticable to provide a reasonable estimate of the effect of IFRS 15 until it performs a detailed review of significant number of existing contracts. The Group expects to be able to provide such information in its consolidated financial statements for the year ended 30 June 2018.

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes the classification and measurement of financial assets and financial liabilities; Impairment methodology and Hedge accounting.

With respect to the classification and measurement under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value through profit and loss or fair value through other comprehensive income.

The impairment model under IFRS 9 introduces a new impairment model based on expected loss, rather than incurred loss as per IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses.

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overvalued and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Group anticipates that the application of IFRS 9 in the future will have some impact on amounts of bad debt provision for accounts receivable due to introduction of a new impairment model based on expected credit losses, rather than incurred losses. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review. Management expects to be able to provide such information in the consolidated financial statements for the year ended 30 June 2018.

For other standards and interpretations, management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Functional and Presentation Currency

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

Foreign Currencies

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

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

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

Currency	Closing rate as of 30 June 2017	Average rate for the year ended 30 June 2017	Closing rate as of 30 June 2016	Average rate for the year ended 30 June 2016
USD/UAH	26.0990	26.1919	24.8544	23.8630
USD/EUR	0.8769	0.9180	0.8994	0.9011
USD/RUB	59.0855	60.9404	64.2575	67.3438
USD/PLN	3.7062	3.9609	3.9803	3.8706

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

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

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2017.

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Basis of Consolidation continued

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

Business Combinations

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

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

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

3. Summary of Significant Accounting Policies continued

Business Combinations continued

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

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

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

Goodwill

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

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

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

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

Investments in Joint Ventures

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

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

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

Discontinued Operations

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Discontinued Operations continued

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

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

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a Subsidiary acquired exclusively with a view to resale.

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

Inventories

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

Biological Assets and Agricultural Produce

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

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

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

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

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

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

Property, Plant, and Equipment

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

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

3. Summary of Significant Accounting Policies continued

Property, Plant and Equipment continued

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

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

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

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

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

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

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

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

Intangible Assets

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

Trademarks

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

Land Lease Rights

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

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

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Impairment of Other Non-current Assets, Except Goodwill

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

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

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

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

Financial Instruments

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

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

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

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

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

3. Summary of Significant Accounting Policies continued

Financial Instruments continued

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

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

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

Cash and Cash Equivalents

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

Loans Receivable

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

Trade Accounts Receivable

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

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

Impairment of Financial Assets

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

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

For all other financial assets, objective evidence of impairment could include:
- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Probability of the borrower filing for bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Impairment of Financial Assets continued

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

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

Trade payables

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

Leases

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

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

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

Financial liabilities at fair value through profit or loss

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

Taxes Recoverable and Prepaid

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

Employee Benefits

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

Provisions

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Contingencies

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

Issued Capital

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

Repurchase of Issued Capital

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

Equity-settled Transactions

Equity-settled share-based payments with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date the relevant employees become fully entitled to the award.

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

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

Earnings per Share

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

Revenue Recognition

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

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

Sale of Goods and Finished Products

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

Rendering of Services

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

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

VAT benefits

In accordance with the Tax Code of Ukraine with new amendments the Group's enterprises that qualify as agricultural producers were entitled to retain a portion of net VAT payable. VAT amounts payable were not transferred to the government, but credited to the entity's separate special account to support the agriculture activities of the Group. Starting from 1 January 2016 and till 31 December 2016, producers of grain and industrial crops, cattle and dairy producers, poultry and other agriculture producers retained VAT in a portion of 15%, 80% and 50%, respectively. Starting from 1 January 2017 the special VAT treatment regime has been abolished.

Till 31 December 2015 100% of net VAT liability was retained by agricultural producers. Abovementioned share of the net result of VAT operations calculated as an excess of the VAT liability over VAT credit is accounted for in the Consolidated Statement of the Profit or Loss as other operating income. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities in the next period.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies continued

Borrowing Costs

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

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

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

Taxation

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

Current and deferred tax for the year

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are offset when:

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

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 30 June 2016 and for the year then ended to conform to the current year's presentation.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

Critical Judgments in Applying Accounting Policies

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

Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying grain is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying grain indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 46,039 thousand and USD 29,167 thousand for the years ended 30 June 2017 and 2016, respectively.

Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (bulk and bottled oil segments). At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period. Based on the results of this review, the Group concluded that the carrying amount of buildings, constructions, production machinery and equipment (bulk and bottled oil segments) does not materially differ from the fair value as of 30 June 2017.

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

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

Revaluation of Property, Plant and Equipment continued

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

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

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

Sources of Estimation Uncertainty

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

Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Lives

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

As of 30 June 2017, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 125,417 thousand (30 June 2016: USD 133,938 thousand). As of 30 June 2017, the impairment loss for goodwill and intangible assets with indefinite useful lives was recognized in the amount of USD 7,529 thousand (Notes 16, 17) (30 June 2016: USD 8,768 thousand). Details of the management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Notes 16 and 17.

Impairment of Property, Plant and Equipment

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

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

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

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

As of 30 June 2017, no indicators of property, plant and equipment impairment have been identified.

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

Useful Lives of Property, Plant and Equipment

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

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

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

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

Fair Value of Biological Assets and Agricultural Produce

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

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

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

Deferred Tax Recognition

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

VAT Recoverability

As of 30 June 2017, total VAT recoverable amounted to USD 135,064 thousand (as of 30 June 2016: USD 116,429 thousand) (Note 11). The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by setting it off against VAT liabilities in future periods. Management classifies the VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within 12 months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed to be created.

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

5. Operating Segments

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

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

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
Export terminals	Grain handling and transshipment services in the ports of 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 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, deferred taxes and some other assets and liabilities are not allocated directly to the respective operating segments and are presented in the 'Other' segment. Consequently, the assets and liabilities shown for individual segments do not include borrowings, obligations under financial leases, deferred taxes and some other assets and liabilities.

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2017:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re-conciliation	Continuing operations
Revenue (external)	140,671	1,067,514	784	26,075	923,319	10,568	—	—	2,168,931
Intersegment sales	—	—	58,023	355,223	—	50,105	—	(463,351)	—
Total revenue	**140,671**	**1,067,514**	**58,807**	**381,298**	**923,319**	**60,673**	**—**	**(463,351)**	**2,168,931**
Net change in fair value of biological assets and agricultural produce	—	—	—	(2,875)	—	—	—	—	(2,875)
Other operating income, net	20	1,075	6	35,805	2,420	1,358	—	—	40,684
Profit/(Loss) from operating activities	**14,737**	**68,865**	**44,568**	**113,042**	**22,672**	**37,151**	**(37,752)**	**1,756**	**265,039**
Finance costs, net									(62,280)
Foreign exchange gain, net									(2,729)
Other expenses, net									(1,452)
Share of loss of joint ventures									(1,139)
Income tax expenses									(18,836)
Profit for the period from continuing operations									178,603
Total assets	**71,037**	**907,548**	**119,939**	**597,309**	**163,690**	**71,191**	**78,369**	**—**	**2,009,083**
Capital expenditures	509	5,187	2,407	135,609	—	17,775	1,056	—	162,543
Amortization and depreciation	1,816	14,363	3,036	30,734	—	2,815	1,376	—	54,140
Liabilities	6,603	42,506	1,532	55,082	13,380	2,614	729,757	—	851,474

During the year ended 30 June 2017, revenues of approximately USD 333,109 thousand (2016: USD 371,892 thousand) are derived from a single external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 96% of total external sales.

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

The Group changed the presentation of operating profit in segment reporting with purpose to reflect more precisely the farming segment profitability on intersegment sales. The amount of USD 1,756 thousand, shown in reconciliation of operating profit, represents the utilization of unrealized profit which has arisen on intergroup sales of agricultural products of the farming segment during prior reporting periods. The corresponding amendments were made to the segment disclosure for the year ended 30 June 2016.

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

	Revenue from external customers	Non-current assets
	Year ended 30 June 2017	As of 30 June 2017
Ukraine	1,975,160	825,419
Russian Federation	193,771	51,052
Total	**2,168,931**	**876,471**

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

6. Key Data by Operating Segment continued

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

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re-conciliation	Discontinued operations	Continuing operations
Revenue (external)	102,608	1,032,137	186	25,063	821,671	7,306	—	—	(451)	1,988,520
Intersegment sales	—	—	57,142	333,013	—	30,899	—	(421,054)	—	—
Total revenue	**102,608**	**1,032,137**	**57,328**	**358,076**	**821,671**	**38,205**	**—**	**(421,054)**	**(451)**	**1,988,520**
Net change in fair value of biological assets and agricultural produce	—	—	—	20,134	—	—	—	—	—	20,134
Other operating income, net	112	3,832	15	33,876	6,063	777	—	—	(58)	44,617
Profit/(Loss) from operating activities	**13,035**	**96,463**	**34,480**	**113,852**	**46,265**	**19,907**	**(38,332)**	**(995)**	**2,515**	**287,190**
Finance costs, net										(57,121)
Foreign exchange gain, net										30,442
Other expenses, net										(16,608)
Share of income of joint ventures										3,886
Income tax expenses										(3,910)
Profit for the period from continuing operations										243,879
Total assets	**56,127**	**827,835**	**115,387**	**311,559**	**80,346**	**54,193**	**60,306**	**—**	**—**	**1,505,753**
Capital expenditures	114	54,520	1,799	16,970	—	1,981	19,674	—	—	95,058
Amortization and depreciation	2,793	16,557	2,999	33,049	—	3,486	1,118	—	(839)	59,163
Liabilities	2,290	25,493	16,366	37,012	12,335	2,214	416,590	—	—	512,300

During the year ended 30 June 2016, revenues of approximately USD 371,892 thousand (2015: USD 223,071 thousand) are derived from a single external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 96% of total external sales.

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

The amount USD 995 thousand, shown in reconciliation of operating profit, reflects unrealized profit, arisen upon intragroup sales of agricultural products by the farming segment, which remained unsold to the third parties as of the end of the reporting period.

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

	Revenue from external customers	Non-current assets
	Year ended 30 June 2016	As of 30 June 2016
Ukraine	1,748,691	716,508
Russian Federation	239,829	52,219
Total	1,988,520	768,727

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

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

7. Acquisition and Disposal of Subsidiaries

On 30 June 2017, the Group has acquired 100% effective ownership of UAI (Ukrainian Agrarian Investments) Group (except for Bilovodskyi KHP - 91.12%): a farming business that manages about 190,000 hectares of leasehold farmland and grain elevators with approximately 200,000 tons of grain storage capacity.

The most material acquired companies of UAI Group were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Ukrainian Agrarian Investments S.A.	Holding companies.	Luxemburg	100.00%	30 June 2017
Private company limited by shares UkrFarm Funding Limited		Cyprus	100.00%	30 June 2017
Private company limited by shares Firstmed Management Limited		Cyprus	100.00%	30 June 2017
UAI-TRADE SA	Trading in sunflower oil, meal and grain.	Switzerland	100.00%	30 June 2017
Ukragroinvest LLC		Ukraine	100.00%	30 June 2017
Bilovodskyi KHP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	91.12%	30 June 2017
Druzhba 6 PE	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.00%	30 June 2017
Buymerske PE		Ukraine	100.00%	30 June 2017
AF Semerenky LLC		Ukraine	100.00%	30 June 2017
Krasnokolyadynske LLC		Ukraine	100.00%	30 June 2017
Kochubiy LLC		Ukraine	100.00%	30 June 2017
Kalyna LLC		Ukraine	100.00%	30 June 2017

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

7. Acquisition and Disposal of Subsidiaries continued

As of 30 June 2017, the provisional fair values of assets, liabilities and contingent liabilities were as follows:

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	7,164
Trade accounts receivable, net	3,944
Prepayments to suppliers and other current assets, net	548
Corporate income tax prepaid	26
Taxes recoverable and prepaid, net	13,617
Inventory	18,655
Biological assets	59,144
Total current assets	103,098
Non-current assets:	
Property, plant and equipment, net	51,423
Intangible assets, net	77,179
Deferred tax assets	271
Other non-current assets	93
Total non-current assets	128,966
Total assets	232,064
Liabilities and equity	
Current liabilities:	
Trade accounts payable	2,806
Advances from customers and other current liabilities	35,731
Short-term borrowings	31,067
Total current liabilities	69,604
Non-current liabilities:	
Deferred tax liabilities	4,767
Other non-current liabilities	174
Total non-current liabilities	4,941
Fair value of net assets of acquired Subsidiaries	157,519
Non controlling interest	825
Fair value of acquired net assets	156,694
Gain on bargain purchase	(1,344)
Total cash considerations due and payable	155,350
Less: acquired cash	(7,164)
Net cash outflow on acquisition of subsidiaries	(148,186)
Net cash due and payable	–

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, non-controlling interest 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 next reporting period ended 30 June 2018. Non-controlling interest were measured according to its proportionate share of the acquiree's identifiable net assets.

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 as it is impracticable due to the fact that no IFRS financial information is available for the acquired group from the beginning of the reporting period and up to the date of acquisition.

Acquired group manages one of the largest prime quality farmland banks in Ukraine located near Kernel's existing operations and expands the Group's presence to the Western and Northern regions, potentially capturing the benefits for sunflower and crops production, respectively.

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7. Acquisition and Disposal of Subsidiaries continued

Based on the knowledge available as of 30 June 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 1,344 thousand within 'Other expenses, net' in the consolidated statement of profit or loss.

During the year ended 30 June 2017, as a a result of the optimization process of its legal structure, the Group disposed of five grain elevators located in Mykolaiv, Poltava and Kharkiv regions and one holding company. The net assets of the disposed entities as of the date of disposal were equal to USD 800 thousand and the cash consideration received was USD 5,776 thousand (out of which USD 4,561 thousand was received during this reporting period).

During the year ended 30 June 2017, the Group disposed of one of its export terminals located in Mykolaiv region. The net assets of the disposed entity was classified as held for sale and as of the date of disposal were equal to USD 3,408 thousand and the cash consideration received was USD 7,500 thousand (out of which USD 1,083 thousand was received during this reporting period).

During the year ended 30 June 2016, the Group has acquired pledged assets, which were further registered for Prydniprovskyi OEP LLC, which was accounted as the business combination. As of the date of acquisition, the net assets of oilseed crushing plant were USD 59,090 thousand and mostly consisted of property, plant and equipment in the amount of USD 49,132 thousand. As of 30 June 2016, the consideration paid comprised USD 49,957 thousand and the amount due and payable was USD 25,315 (as of the date of acquisition USD 41,957 thousand and USD 30,358 thousand, respectively), calculated as the present value of amounts payable in arrears within the next five years discount rate 22.96% (out of which USD 23,598 thousand represented the long-term part within the line 'Other non-current liabilities' and USD 1,717 thousand represented the short-term part within the line 'Advances from customers and other current liabilities').

During the year ended 30 June 2017, the Group has performed regular payment for the above mentioned pledged assets in the amount of USD 1,817 thousand.

During the year ended 30 June 2016, the Group disposed of two grain elevators located in the Mykolaiv and Zaporizhzhya regions and one small farming entity registered in the Kyiv region with no material leasehold farmland as of the date of disposal. The net assets of the disposed entities as of the date of disposal were equal to USD 1,189 thousand and the cash consideration received was USD 1,772 thousand. Cash balances disposed of comprised USD 16 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

During the year ended 30 June 2016, the Group disposed of two oilseed crushing plants located in the Russian Federation. The net assets of the disposed entities as of the date of disposal were equal to USD 16,122 thousand and the cash consideration received was USD 11,944 thousand. Cash balances disposed of comprised USD 11 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows.

8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2017	As of 30 June 2016
Cash in banks in USD	90,369	55,825
Cash in banks in UAH	52,067	2,729
Cash in banks in other currencies	951	1,814
Cash on hand	5	4
Total	143,392	**60,372**
Less restricted and blocked cash on security bank accounts	(3,927)	(103)
Less bank overdrafts (Note 20)	(52,300)	—
Cash for the purposes of cash flow statement	87,165	**60,269**

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2017	As of 30 June 2016
Trade accounts receivable	88,805	76,743
Allowance for estimated irrecoverable amounts	(1,613)	(1,536)
Total	87,192	**75,207**

As of 30 June 2017, accounts receivable from one European customer accounted for approximately 18.4%, and one Ukrainian customer for 2.0% of the total carrying amount of trade accounts receivable (as of 30 June 2016: one European customer for approximately 11.6% and one Ukrainian customer for 2.1%).

The average credit period on sales of goods was 14 days (for the period ended 30 June 2016: 12 days). No interest is charged on the outstanding balances of trade accounts receivable. Most of the trade accounts receivable past due for more than one month are considered to be impaired. Allowances for doubtful debts are recognized against trade accounts receivable that are overdue between 30 and 365 days and are calculated on the basis of the delay in payment by applying a fixed percentage.

Before accepting any new customer, the Group uses an external credit status system to assess the potential customer's credit quality and estimates credit limits by customer. Solvency and payment delays per customers are reviewed each quarter. As of 30 June 2017, the amount of not impaired trade accounts receivables and receivables past due less than one month accounted for USD 86,968 thousand (as of 30 June 2016: USD 74,809 thousand).

As of 30 June 2017, trade accounts receivable past due for more than one year were impaired in full and amounted to USD 1,577 thousand (2016: USD 1,473 thousand).

10. Prepayments to Suppliers and Other Current Assets, net

The balances of prepayments to suppliers and other current assets, net were as follows:

	As of 30 June 2017	As of 30 June 2016
Prepayments to suppliers	59,891	38,658
Other current assets	29,497	20,945
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(6,687)	(6,620)
Total	82,701	**52,983**

Increase of prepayments to suppliers and other current assets as of 30 June 2017 in comparison with 30 June 2016 is mostly connected with corresponding increase of business and financing of suppliers for future commodities purchases.

11. Taxes Recoverable and Prepaid, net

The balances of taxes recoverable and prepaid, net were as follows:

	As of 30 June 2017	As of 30 June 2016
VAT ('value added tax') recoverable and prepaid	135,064	116,429
Other taxes recoverable and prepaid	193	13,949
Total	135,257	**130,378**

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in full within 12 months after the reporting date. For the year ended 30 June 2017, the amount of VAT refunded by the government in cash was USD 364,114 thousand (for the year ended 30 June 2016: USD 222,657 thousand).

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12. Inventory

The balances of inventories were as follows:

	As of 30 June 2017	As of 30 June 2016
Finished products	221,369	129,442
Raw materials	109,951	21,012
Agricultural products	24,166	4,551
Goods for resale	20,227	39,068
Fuel	2,770	1,899
Packaging materials	993	647
Work in progress	410	—
Other inventories	6,774	3,594
Total	386,660	**200,213**

As of 30 June 2017, finished products mostly consisted of sunflower oil in bulk in the amount of USD 204,596 thousand (as of 30 June 2016 USD 120,192 thousand).

As of 30 June 2017, raw materials mostly consisted of sunflower seed stock in the amount of USD 89,644 thousand (as of 30 June 2016 USD 13,113 thousand).

As of 30 June 2017 and 2016, the inventory balances in the amounts of USD 83,736 thousand and USD 110,427 thousand, respectively, were pledged as security for short-term borrowings (Note 20).

13. Biological Assets

The balances of crops in fields were as follows:

	As of 30 June 2017		As of 30 June 2016	
	Hectares	Value	Hectares	Value
Corn	192,215	84,086	138,243	71,561
Wheat	144,465	64,804	82,372	41,529
Sunflower seed	123,416	65,276	81,429	48,697
Soybean	65,385	22,470	58,208	15,285
Pea	13,709	5,181	5,626	4,197
Rapeseed	7,018	8,076	2,639	2,885
Forage	3,743	1,473	3,581	1,066
Barley	2,608	900	1,244	632
Other	6,467	2,216	8,037	2,558
Total	559,026	254,482	**381,379**	**188,410**

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2017 and 30 June 2016:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 30 June 2015	**128,464**	**15,624**	**144,088**
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2015)	83,588	—	83,588
Decrease due to harvest (harvest 2015)	(212,052)	(15,624)	(227,676)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2016)	150,423	—	150,423
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2016)	—	33,742	33,742
Exchange difference	3,692	553	4,245
As of 30 June 2016	**154,115**	**34,295**	**188,410**
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2016)	92,262	—	92,262
Decrease due to harvest (harvest 2016)	(246,377)	(34,295)	(280,672)
Increase resulting from business acquisitions	59,083	—	59,083
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2017)	167,349	—	167,349
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2017)	—	23,483	23,483
Exchange difference	4,240	327	4,567
As of 30 June 2017	**230,672**	**23,810**	**254,482**

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13. Biological Assets continued

The balances of current cattle were as follows:

	As of 30 June 2017		As of 30 June 2016	
	Number of heads	Value	Number of heads	Value
Cattle	7,366	1,765	8,907	1,902

As of 30 June 2017, non-current cattle in the amount of USD 7,634 thousand (2016: USD 7,447 thousand) were represented mainly by 7,659 heads of milk cows (2016: 8,279 heads) (Note 18). The change in the balances was mainly represented by a change in the mix of cattle and variation in prices and exchange rates between reporting dates. For the year ended 30 June 2017, the net loss arising from changes in the fair value of biological assets in the amount of USD 2,875 thousand (2016: gain of USD 20,134 thousand) includes a USD 3,070 thousand loss on changes in current and non-current cattle's fair value (2016: loss of USD 1,325 thousand).

As a result of business acquisitions, the Group purchased biological assets in the amount of USD 59,144 thousand (Note 7) for the year ended 30 June 2017 (30 June 2016: nil), out of which crops in fields amounted to USD 59,083 thousand.

The fair value of agricultural produce was estimated based on market prices as at the date of harvest and is within level 2 of fair value hierarchy.

Crops in fields and non-current cattle of the Group are measured using discounted cash flow technique and are within the level 3 of the fair value hierarchy.

Current cattle is measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy.

There were no changes in valuation technique since previous year. There were no transfers between any levels during the year.

Description	Fair value as of 30 June 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	254,482	Discounted cash flow	Crop yields	1.53-7.00 (3.57) tons per hectare	The higher the crop yield, the higher the fair value
			Crop prices	USD 129 - 388 (241) USD per ton	The higher the crop price, the higher the fair value
			Discount rate	23.42% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	7,634	Discounted cash flow	Milk yield	5.41 – 19.61 (12.51) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.25 – 0.29 (0.27) per liter	The higher the market milk price, the higher the fair value
			Meat price	USD 0.57 – 1.21 (0.89) per kg	The higher the market meat price, the higher the fair value
			Weight of 1 calf	30 - 33 (31.5) kg	The higher the weight, the higher the fair value
			Yield of calves from 100 cows per year	70 - 78 (74) calves	The higher the yield, the higher the fair value
			Discount rate	18.50% (in UAH, long-term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 43,472 thousand and USD 41,527 thousand, respectively.

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13. Biological Assets continued

Description	Fair value as of 30 June 2016	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	188,410	Discounted cash flow	Crop yields	1.60-7.00 (4.17) tons per hectare	The higher the crop yield, the higher the fair value
			Crop prices	USD 130 - 413 (259) USD per ton	The higher the crop price, the higher the fair value
			Discount rate	24.45% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	7,447	Discounted cash flow	Milk yield	15.00 – 19.56 (17.28) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.22 – 0.23 (0.22) per liter	The higher the market milk price, the higher the fair value
			Meat price	USD 0.57 – 0.89 (0.73) per kg	The higher the market meat price, the higher the fair value
			Weight of 1 calf	30 - 33 (31.5) kg	The higher the weight, the higher the fair value
			Yield of calves from 100 cows per year	66 - 80 (73) calves	The higher the yield, the higher the fair value
			Discount rate	18.50% (in UAH, long-term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 31,760 thousand and USD 30,271 thousand, respectively.

14. Assets Classified as Held for Sale and Discontinued Operations

During the year ended 30 June 2017, the Group disposed of one of export terminals, which predominantly consisted of property, plant and equipment and was classified as held for sale. Net assets as of the date of disposal amounted to USD 3,408 thousand and total cash consideration received was USD 7,500 thousand.

Notes to the Consolidated Financial Statements continued

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15. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2017:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
Net book value as of 30 June 2016	**330,187**	**45,803**	**91,016**	**47,250**	**24,472**	**538,728**
Land	2,279	—	36	158	1,218	3,691
Buildings and constructions	219,744	18,898	14,408	37,159	21,209	311,418
Production machinery and equipment	97,930	25,015	2,711	8,515	30	134,201
Agricultural equipment and vehicles	1,882	149	69,139	289	393	71,852
Other fixed assets	3,015	111	2,703	708	1,609	8,146
CIP and uninstalled equipment	5,337	1,630	2,019	421	13	9,420
Additions	**5,491**	**2,333**	**19,834**	**4,555**	**926**	**33,139**
CIP and uninstalled equipment	5,491	2,333	19,834	4,555	926	33,139
Reclassification	**(103)**	**44**	**(78)**	**94**	**43**	—
Land	—	—	—	(1)	1	—
Buildings and constructions	—	—	3	28	18	49
Production machinery and equipment	7	10	(142)	63	—	(62)
Agricultural equipment and vehicles	1	(1)	(43)	4	(35)	(74)
Other fixed assets	(16)	(10)	114	—	(1)	87
CIP and uninstalled equipment	(95)	45	(10)	—	60	—
Additions from acquisition of subsidiaries	—	—	**38,371**	**13,052**	—	**51,423**
Land	—	—	7	181	—	188
Buildings and constructions	—	—	4,784	9,692	—	14,476
Production machinery and equipment	—	—	283	1,608	—	1,891
Agricultural equipment and vehicles	—	—	32,477	533	—	33,010
Other fixed assets	—	—	766	72	—	838
CIP and uninstalled equipment	—	—	54	966	—	1,020
Transfers	—	—	—	—	—	—
Land	1	—	6	1	—	8
Buildings and constructions	1,368	1,099	2,218	509	118	5,312
Production machinery and equipment	5,320	1,044	176	1,047	1	7,588
Agricultural equipment and vehicles	315	71	13,991	818	397	15,592
Other fixed assets	381	83	1,685	428	337	2,914
CIP and uninstalled equipment	(7,385)	(2,297)	(18,076)	(2,803)	(853)	(31,414)
Disposals (at net book value)	**(566)**	**(36)**	**(1,596)**	**(518)**	**(1)**	**(2,717)**
Buildings and constructions	(365)	—	(518)	(316)	—	(1,199)
Production machinery and equipment	(155)	(1)	(29)	(142)	—	(327)
Agricultural equipment and vehicles	(15)	—	(877)	(6)	—	(898)
Other fixed assets	(4)	—	(54)	(15)	—	(73)
CIP and uninstalled equipment	(27)	(35)	(118)	(39)	(1)	(220)
Depreciation expense	**(15,782)**	**(3,016)**	**(23,072)**	**(2,778)**	**(1,216)**	**(45,864)**
Buildings and constructions	(6,623)	(747)	(1,287)	(1,723)	(482)	(10,862)
Production machinery and equipment	(7,928)	(2,184)	(356)	(735)	(6)	(11,209)
Agricultural equipment and vehicles	(536)	(37)	(20,614)	(81)	(155)	(21,423)
Other fixed assets	(695)	(48)	(815)	(239)	(573)	(2,370)
Exchange difference	**(6)**	**(204)**	**(1,409)**	**(2,258)**	**(1,118)**	**(4,995)**
Land	—	—	(1)	(7)	(56)	(64)
Buildings and constructions	—	(18)	(675)	(1,752)	(919)	(3,364)
Production machinery and equipment	—	(53)	(131)	(408)	(1)	(593)
Agricultural equipment and vehicles	(67)	(7)	(340)	(5)	(1)	(420)
Other fixed assets	—	(5)	(66)	(31)	(10)	(112)
CIP and uninstalled equipment	61	(121)	(196)	(55)	(131)	(442)
Net book value as of 30 June 2017	**319,221**	**44,924**	**123,066**	**59,397**	**23,106**	**569,714**
Land	2,280	—	48	332	1,163	3,823
Buildings and constructions	214,124	19,232	18,933	43,597	19,944	315,830
Production machinery and equipment	95,174	23,831	2,512	9,948	24	131,489
Agricultural equipment and vehicles	1,580	175	93,733	1,552	599	97,639
Other fixed assets	2,681	131	4,333	923	1,362	9,430
CIP and uninstalled equipment	3,382	1,555	3,507	3,045	14	11,503

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15. Property, Plant and Equipment, net continued

The following table represents movements in property, plant and equipment for the year ended 30 June 2016 (continued):

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
Net book value as of 30 June 2015	**313,561**	**51,662**	**105,022**	**59,716**	**5,216**	**535,177**
Land	3,932	1,487	43	186	49	5,697
Buildings and constructions	217,352	21,748	15,120	42,912	2,529	299,661
Production machinery and equipment	80,730	27,003	3,583	9,929	40	121,285
Agricultural equipment and vehicles	1,449	35	81,184	330	1,149	84,147
Other fixed assets	3,142	139	2,403	396	1,437	7,517
CIP and uninstalled equipment	6,956	1,250	2,689	5,963	12	16,870
Additions	**5,464**	**1,786**	**16,364**	**1,917**	**19,613**	**45,144**
CIP and uninstalled equipment	5,464	1,786	16,364	1,917	19,613	45,144
Reclassification	**662**	**12**	**1,168**	**(1,092)**	**(750)**	—
Buildings and constructions	(26)	4	770	(750)	21	19
Production machinery and equipment	(59)	5	193	(333)	1	(193)
Agricultural equipment and vehicles	742	(1)	117	24	(773)	109
Other fixed assets	5	4	72	(17)	1	65
CIP and uninstalled equipment	—	—	16	(16)	—	—
Additions from acquisition of subsidiaries	**49,132**	—	—	—	—	**49,132**
Buildings and constructions	27,424	—	—	—	—	27,424
Production machinery and equipment	21,391	—	—	—	—	21,391
Other fixed assets	317	—	—	—	—	317
Transfers	—	—	—	—	—	—
Land	—	—	—	—	1,097	1,097
Buildings and constructions	1,895	(2)	3,283	5,176	17,863	28,215
Production machinery and equipment	2,199	261	82	1,352	—	3,894
Agricultural equipment and vehicles	663	128	11,465	40	196	12,492
Other fixed assets	389	67	1,284	598	686	3,024
CIP and uninstalled equipment	(5,146)	(454)	(16,114)	(7,166)	(19,842)	(48,722)
Revaluation	**(1,236)**	—	—	—	—	**(1,236)**
Buildings and constructions	(7,940)	—	—	—	—	(7,940)
Production machinery and equipment	6,704	—	—	—	—	6,704
Disposals (at net book value)	**(18,176)**	**(5)**	**(1,818)**	**(898)**	**(96)**	**(20,993)**
Land	(1,653)	—	—	—	—	(1,653)
Buildings and constructions	(10,232)	(2)	(287)	(796)	(86)	(11,403)
Production machinery and equipment	(4,150)	(1)	(94)	(90)	—	(4,335)
Agricultural equipment and vehicles	(65)	—	(1,349)	(1)	(4)	(1,419)
Other fixed assets	(133)	—	(65)	(7)	(5)	(210)
CIP and uninstalled equipment	(1,943)	(2)	(23)	(4)	(1)	(1,973)
Transfers to assets classified as held for sale	—	**(3,602)**	—	—	—	**(3,602)**
Land	—	(1,258)	—	—	—	(1,258)
Buildings and constructions	—	(1,552)	—	—	—	(1,552)
Production machinery and equipment	—	(18)	—	—	—	(18)
Other fixed assets	—	(35)	—	—	—	(35)
CIP and uninstalled equipment	—	(739)	—	—	—	(739)

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

15. Property, Plant and Equipment, net continued

The following table represents movements in property, plant and equipment for the year ended 30 June 2016:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
Depreciation expense	**(18,967)**	**(2,981)**	**(23,730)**	**(3,472)**	**(920)**	**(50,070)**
Buildings and constructions	(8,729)	(794)	(2,086)	(2,463)	(230)	(14,302)
Production machinery and equipment	(8,885)	(2,128)	(483)	(780)	(6)	(12,282)
Agricultural equipment and vehicles	(650)	(12)	(20,493)	(66)	(153)	(21,374)
Other fixed assets	(703)	(47)	(668)	(163)	(531)	(2,112)
Exchange difference	**(253)**	**(1,069)**	**(5,990)**	**(8,921)**	**1,409**	**(14,824)**
Land	—	(229)	(7)	(28)	72	(192)
Buildings and constructions	—	(504)	(2,392)	(6,920)	1,112	(8,704)
Production machinery and equipment	—	(107)	(570)	(1,563)	(5)	(2,245)
Agricultural equipment and vehicles	(257)	(1)	(1,785)	(38)	(22)	(2,103)
Other fixed assets	(2)	(17)	(323)	(99)	21	(420)
CIP and uninstalled equipment	6	(211)	(913)	(273)	231	(1,160)
Net book value as of 30 June 2016	**330,187**	**45,803**	**91,016**	**47,250**	**24,472**	**538,728**
Land	2,279	—	36	158	1,218	3,691
Buildings and constructions	219,744	18,898	14,408	37,159	21,209	311,418
Production machinery and equipment	97,930	25,015	2,711	8,515	30	134,201
Agricultural equipment and vehicles	1,882	149	69,139	289	393	71,852
Other fixed assets	3,015	111	2,703	708	1,609	8,146
CIP and uninstalled equipment	5,337	1,630	2,019	421	13	9,420

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

15. Property, Plant and Equipment, net continued

Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2017 and 2016 were as follows:

Group of property, plant and equipment	Cost as of 30 June 2017	Accumulated depreciation as of 30 June 2017	Cost as of 30 June 2016	Accumulated depreciation as of 30 June 2016
Land	3,823	—	3,691	—
Buildings and constructions	347,869	(32,039)	333,985	(22,567)
Production machinery and equipment	163,294	(31,805)	155,717	(21,516)
Agricultural equipment and vehicles	201,104	(103,465)	164,170	(92,318)
Other fixed assets	19,305	(9,875)	16,110	(7,964)
CIP and uninstalled equipment	11,503	—	9,420	—
Total	746,898	(177,184)	**683,093**	**(144,365)**

Had the Group's buildings and constructions and production machinery and equipment (bulk and bottled oil segments) been measured on a historical cost basis, their carrying amount would have been as follows:

Group of property, plant and equipment	As of 30 June 2017	As of 30 June 2016
Buildings and constructions	200,605	206,908
Production machinery and equipment	82,741	86,372
Total	283,346	**293,280**

As of 30 June 2017, property, plant and equipment with a carrying amount of USD 100,950 thousand (as of 30 June 2016: USD 104,777 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20, 21).

As of 30 June 2017, property, plant and equipment with a carrying amount of USD 27,578 thousand (as of 30 June 2016: USD 29,403) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region (Note 7).

As of 30 June 2017 and 30 June 2016, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 15,004 thousand and USD 12,688 thousand, respectively.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2017:

	Trademarks	Land lease rights	Other intangible assets	Total
Cost as of 30 June 2016	**22,036**	**61,688**	**4,003**	**87,727**
Additions from acquisition of Subsidiaries (Note 7)	—	77,149	30	**77,179**
Additions	—	59	709	**768**
Disposals	—	(7)	(124)	**(131)**
Exchange difference	—	(2,630)	(29)	**(2,659)**
Cost as of 30 June 2017	**22,036**	**136,259**	**4,589**	**162,884**

	Trademarks	Land lease rights	Other intangible assets	Total
Accumulated amortization and impairment loss as of 30 June 2016	**(10,010)**	**(38,636)**	**(2,263)**	**(50,909)**
Amortization charge	—	(7,748)	(528)	**(8,276)**
Disposals	—	1	64	**65**
Impairment loss recognized in the Statement of Profit or Loss	(719)	—	—	**(719)**
Exchange difference	—	1,777	39	**1,816**
Accumulated amortization and impairment loss as of 30 June 2017	(10,729)	(44,606)	(2,688)	**(58,023)**
Net book value as of 30 June 2017	**11,307**	**91,653**	**1,901**	**104,861**

The following table represents movements in intangible assets for the year ended 30 June 2016:

	Trademarks	Land lease rights	Other intangible assets	Total
Cost as of 30 June 2015	**22,036**	**71,308**	**4,839**	**98,183**
Additions	—	486	296	**782**
Disposals	—	(58)	(866)	**(924)**
Exchange difference	—	(10,048)	(266)	**(10,314)**
Cost as of 30 June 2016	**22,036**	**61,688**	**4,003**	**87,727**

	Trademarks	Land lease rights	Other intangible assets	Total
Accumulated amortization and impairment loss as of 30 June 2015	**(8,196)**	**(34,952)**	**(2,463)**	**(45,611)**
Amortization charge	—	(9,388)	(544)	**(9,932)**
Disposals	—	21	646	**667**
Impairment loss recognized in the Statement of Profit or Loss	(1,814)	—	—	**(1,814)**
Exchange difference	—	5,683	98	**5,781**
Accumulated amortization and impairment loss as of 30 June 2016	(10,010)	(38,636)	(2,263)	**(50,909)**
Net book value as of 30 June 2016	**12,026**	**23,052**	**1,740**	**36,818**

Included in the intangible assets of Subsidiaries are the ‘Schedry Dar’, ‘Stozhar’, ‘Zolota’ and ‘Domashnya’ trademarks with net book values of USD 3,975 thousand, USD 3,244 thousand, USD 3,909 thousand and USD 179 thousand, respectively, in 2017 (USD 4,187 thousand, USD 3,976 thousand, USD 3,684 thousand and USD 179 thousand, respectively, in 2016). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management’s view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the ‘Schedry Dar’, ‘Stozhar’, ‘Zolota’ and ‘Domashnya’ trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

16. Intangible Assets, net continued

The impairment testing of the value of trademarks as of 30 June 2017 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the bottled oil segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:

- The royalty rate used was determined at the weighted average market level of 5.00%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2017, management believed that the market for bottled oil was saturated and for a period of five years no growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 18.24% for UAH denominated cash flow projections.

As a result of testing performed as of 30 June 2017, recoverable amounts of the trademarks ‘Schedry Dar’, ‘Stozhar’, ‘Zolota’ and ‘Domashnya’ were USD 3,975 thousand, USD 3,244 thousand, USD 3,909 thousand and USD 326 thousand, respectively (30 June 2016: USD 4,187 thousand, USD 3,976 thousand, USD 3,684 thousand and USD 432 thousand respectively).

As a result of testing performed, impairment of the trademarks ‘Stozhar’ and ‘Schedry Dar’ in the amount of USD 732 thousand and USD 212 thousand, respectively, was recognized as of 30 June 2017 (30 June 2016: ‘Zolota’, ‘Stozhar’ and ‘Schedry Dar’ in the amount of USD 408 thousand, USD 1,026 and USD 380 thousand respectively) and was recognized as a loss on impairment of intangible assets within ‘Other expenses, net’ (Note 32). Impairment was caused primarily by shrinkage of consumer demand for premium segment bottled sunflower oil due to the continuing economic recession in Ukraine.

As a result of testing performed, impairment loss for the trademark ‘Zolota’ recognized in prior periods was partly reversed in the amount of USD 225 thousand as of 30 June 2017 (30 June 2016: nil). Reversal was recognized as a reduction of loss on impairment of intangible assets within ‘Other expenses, net’ (Note 32). Value recovery was caused primarily by launch of new sub premium product line under trademark ‘Zolota’.

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17. Goodwill

The following table represents movements in goodwill for the year:

	As of 30 June 2017	As of 30 June 2016
Cost	122,692	123,684
Accumulated impairment losses	(8,582)	(1,772)
Total	114,110	**121,912**

	As of 30 June 2017	As of 30 June 2016
Cost at beginning of the year	123,684	119,442
Amounts recognised from business combinations occurring during the year (Note 7)	—	13,225
Derecognised on disposal of a subsidiary (Note 7)	—	(5,182)
Exchange differences	(992)	(3,801)
Balance at the end of the year	122,692	**123,684**

Accumulated impairment losses

	As of 30 June 2017	As of 30 June 2016
Balance at the beginning of the year	(1,772)	—
Impairment losses recognised in the year	(6,810)	(6,954)
Derecognised on disposal of a subsidiary (Note 7)	—	5,182
Balance at the end of the year	(8,582)	**(1,772)**

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

		As of 30 June 2017	As of 30 June 2016
		Goodwill carrying value	Goodwill carrying value
Sunflower oil sold in bulk	BSI LLC	37,586	44,396
	Kirovogradoliya PJSC	31,334	31,334
	Prydniprovskyi OEP LLC	13,225	13,225
	Ekotrans LLC	8,096	8,096
	Other	1,906	1,906
Export terminals	Transbulkterminal LLC	10,755	11,293
Farming	Druzhba-Nova Group and other agricultural farms	9,061	9,515
Bottled sunflower oil	Prykolotnoe OEP LLC	2,147	2,147
Total		114,110	**121,912**

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amounts of sunflower oil sold in bulk, export terminals, and bottled sunflower oil CGUs were determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering a five-year period and a discount rate of 9.2% per annum (2016: 10.2%). The value in use estimates developed by the Group to estimate the recoverable amount of cash-generating units represent the best available estimate based on the analysis of the Group's past performance, market knowledge and internal assumptions as to future trends on the market.

The discount rate reflects the current market assessment of the risks specific to the cash-generating units. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The discount rate used as of 30 June 2017 was 9.2% (30 June 2016: 10.2%). Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. As of 30 June 2017, the assumptions for expected sunflower oil prices were USD 750 to 796 per one metric ton in 2018-2022 with a corresponding cost of USD 350 to 351 per one metric ton of sunflower seeds, which corresponds to a margins of USD from 51 to 108 for one metric ton of oil. As of 30 June 2016, the assumptions for expected sunflower oil prices were USD 800 per one metric ton in 2017-2021 with a corresponding cost of USD 368 per one metric ton of sunflower seeds, which corresponds to a margin of USD 115 for one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-demand balance for raw material in Ukraine rather than on the level of prices.

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17. Goodwill continued

For the year ended 30 June 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 6,810 thousand within 'Other expenses, net'. Impairment was caused by low margin of sunflower oil in the reporting period due to high competition for raw materials in the region. If the crushing margins used in the value-in-use calculation for the BSI LLC had been 5% lower than management's estimates at 30 June 2017, the Group would have had to recognise an additional impairment against the carrying amount of goodwill USD 11,352 thousand. If the discount rate applied to the cash flow projections of BSI LLC had been 1% higher than management's estimates (10.2% instead of 9.2%), the Group would have had to recognise an additional impairment against the carrying amount of goodwill USD 22,273 thousand.

Excess of recoverable amount over carrying amount of individual CGUs summarized below:

		As of 30 June 2017
Sunflower oil sold in bulk	Kirovogradoliya PJSC	83,986
	Prydniprovskyi OEP LLC	86,692
	Volchansk	87,486
Bottled sunflower oil	Prykolotnoe OEP LLC	19,599

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of Transbulkterminal LLC and sunflower oil sold in bulk CGUs (except BSI LLC) to exceed its recoverable amount. Management believes that no reasonably possible change in the key assumptions on which the recoverable amount of Druzhba-Nova Group and other agricultural farms is based will cause the carrying amount to exceed their recoverable amount.

As of 30 June 2017 and 30 June 2016, no impairment of goodwill allocated to the bottled sunflower oil, export terminals and farming segments was identified.

For the year ended 30 June 2016, the impairment of goodwill allocated to the Russian oilseed crushing plants was recognized in the amount of USD 5,182 thousand in discontinued operations. Impairment was caused by low crushing volumes of sunflower seeds in the reporting period due to high competition for raw materials in the region and intention of management to sell plants. For the year ended 30 June 2016, the impairment of goodwill allocated to the oilseed crushing plant located in the Mykolaiv region was recognized in the amount of USD 1,772 thousand, caused by low crushing volumes of sunflower seeds in the reporting period due to high competition for raw materials in the region.

Notes to the Consolidated Financial Statements continued

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18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2017	As of 30 June 2016
Prepayments for property, plant and equipment	15,767	2,615
Non-current biological assets (Note 13)	7,634	7,447
Prepayments for business acquisitions	1,702	—
Other non-current assets	6,630	987
Total	31,733	**11,049**

19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2017	As of 30 June 2016
Taxes payable and provision for tax liabilities	25,009	22,512
Advances from customers	16,997	7,802
Accrued payroll, payroll related taxes and bonuses	7,690	9,820
Settlements for Subsidiaries	7,440	9,351
Settlements with land lessors	6,731	1,143
Provision for unused vacations and other provisions	5,162	4,196
Obligation under finance lease payable within one year (Note 22)	2,842	4,570
Accounts payable for property, plant and equipment	1,952	3,554
Other current liabilities	14,842	13,997
Total	88,665	**76,945**

20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2017	As of 30 June 2016
Bank credit lines	78,866	177,446
Bank overdrafts	52,300	—
Interest accrued on short-term borrowings	436	822
Interest accrued on long-term borrowings	77	1,347
Total	131,679	**179,615**

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 + 7.3%	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 European 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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20. Short-term Borrowings continued

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

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

As of 30 June 2017, undrawn short-term bank credit lines amounted to USD 57,710 thousand (as of 30 June 2016: USD 114,315 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2017	As of 30 June 2016
Cash and cash equivalents (Note 8)	2,330	103
Inventory (Note 12)	83,736	110,427
Other financial assets	15,420	—
Property, plant and equipment (Note 15)	100,950	46,890
Controlling stakes in Subsidiaries	Not quantifiable	—
Total	**202,436**	**157,420**

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

21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2017	As of 30 June 2016
Long-term bank borrowings	8,344	156,676
Current portion of long-term borrowings	(2,782)	(74,835)
Total	**5,562**	**81,841**

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 30 June 2016 were as follows:

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

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21. Long-term Borrowings continued

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

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2017	As of 30 June 2016
Property, plant and equipment (Note 15)	–	57,887
Controlling stakes in Subsidiaries	–	Not quantifiable
Total	**–**	**57,887**

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

22. Obligations under Finance Leases

The Group entered into finance lease arrangements for part of its agricultural equipment, vehicles and production machinery. Leases are denominated in USD and UAH. The average term of finance leases is 5 years.

The major components of finance lease liabilities were as follows:

	As of 30 June 2017		As of 30 June 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable due to the finance lease:				
Within one year (Note 19)	3,381	2,842	5,142	4,570
Later than one year and not later than five years	3,402	2,902	2,536	2,275
Total	**6,783**	**5,744**	**7,678**	**6,845**
Less future finance charges	(1,039)	–	(833)	–
Present value of lease obligations	5,744	5,744	**6,845**	**6,845**

The average effective interest rate contracted for the year ended 30 June 2017 was at the level of 8.28% (for the year ended 30 June 2016: 10.55%).

23. Bonds issued

	As of 30 June 2017	As of 30 June 2016
Unsecured senior notes	500,000	–
Less: Unamortized debt issue costs	(6,352)	–
Total	493,648	**–**

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 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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24. Income Tax

The Company is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 27.08% as of 30 June 2017 and 22.47% as of 30 June 2016. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2017 and 2016. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Fixed Agricultural Tax (FAT) in accordance with the Tax Code of Ukraine. The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The FAT does not constitute an income tax and, as such, is recognized in the Consolidated Statement of Profit or Loss in other operating income.

The components of income tax expense for the years ended 30 June 2017 and 2016 were as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Current income tax charge	(7,722)	(12,891)
Deferred tax (expenses)/benefit relating to origination and reversal of temporary differences	(11,114)	8,981
Total income tax expense recognized in the reporting period related to continuing operations	(18,836)	**(3,910)**

The income tax expense is reconciled to the profit before income tax per Consolidated Statement of Profit or Loss as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Profit before income tax from continuing operations	197,439	247,789
Tax expense at Ukrainian statutory tax rate of 18%	(35,539)	(44,602)
Effect of income that is exempt from taxation (farming)	31,809	33,705
Effect of different tax rates of Subsidiaries operating in other jurisdictions	(12,817)	(10,854)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(254)	8,664
Other expenditures not allowable for income tax purposes and non-taxable income, net	(2,035)	9,177
Income tax expense	(18,836)	**(3,910)**

Income tax recognized in other comprehensive loss:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Income tax related to components of other comprehensive loss	—	(955)
Total income tax expense recognized in other comprehensive loss	—	**(955)**

Income tax recognized in other comprehensive loss is connected with a change in carrying amount arising from the revaluation of property, plant and equipment.

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	30 June 2017	30 June 2016
Tax losses carried forward	2,328	10,336
Valuation of property, plant and equipment	12,336	14,554
Valuation of accounts receivable	—	397
Valuation of inventory	327	371
Valuation of advances and other temporary differences	337	297
Deferred tax assets	15,328	**25,955**
Valuation of property, plant and equipment	(26,489)	(21,334)
Valuation of intangible assets	(1,061)	(1,111)
Valuation of prepayments to suppliers and other temporary differences	(719)	(492)
Deferred tax liabilities	(28,269)	**(22,937)**
Net deferred tax (liabilities)/assets	(12,941)	**3,018**

As of 30 June 2017, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 2,328 thousand (2016: USD 10,336 thousand) recognized with respect to tax losses carried forward by the Subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 12,878 thousand (2016: USD 57,191 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

24. Income Tax continued

Tax losses incurred by subsidiaries registered in Ukraine can be brought forward for the reasonable period of time.

Unrecognized deferred tax assets arising from tax losses carried forward by the Group's Subsidiaries as of 30 June 2017, were USD 254 thousand (as of 30 June 2016: USD 987 thousand).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in Subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	30 June 2017	30 June 2016
Deferred tax assets	11,924	20,161
Deferred tax liabilities	(24,865)	(17,143)
Net deferred tax (liabilities)/assets	**(12,941)**	**3,018**

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

25. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Revenue from sunflower oil sold in bulk, sunflower meal and cake	1,091,762	1,050,752
Revenue from grain sales	923,319	821,671
Revenue from bottled sunflower oil	116,423	83,542
Revenue from farming	26,075	25,063
Revenue from grain silo services	10,568	7,306
Revenue from transshipment services	784	186
Total	2,168,931	**1,988,520**

For the year ended 30 June 2017, revenue from the Group's top five customers accounted for approximately 39.7% of total revenue (for the year ended 30 June 2016, revenue from the top five customers accounted for 40.5% of total revenue).

26. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Cost of goods for resale and raw materials used	1,585,872	1,415,227
Amortization and depreciation	51,749	55,852
Rental payments	37,311	33,436
Payroll and payroll related costs	34,894	31,571
Other operating costs	12,930	12,388
Total	1,722,756	**1,548,474**

27. Other Operating Income, net

Other operating income, net was as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
VAT benefits	31,053	23,437
Gain on operations with commodity futures	5,448	9,112
Contracts wash-out (price difference settlement)	1,968	1,381
Gain on sale of hard currency	1,211	5,629
Other operating income	1,004	5,058
Total	40,684	**44,617**

According to the Tax Code of Ukraine and the Law 'On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform' (enacted from 1 January 2015), companies that generated not less than 75.0% of gross revenues for the previous tax period from sales of its own agricultural products, which were cultivated on the land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered, were entitled to retain share of the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on products sold up to 31 December 2016 (Note 3). Such a gain is recognized as VAT benefits.

For the year ended 30 June 2017, gain on sale of hard currency decreased as a result of drop down in fluctuation and differences between the market and official exchange rates for US dollars in Ukraine.

28. Distribution Costs

Distribution costs were as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Carriage and freight	137,406	140,026
Storage and dispatch	11,372	8,138
Customs expenses	4,474	5,085
Certification	2,720	2,513
Sanitation services	1,485	679
Payroll and payroll related costs	370	152
Other expenses	1,195	1,730
Total	159,022	**158,323**

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

29. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Payroll and payroll related costs	31,881	28,253
Audit, legal and other professional fees	6,295	6,892
Business trip expenses	4,215	6,793
Repairs and material costs	4,075	3,496
Bad debt expenses	2,961	1,515
Insurance	2,521	3,717
Amortization and depreciation	1,982	2,867
Taxes other than income tax	1,851	1,746
Bank services	1,465	1,657
Rental payments	1,465	1,239
Communication expenses	725	791
Other expenses	487	318
Total	59,923	**59,284**

Audit, legal and other professional fees for the year ended 30 June 2017 include the auditor's remuneration in the amount of USD 534 thousand and consultancy fees in the amount of USD 6 thousand (30 June 2016: USD 500 thousand and USD 18 thousand, respectively).

30. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Interest expense on bank loans	38,744	50,745
Interest on corporate bonds (Note 23)	17,949	—
Other finance costs, net	5,587	6,376
Total	62,280	**57,121**

31. Foreign Exchange (Loss)/Gain, net

For the year ended 30 June 2017, foreign exchange loss, net amounted to USD 2,729 thousand (30 June 2016: foreign exchange gain in the amount of USD 30,442 thousand). Changes are mostly connected with decrease in fluctuation of exchange rates which influenced on revaluation of balances denominated in other than functional currencies, namely trade balances, VAT and income tax prepaid, 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 year ended 30 June 2017, the Ukrainian hryvnia devalued by 5% against the US dollar (15% for the year ended 30 June 2016) and the Russian ruble revalued by 9% against the US dollar (devalued by 13% for the year ended 30 June 2016).

32. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Gain on disposal of Subsidiaries (Note 7)	(9,068)	(583)
Impairment of intangible assets and goodwill (Notes 16, 17)	7,529	3,586
Social spending	2,616	1,668
(Gain)/Loss on disposal of property, plant and equipment	(1,684)	1,079
Gain on bargain purchase (Note 7)	(1,344)	—
Other material expenses	163	3,029
Fines and penalties	(45)	2,915
Revaluation losses of property, plant and equipment (Note 15)	—	6,550
Other expenses/(gain), net	3,285	(1,636)
Total	1,452	**16,608**

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

33. Investments in Joint Ventures

On 27 September 2012, a 50/50 joint venture was formed with Renaisco BV, a Subsidiary of Glencore International PLC. The joint venture acquired a 100% interest in a deep water grain export terminal in Taman port (the Russian Federation). Taman port provides storage and transshipment services as well as an efficient freight forwarding process. The increase of throughput facilities resulted in increased profitability of grain exports from the Russian Federation.

As of 30 June 2017, the Group entered into a transshipment agreement with Zernovoy Terminalny Complex Taman LLC. According to the agreement, the Group has committed to transship 2,000,000 tons of grain through the facility in FY2017 (FY2016: 1,500,000 tons).

The investment in the joint venture is accounted for using the equity method from the date of acquisition. The Group has the following significant interests in joint ventures (all related to the export terminal in Taman port):

Name of joint venture	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group As of 30 June 2017	Proportion of ownership interest and voting rights held by the Group As of 30 June 2016
Taman Grain Terminal Holdings Limited	Holding Company	Cyprus	**50.0%**	50.0%
Taman Invest Limited CJSC	Holding Company	Russian Federation	**50.0%**	50.0%
Zernovoy Terminalny Complex Taman LLC	Grain export terminal	Russian Federation	**50.0%**	50.0%

Financial data in regards to joint ventures, reflecting 100% interest in the underlying joint venture, was as follows:

	As of 30 June 2017	As of 30 June 2016
Current assets	**6,591**	8,930
Non-current assets	**70,492**	74,434
Current liabilities	**(24,520)**	(19,731)
Non-current liabilities	**(15,135)**	(23,928)
Net assets of joint ventures	**37,428**	**39,705**

The above amount of assets and liabilities include the following:

	As of 30 June 2017	As of 30 June 2016
Cash and cash equivalents	**2,571**	1,649
Property, plant and equipment, net	**69,708**	73,525
Current financial liabilities (excluding trade and other payables and provisions)	**(11,121)**	(11,137)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(11,042)**	(20,322)

Summarized statement of profit or loss and other comprehensive income of joint ventures was as follows:

	For the year ended 30 June 2017	For the year ended 30 June 2016
Revenue	**28,467**	31,689
Cost of sales	**(24,363)**	(24,713)
Other operating income	**2,829**	4,425
General and administrative expenses	**(4,465)**	(3,120)
Profit from operating activities	**2,468**	**8,281**
Other (expenses)/income, net	**(4,388)**	620
(Loss)/Profit before income tax	**(1,920)**	**8,901**
Income tax expenses	**(358)**	(1,129)
(Loss)/Profit for the period	**(2,278)**	**7,772**
Other comprehensive loss		
Exchange differences on translating foreign operations	**–**	(17,518)
Total comprehensive loss	**(2,278)**	**(9,746)**

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

33. Investments in Joint Ventures continued

The above information for the period includes the following:

	Year ended 30 June 2017	Year ended 30 June 2016
Depreciation and amortization	4,214	3,980
Interest expenses	3,399	4,199

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	Year ended 30 June 2017	Year ended 30 June 2016
Net assets of the joint venture	37,428	39,705
Proportion of the Group’s ownership interest in the joint venture	50.0%	50.0%
Goodwill	32,311	32,311
Carrying amount of the Group’s interest in the joint venture	51,025	52,164

34. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances as of 30 June 2017	Total category as per consolidated statement of financial position as of 30 June 2017	Related party balances as of 30 June 2016	Total category as per consolidated statement of financial position as of 30 June 2016
Prepayments to suppliers and other current assets, net (Note 10)	12,525	82,701	14,999	52,983
Other non-current assets (Note 18)	6,439	31,733	268	11,049
Trade accounts payable	188	52,776	3,219	41,910
Advances from customers and other current liabilities (Note 19)	11,282	88,665	16,021	76,945
Other non-current liabilities	3,053	30,646	13,030	37,736

As of 30 June 2017 and 30 June 2016, the Group did not create an allowance for prepayments to suppliers and other current and non-current assets from related parties.

As of 30 June 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 4,743 thousand (30 June 2016: USD 3,993 thousand).

As of 30 June 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 2,367 thousand provided to Taman Grain Terminal Holding (30 June 2016: USD 657 thousand).

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

34. Transactions with Related Parties continued

As of 30 June 2017, other non-current assets included an interest-free financing in the amount of USD 5,735 thousand provided to key management personel (30 June 2016: nil).

As of 30 June 2016, trade accounts payable included USD 3,156 thousand due to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement (30 June 2017: nil).

As of 30 June 2017, advances from customers and other current liabilities included USD 3,455 thousand in bonuses payable to the management (30 June 2016: USD 6,088 thousand).

Advances from customers and other current liabilities as of 30 June 2017 included an interest-free financial liability in the amount of USD 4,977 thousand due to Namsen Limited (30 June 2016: USD 7,043 thousand).

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

Other non-current liabilities as of 30 June 2016 included 4% interest-bearing financial liability in the amount of USD 9,977 thousand due to Namsen Limited (30 June 2017: USD 0 thousand).

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

Transactions with related parties were as follows:

	Amount of operations with related parties, for the year ended 30 June 2017	Total category per consolidated statement of profit or loss for the year ended 30 June 2017	Amount of operations with related parties, for the year ended 30 June 2016	Total category per consolidated statement of profit or loss for the year ended 30 June 2016
Cost of sales (Note 26)	(2,503)	(1,722,756)	(34)	(1,548,474)
General, administrative expenses and distribution costs (Notes 28, 29)	(22,743)	(218,945)	(28,836)	(217,607)
Finance costs, net (Note 30)	(1,325)	(62,280)	(1,017)	(57,121)
Other expenses, net (Note 32)	109	(1,452)	43	(16,608)

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

For the year ended 30 June 2017, distribution expenses included USD 12,113 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the year ended 30 June 2016: USD 15,055 thousand).

All other transactions occurred with related parties under common control.

As of 30 June 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 year ended 30 June 2017 amounted to USD 523 thousand (30 June 2016: 8 directors, USD 496 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 10 people, amounted to USD 5,699 thousand for the year ended 30 June 2017 (30 June 2016: 10 people, USD 6,476 thousand), including USD 3,290 thousand of variable bonus as per approved remuneration scheme (30 June 2016: USD 4,200 thousand).

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

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

35. Commitments and Contingencies

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 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

During the year ended 30 June 2017 annual inflation rate increased and reached 16% (2016: 7%). The economic situation began to stabilize in 2016, which resulted in GDP growth for the year ended 30 June 2017 by 2% (2016: contracted by 2%) and stabilization of Ukrainian hryvnia. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 50% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015 and 2016, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amounting helping to refinance bonds due in 2019. hryvnia

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.

Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 30 June 2017 were USD 10,513 thousand (2016: USD 10,559 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance some post-retirement benefits of its former employees. The only obligation of the Group with respect to this pension plan is to make the specified contributions. For the year ended 30 June 2017, retirement and other pension obligation expenses of the Group amounted to USD 234 thousand (2016: USD 376 thousand). As of 30 June 2017 and 30 June 2016, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital Commitments

As of 30 June 2017, the Group had commitments under contracts with a group of suppliers for a total amount of USD 9,925 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal (30 June 2016: USD 4,957 thousand, mostly for the purchase of agricultural equipment).

Contractual Commitments on Sales

As of 30 June 2017, the Group had entered into commercial contracts for the export of 1,126,626 tons of grain and 753,869 tons of sunflower oil and meal, corresponding to an amount of USD 212,071 thousand and USD 336,905 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2016, the Group had entered into commercial contracts for the export of 1,311,954 tons of grain and 409,849 tons of sunflower oil and meal, corresponding to an amount of USD 252,800 thousand and USD 174,033 thousand, respectively, in contract prices as of the reporting date.

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

35. Commitments and Contingencies continued

Commitments on leases of property plant and equipment

As of 30 June 2017, following the strategy to increase port capacity, the Group entered into a 49-year lease contract of property plant and equipment with a renewal option according to the market rent. The Group is obliged to perform fixed monthly payments adjusted on the rate of inflation. The Group will not obtain the right to acquire property plant and equipment after expiration of the lease contract.

The future minimum lease payments:

Lease term	Future minimum lease payment as of 30 June 2017	Future minimum lease payment as of 30 June 2016
Less than 1 year	550	577
From 1 to 5 years	2,198	2,308
More than 5 years	22,838	24,573
Total	25,586	**27,458**

Commitments on land operating leases

As of 30 June 2017 and 2016, the Group had outstanding commitments under non-cancellable operating lease agreements with the following maturities:

Lease term	Future minimum lease payment as of 30 June 2017	Future minimum lease payment as of 30 June 2016
Less than 1 year	51,923	31,816
From 1 to 5 years	187,399	111,885
More than 5 years	229,454	172,952
Total	468,776	**316,653**

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 30 June 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 which led to a hearing before the Tribunal in London in November 2015. As of 30 June 2017 it is not known when the award of the Tribunal will be available. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 30 June 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 86,548 thousand (30 June 2016: USD 50,742 thousand), from which USD 50,565 thousand related to VAT recoverability (30 June 2016: USD 25,996 thousand), USD 35,469 thousand related to corporate income tax (30 June 2016: USD 19,817 thousand) and USD 514 thousand related to other tax issues (30 June 2016: USD 4,929 thousand).

As of 30 June 2017, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 30,803 thousand (30 June 2016: USD 28,282 thousand) of the aforementioned amount. Of this amount, USD 23,260 thousand related to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2016: USD 20,143 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

35. Commitments and Contingencies continued

Taxation and Legal Issues continued

Ukraine's tax environment is characterized by complexity in tax administration, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, could increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigations resulting in the imposition of additional taxes, penalties, and interest, which 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 of the Tax Code of Ukraine which became effective from 1 January 2015, 1 January 2016 and 1 January 2017 except for certain provisions, which take effect at a later date.

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. In the same time, 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.

In addition, starting from 2017 agriculture producers will be 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.

Furthermore, among the other changes applicable from the beginning of 2017, the Ukrainian Ministry of Finance launched public VAT refund register aimed to ensure timely and transparent refund of VAT. As result, registration of claims for VAT refunds will be made public on the official website of the State Fiscal Service of Ukraine as well as annual schedule of full scope tax audits. This effectively means that potentially there will be less temptation to organize unscheduled inspections of tax authorities that should improve the investment climate of Ukraine.

36. Financial Instruments

Capital Risk Management

During the years ended 30 June 2017 and 2016, there were no material changes to the objectives, policies and processes for capital risk, credit risk, liquidity risk, currency risk, interest rate risk and other market risk management. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 20 and 21, Bonds issued (Note 23) and obligations under finance leases (Note 22), cash and cash equivalents and equity attributable to Kernel Holding S.A. shareholders, comprising issued capital, reserves and retained earnings. The Group is not subject to any externally imposed capital requirements.

Gearing Ratio

Management reviews the capital structure of the Group, taking into consideration the seasonality of the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group's management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2017	As of 30 June 2016
Debt liabilities[1] (Notes 20, 21, 22, 23)	657,364	343,136
Less cash and cash equivalents (Note 8)	(143,392)	(60,372)
Net debt	513,972	282,764
Equity[2]	1,153,741	995,329
Net debt liabilities to capital	45%	**28%**

1 Debt includes short-term and long-term borrowings, obligations under finance leases, bonds issued and accrued interest.
2 Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings and translation reserve.

36. Financial Instruments continued

Categories of financial instruments

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

Risk management policies have been established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of trade receivables and other current assets, cash and cash equivalents and other financial assets represent the maximum credit exposure.

The Group's most significant customers are an international customer, which accounted for USD 16,037 thousand, and a local customer, which accounted for USD 1,709 thousand out of total trade accounts receivable as of 30 June 2017 (as of 30 June 2016 one international customer accounted for USD 8,746 thousand and one local customer for USD 1,572 thousand).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk.

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty recommendations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit and bank guarantees. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned (controlled) Subsidiaries. As of 30 June 2017 as well as at 30 June 2016, no guarantees were outstanding in favor of third parties.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

36. Financial Instruments continued

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

As of 30 June 2017, the carrying amount of the Group's maximum exposure to financial obligations was USD 826,609 thousand (30 June 2016: USD 495,157 thousand).

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The average credit period on purchases of goods is 10 days.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2017. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Short-term borrowings (Note 20)	131,679	(133,269)	(133,269)	—	—	—
Long-term borrowings (Note 21)	8,344	(8,648)	(3,024)	(2,721)	(2,903)	—
Obligations under finance leases (Note 22)	5,744	(6,783)	(3,381)	(1,524)	(1,737)	(141)
Bonds issued (Note 23)	493,648	(718,750)	(43,750)	(43,750)	(631,250)	—
Other non-current liabilities	30,646	(60,825)	(2,087)	(5,843)	(52,895)	—
Total	**670,061**	**(928,275)**	**(185,511)**	**(53,838)**	**(688,785)**	**(141)**

Financial liabilities, which were not included above, are repayable within one year.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2016. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Short-term borrowings (Note 20)	179,615	(180,997)	(180,997)	—	—	—
Long-term borrowings (Note 21)	156,676	(171,283)	(85,770)	(71,315)	(14,198)	—
Obligations under finance leases (Note 22)	6,845	(7,997)	(5,461)	(1,968)	(568)	—
Other non-current liabilities	37,736	(79,872)	(612)	(3,134)	(61,594)	(14,532)
Total	**380,872**	**(440,149)**	**(272,840)**	**(76,417)**	**(76,360)**	**(14,532)**

Financial liabilities, which were not included above, are repayable within one year.

The concentration of liquidity risk is limited due to different repayment terms of financial liabilities and sources of borrowing facilities.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group's policy is to synchronize future cash flow from sales and payments under financial liabilities and to limit open inventory positions.

Currency Risk

The major sources of financing of the Group, prices of sales contracts with customers, and prices of significant contracts for the purchase of goods and services from suppliers are denominated in USD.

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

36. Financial Instruments continued

Currency Risk continued

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having distinct functional currencies.

The Group's exposure to foreign currency risk as of 30 June 2017 and 2016 was as follows:

	30 June 2017		30 June 2016	
	UAH	USD	UAH	USD
Cash and cash equivalents	32,429	10	1,834	124
Trade accounts receivable, net	4,929	—	4,139	—
Other non-current assets	296	—	1,632	—
Trade accounts payable	(21,541)	(3,451)	(10,536)	(20)
Other non-current liabilities	(26,799)	—	(24,068)	(9,977)
Short-term borrowings (Note 20)				
Ukrainian subsidiary of European bank	(25,622)	(31,068)	—	—
Ukrainian subsidiary of American bank	—	—	—	(1,591)
Long-term borrowings (Note 21)				
Obligations under finance leases	—	(959)	—	(2,076)
Net exposure	**(36,308)**	**(35,468)**	**(26,999)**	**(13,540)**

A 10% change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sensitivity of changes in the exchange rate of Ukrainian hryvnia (UAH) against US dollar (USD) is as follows:

Profit or loss effect for the year ended 30 June 2017:

10% strengthening of UAH .... (406)
10% depreciation of UAH................................ (310)

Profit or loss effect for the year ended 30 June 2016:

10% strengthening of UAH .... (1,469)
10% depreciation of UAH................................ 1,195

The Ukrainian hryvnia devalued against major foreign currencies. Foreign exchange gains and losses reflected the Ukrainian hryvnia devaluation against the US dollar: by 5% for the year ended 30 June 2017 and by 15% for the year ended 30 June 2016. The Group recognized a net foreign exchange loss in the amount of USD 2,729 thousand for the year ended 30 June 2017 and USD 30,442 thousand of a net foreign exchange gain for the year ended 30 June 2016 (Note 31). In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange loss mostly consisted of loss incurred from operations resulted from normal operating activity during the year ended 30 June 2017.

The National Bank of Ukraine introduced a range of measures aimed at limiting the outflow of customer deposits from the banking system, improving the liquidity of banks, and supporting the exchange rate of the Ukrainian hryvnia. As a result of this restriction, the Group was obliged to sell most of the foreign currency it obtained from export sales (50-100%) on the Ukrainian interbank foreign exchange market. For the year ended 30 June 2017, the Group received other operating income from the difference between the market and official USD/UAH exchange rate in the amount USD 1,211 thousand (30 June 2016: USD 5,629 thousand) (Note 27).

The concentration of currency risk is limited due to not significant net open position of balances in foreign currencies.

Management of the Group optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 2,168,931 thousand, sales in USD comprised USD 1,785,781 thousand and in EUR comprised USD 296,302 thousand for the year ended 30 June 2017. Export sales represented 96% of the total sales volume.

Interest Rate Risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2017 (in thousands of US dollars, unless otherwise stated)

36. Financial Instruments continued

Interest Rate Risk continued

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2017	Carrying amount as of 30 June 2016
Fixed rate instruments (financial liabilities)	582,022	37,372
Variable rate instruments (financial liabilities)	75,342	305,764
Total	**657,364**	**343,136**

The Group does not use any derivatives to manage interest rate risk exposure.

The sensitivity analysis below has been determined based on exposure to interest rates for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year ended 30 June 2017 would decrease/increase by USD 753 thousand (2016: decrease/increase by USD 3,058 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Other Market Price Risk

The Group enters into agricultural commodities futures contracts for managing the exposures associated with agricultural commodity prices. Fair value of future contracts is evaluated based on quoted prices on international markets. Changes in the fair value of these contracts are recognized in the Consolidated Statement of Profit and Loss (Note 27).

37. 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 30 June 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 21.0 million classified as held for trading since they had been acquired principally for trading purposes in the near time (as of 30 June 2016: nil). 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.

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

	30 June 2017		30 June 2016	
Financial liabilities[1]	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 21)	8,344	8,344	156,676	158,083
Bonds issued (Note 23)	511,597	535,220	—	—

1 Including accrued interets

For the year ended 30 June 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 3.27% (2016: 6.85%) 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 30 June 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.

38. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (as of 30 June 2017, 81,941,230 and weighted average number of ordinary shares 80,338,776 for the period ended then and 79,683,410 as of 30 June 2016 and for the period ended then), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 82,407,733 ordinary shares is taken into account (30 June 2016: 81,384,851).

As of 30 June 2017, total of 3,000,000 options granted under the management incentive scheme were excluded from the weighted-average number of ordinary shares calculation for the purpose of diluted earnings per share as antidilutive (as of 30 June 2016: 3,000,000 options).

39. Subsequent Events

In July 2017 Kernel Holding S.A. announced that one of its subsidiaries has completed an acquisition of 100% interest in a farming business that manages more than 27,500 hectares of leasehold farmland and over 170,000 tons of grain storage capacity. As of the date of authorization of this consolidated financial statements for issue, the necessary market valuations of net assets fair value and other calculations of result of business combination has not been finalized.

As of 16 October 2017, Kernel entered into pre-export credit facility with a syndicate of European banks. The three-year secured revolving facility with a limit of USD 200 million will be used by the Group to fund the working capital needs of its sunflower oil production business in Ukraine.

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Stock information

Exchange	Warsaw Stock Exchange
Stock quote currency	PLN
Shares issued as of 30 June 2017	81,941,230
Bloomberg	KER PW
Reuters ticker	KERN.WA
ISIN code	LU0327357389

Investor calendar

Q1 FY2018 Operations Update	23 October 2017
Q1 FY2018 Financial Report	27 November 2017
Annual general shareholders' meeting	11 December 2017
Q2 FY2018 Operations Update	20 January 2018
H1 FY2018 Financial Report	28 February 2018
Q3 FY2018 Operations Update	18 April 2018
Q3 FY2018 Financial Report	25 May 2018
Q4 FY2018 Operations Update	17 July 2018
FY2018 Financial Report	22 October 2018

Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

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