

**Q1**  
**FY2014**

## FINANCIAL RESULTS PRESENTATION

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Kernel Holding S.A.  
and Subsidiaries

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**KERNEL**



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This presentation should be read in conjunction with the unaudited financial statements for three months ended 30 September 2013.

# Q1 FY2014 results highlights

## Key highlights

- EBITDA of USD 3.0 million in Q1 FY2014, down from USD 74.8 million in Q1 FY2013, was the result of weak performance in the bulk oil and farming segments, while grain marketing and related services contributed strong results during the period.
- The sunflower oil business underperformed (USD 4.5 million combined EBITDA from the bulk oil and bottled oil segments in Q1 FY2014 versus USD 45.6 million in Q1 FY2013) due to low crushing volumes (down 51.9% y-o-y) and to the low carry-over stock of sunflower oil, as well as the weak crushing margin caused by low availability of sunflower seed at the end of the 2012/13 marketing year. Margins also were undermined by fixed costs against lower volumes.
- The farming segment's operational performance improved, with crop yields up 17% – 36% y-o-y compared to the previous year's harvest. Integration of acquired farming entities is well on pace, though crop yields steel remain below target. As global prices for soft commodities fell sharply this summer, prices at the farm gate were 16% – 43% lower y-o-y, erasing profits from improved productivity. The segment's
- EBITDA contribution was negative USD 6.4 million in Q1 FY2014, compared to positive USD 25.9 million in Q1 FY2013.
- The grain segment performed according to management expectations, with grain sales up 73.6% y-o-y to 884,701 tons in Q1 FY2014. Grain exports from the Russian Federation were strong following last year's Taman joint venture deal, while the pace of exports from Ukraine is comparably slower due to delays in harvesting campaign caused by heavy rains in early autumn. The export terminals and silo services segments' volumes and earnings reflected grain export dynamics.

- Operating profit before working capital changes was USD 11.9 million in Q1 FY2014 versus USD 91.7 million in Q1 FY2013, higher than EBITDA due to a non-cash loss from changes in the fair value of biological assets and a loss from the disposal of the Orzhytsa sugar plant assets.

## Corporate events

- On July 18, 2013, the board of directors of Kernel Holding S.A. announced the approval of the dividend policy, adopting the dividend per share approach (DPS). Starting from the FY2014 results announcement, Kernel Holding S.A. intends to maintain a sustainable annual dividend of USD 0.25 per share. The proposed dividend will be declared and paid in US dollars and will be subject to shareholder approval at the general meeting of the shareholders.
- In September 2013, Kernel Holding S.A. divested, via its subsidiaries, the Orzhytsa sugar plant property for a total gross consideration of USD 5.1 million.
- In October 2013, Kernel Holding S.A., in accordance with the previously announced strategy to divest remotely located farmland, completed, via its subsidiary, the sale of the farming operations located in southern Ukraine for a total consideration of USD 7.0 million.
- The annual general meeting of shareholders is scheduled to be held on December 10, 2013.

# Q1 FY2014 financial highlights

## Amounts in USD million, except for EPS and ratios

	Q1 FY2014	Q1 FY2013	% change
Revenue	412.9	515.9	(20.0%)
EBITDA <sup>(1)</sup>	3.0	74.8	(96.0%)
Net profit attributable to equity holders of Kernel Holding S.A.	(33.8)	36.8	n/m
EBITDA margin	0.7%	14.5%	(13.8pp)
Net margin	(8.2%)	7.1%	(15.3pp)
EPS, USD <sup>(2)</sup>	(0.42)	0.46	n/m
Net interest-bearing debt	711.8	912.8	(22.0%)
of which: readily marketable inventories	276.3	684.5	(59.6%)
Adjusted net debt <sup>(3)</sup>	435.5	228.3	90.7%
Shareholders' equity	1,300.3	1,221.5	6.5%
Net debt/EBITDA	3.3x	2.6x	+0.7x
Adjusted net debt/EBITDA <sup>(3)</sup>	2.0x	0.6x	+1.4x
EBITDA/Interest	3.2x	5.0x	(1.8x)

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

2. EPS is measured in US dollars per share, based on 79.7 million shares for Q1 FY2014 and Q1 FY2013.

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.

# Segment results summary

	Revenue <sup>(1)</sup> , USD million			EBITDA, USD million			EBITDA margin, %	
	Q1 FY2014	Q1 FY2013	% change	Q1 FY2014	Q1 FY2013	% change	Q1 FY2014	Q1 FY2013
Bottled oil	33.4	43.6	(23.4%)	3.7	7.5	(50.0%)	11.2%	17.1%
Bulk oil	116.5	291.7	(60.1%)	0.8	38.1	(98.0%)	0.7%	13.1%
Export terminal	7.2	13.9	(48.1%)	3.7	8.0	(53.5%)	51.3%	57.2%
Farming	69.9	86.9	(19.5%)	(6.4)	25.9	n/m	(9.2%)	29.8%
Grain	229.0	154.4	48.4%	9.4	5.8	63.7%	4.1%	3.7%
Silo services	9.8	9.3	5.2%	4.6	2.9	60.4%	47.5%	31.2%
Sugar & Discontinued	4.7	4.5	5.4%	(0.2)	(1.2)	(79.4%)	(5.3%)	(26.9%)
Other				(12.6)	(12.0)	5.3%		
Reconciliation	(57.5)	(88.3)	(34.9%)					
<b>Total</b>	<b>412.9</b>	<b>515.9</b>	<b>(20.0%)</b>	<b>3.0</b>	<b>74.8</b>	<b>(96.0%)</b>	<b>0.7%</b>	<b>14.5%</b>

## Production, sales and throughput

	Q1 FY2014	Q1 FY2013	% change
Grain sales, tons	884,701	509,509	73.60%
Bulk oil sales, tons	95,710	198,994	-51.90%
Bottled oil sales, '000 liters	22,400	26,334	-14.90%
Sunflower seed crush, tons	232,249	458,095	-49.30%
Refined oil production, tons	15,888	24,283	-34.60%
Bottled oil production, tons	15,209	20,313	-25.10%
Export terminals throughput, tons	778,164(6)	740,126	5.10%

1. Segment revenue includes intersegment sales reflected in item "Other & reconciliation".  
Note: Differences are possible due to rounding.



# Bulk and bottled oil segments performance

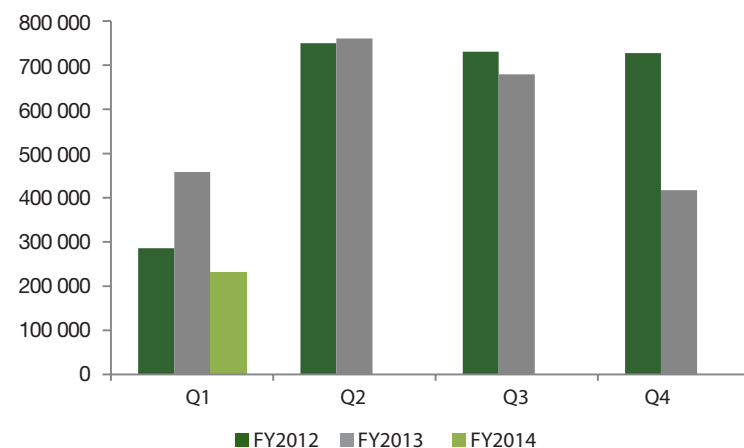
## Bulk oil segment

- The below average sunflower seed harvest in 2012/13 resulted in the low availability of sunflower seed at the end of the marketing year and downwardly affected crushing plant utilization in the seasonally weak first quarter of financial year. As a result, sunflower seed crushing volumes declined 49.3% y-o-y to 232,249 tons and bulk oil sales fell 51.9% y-o-y to 95,710 tons in Q1 FY2014.
- The low availability of sunflower seed at the end of the 2012/13 marketing season resulted in a fierce competition among crushers, with the crushing margin temporarily squeezed to a low one-digit percentage during the quarter. With the further pressure of fixed costs against lower volumes, the bulk oil segment's EBITDA margin declined to 0.7% in Q1 FY2014 versus 13.1% in Q1 FY2013.
- The sunflower seed crushing margin in the 2013/14 harvest is back to normal, with strong utilization and approximately 60% of our annual crushing needs already purchased at the moment of Q1 FY2014 publication.

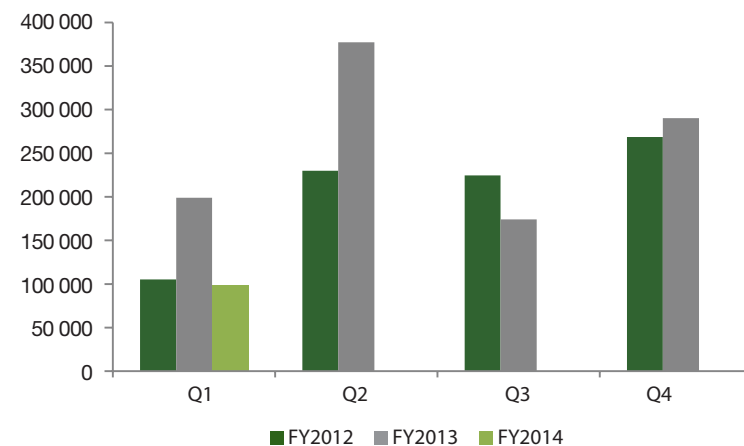
## Bottled oil segment

- Bottled oil sales amounted to 22.4 million liters in Q1 FY2014 versus 26.3 million liters in Q1 FY2013, down 14.9% y-o-y. Revenues from the bottled oil segment declined 23.4% y-o-y to USD 33.4 million in Q1 FY2014.
- The bottled oil segment EBITDA margin was at 11.2% in Q1 FY2014, with a material premium over sunflower oil sales in bulk. The margin decline compared to Q1 FY2013 is explained by higher prices for sunflower seed at the end of the 2012/13 marketing season.

## Sunflower seed crush, tons



## Bulk oil sales, tons



# Grain, silo and export terminals segments performance

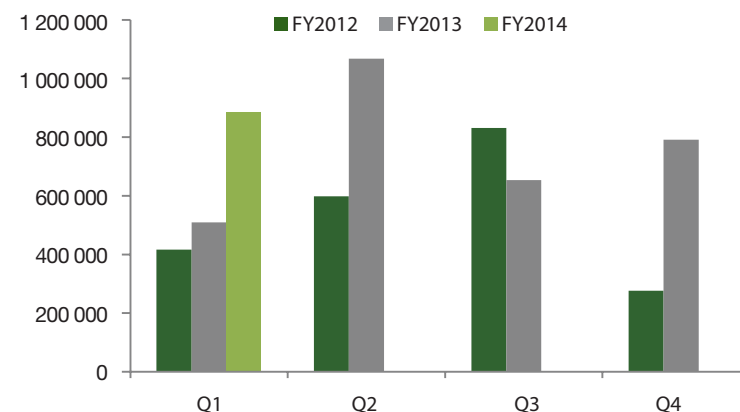
## Grain segment

- Grain sales increased 73.6% y-o-y to 884,701 tons in Q1 FY2014, a record volume for the first quarter. While Ukrainian farmers were reluctant to sell their crops at the rate that they were harvested, the company significantly increased grain exports from the Russian Federation following last year's acquisition of the Taman grain export terminal on Russia's Black Sea coast. Revenues from grain exports increased 48.4% y-o-y to USD 229.0 million in Q1 FY2014, with an average selling price down 14.6% y-o-y, reflecting lower global wheat and barley prices.
- The grain marketing EBITDA margin was at 4.1% in Q1 FY2014 (3.7% in Q1 FY2013), at USD 10.7/ton in Q1 FY2014 compared to USD 11.3/ton in Q1 FY2013. The total grain segment EBITDA increased 63.7% y-o-y to USD 9.4 million in Q1 FY2014.

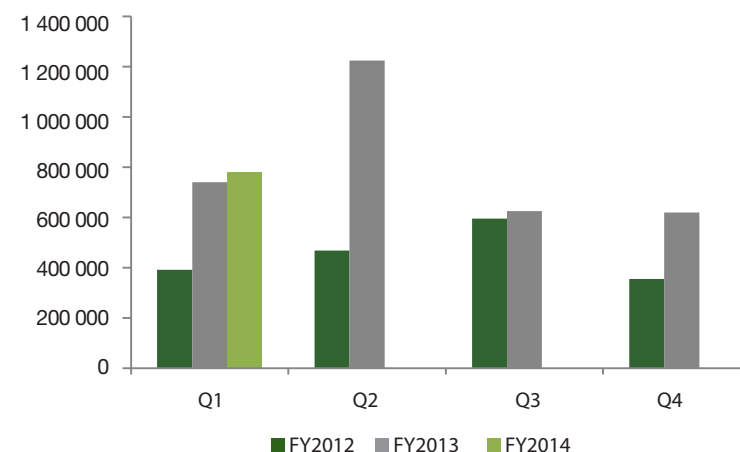
## Silo services and export terminals segments

- The strong harvest in Ukraine and at our own farming operations this year contributes well to silo services operations. Although prolonged rains in September delayed the harvest, and thus postponed part of the segment's earnings to the next quarter, revenues from silo services increased 5.2% y-o-y to USD 9.8 million in Q1 FY2014 and EBITDA increased 60.4% y-o-y to USD 4.6 million in Q1 FY2014.
- Export terminals throughput increased 5.1% y-o-y to 778,164 tons in Q1 FY2014, reflecting strong throughput at the Taman terminal in the Russian Federation and slow activity in Ukraine, as the overall speed of grain exports from Ukraine was low in the quarter due to not only farmer's reluctance in selling at lower grain prices but also to weather-related delays of the harvesting campaign. Revenues from export terminals services in Ukraine decreased 48.1% y-o-y to USD 7.2 million in Q1 FY2014, with EBITDA down 53.5% y-o-y to USD 3.7 million, as a result of lower throughput volumes. Earnings from the Russian port, owned via a joint venture, are accounted through the equity method, with the net result of USD 2.0 million being reported below the operating profit.
- Overall, the grain marketing, silo services and export terminals segments are performing well, with seasonality skewed toward the second half of the season, compared to normal.

## Grain sales, tons



## Export terminals throughput, tons

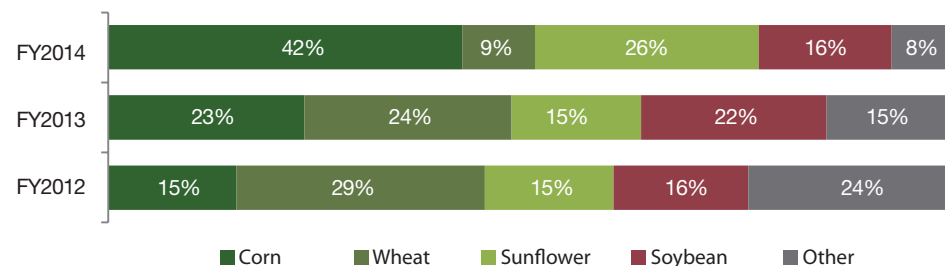


# Farming segment performance

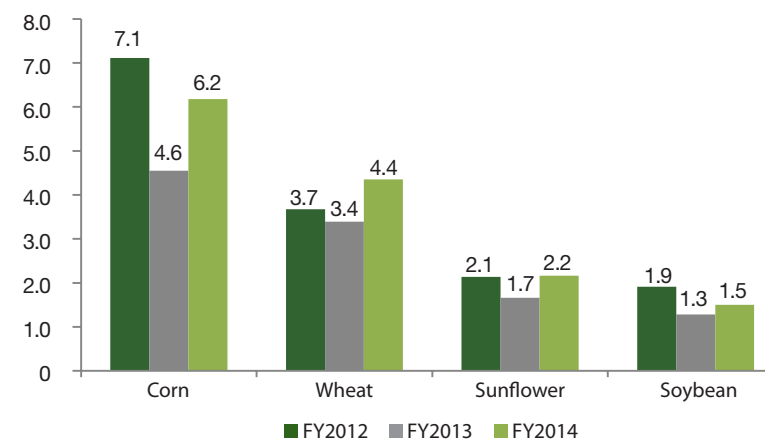
## Farming segment

- First quarter sales in the farming segment consisted primarily of wheat (9% of total acreage) and minor volumes of other crops, while the company's major crops are harvested mostly during the second quarter. Overall, harvested acreage increased to 391 thousand hectares in FY2014 compared to 247 thousand hectares in FY2013, with a crop structure of 42% of corn in FY2014 (23% in FY2013), sunflower seed of 26% (15%), soybean of 16% (22%) and wheat of 9% (25%).
- FY2014 crop yields are significantly higher than last year, with a net corn yield of 6.2 t/ha in FY2014 (up from 4.6 t/ha in FY2013), sunflower seed net yield of 2.2 t/ha (up from 1.7 t/ha), soybean net yield of 1.5 t/ha (up from 1.3 t/ha) and wheat net yield of 4.4 t/ha (up from 3.4 t/ha). While this year's crop yields are delivering premiums to Ukraine's average, crop yields remain below the company's targets for a fully integrated farming business under normal weather conditions.
- With global prices for soft commodities declining sharply this summer, prices at the farm gate declined by approximately 40 – 45% for corn, 30 – 35% for sunflower seed, 15% – 20% for soybean, and 20% – 25% for wheat, erasing profits from improved productivity. The farming segment sells most of its produce to other segments of the company at arm's length prices.
- The farming segment posted an EBITDA loss of USD 6.4 million in Q1 FY2014 versus positive USD 25.9 million a year ago, due to lower grain prices and a non-cash change in the fair value of biological assets.

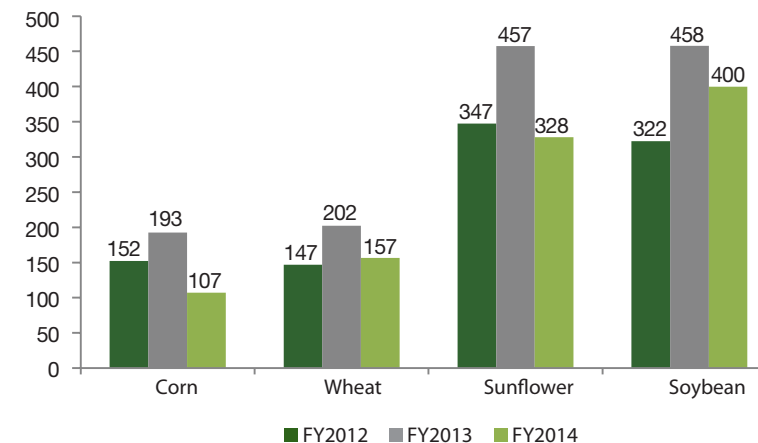
## Crop structure



## Crop yields, t/ha<sup>(1)</sup>, net



## Grain and oilseed prices, EXW, net of VAT



1. 1 t/ha equals to 15.9 bu/acre for corn, 14.9 bu/acre for wheat and soybean  
 Note: APK-Inform average prices from the beginning of the marketing season (July for wheat, September for other) until the end of November. Prices might differ from those realized by Kernel.



# Balance sheet highlights

## Amounts in USD millions

	30 September 2013	30 September 2012
Invested Capital		
Cash & cash equivalents	77.7	133.4
Net trade accounts receivable	139.4	149.6
Inventory	327.6	721.4
of which: readily marketable inventories	276.3	684.5
Biological assets	209.9	78.5
Other currents assets	330.6	370.8
Net property, plant & equipment	774.5	720.4
Other non-current assets	504.1	366.4
<b>Total assets</b>	<b>2,363.8</b>	<b>2,540.4</b>
Financed by		
Short-term liabilities	664.3	996.6
of which: interest-bearing debt	431.7	779.1
Long-term liabilities	382.6	298.4
of which: long-term interest bearing debt	357.9	267.1
<b>Total liabilities</b>	<b>1,047.0</b>	<b>1,295.0</b>
<b>Total equity</b>	<b>1,316.8</b>	<b>1,245.4</b>

Note: Differences are possible due to rounding.

# Cash flow highlights

## Amounts in USD millions

	Q1 FY2014	Q1 FY2013
Operating profit before working capital changes	11.9	91.7
Changes in working capital	(15.8)	(249.6)
<b>Cash obtained from/ (used in) operations</b>	<b>(3.9)</b>	<b>(157.9)</b>
Finance costs paid	(13.0)	(15.4)
Income tax paid	(18.7)	(8.9)
<b>Net cash obtained from/ (used in) operating activities</b>	<b>(35.6)</b>	<b>(182.2)</b>
Net PPE disposals/ (purchases)	(16.9)	(8.4)
Sales/(Purchase) of intangible and other non-current assets	(0.2)	(7.2)
Acquisition of subsidiaries and purchase of investment in joint ventures	-	(95.0)
<b>Net cash obtained from / (used in) investing activities</b>	<b>(17.0)</b>	<b>(110.6)</b>
<b>Net cash obtained from / (used in) investing &amp; operating activities</b>	<b>(52.7)</b>	<b>(292.9)</b>

Note: Differences are possible due to rounding.

# Liquidity position & credit metrics

## Amounts in USD millions, except ratios

	30 September 2013	30 September 2012
Gross interest-bearing debt	789.5	1,046.2
Cash	77.7	133.4
<b>Net interest-bearing debt</b>	<b>711.8</b>	<b>912.8</b>
Readily marketable inventories	276.3	684.5
<b>Adjusted net financial debt<sup>(1)</sup></b>	<b>435.5</b>	<b>228.3</b>
Shareholders' equity	1,300.3	1,221.5
Net debt / EBITDA <sup>(2)</sup>	3.3x	2.6x
Adjusted net debt / EBITDA <sup>(3)</sup>	2.0x	0.6x
EBITDA / Interest <sup>(4)</sup>	3.2x	5.0x

1. 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.
2. Net debt/EBITDA is calculated based on trailing 12-month EBITDA.
3. Adjusted net debt / EBITDA is calculated based on trailing 12-month EBITDA.
4. EBITDA interest is calculated based on trailing 12-month EBITDA and net finance costs.

# IR contact

- **Yuriy Kovalchuk**  
Investor Relations Director  
[investor\\_relations@kernel.ua](mailto:investor_relations@kernel.ua)
- **Yegor Samusenko**  
Investor Relations Manager  
[y.samusenko@kernel.ua](mailto:y.samusenko@kernel.ua)  
Tel.: (+38-044) 461-88-01

