

Q3
FY2014

FINANCIAL RESULTS PRESENTATION

Kernel Holding S.A.
and Subsidiaries

KERNEL



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This presentation should be read in conjunction with the financial statements for 3 months ended 31 March 2014.

Q3 FY2014 results highlights

Key highlights

- Revenues up 13.0% yoy to USD 675.0 million in Q3 FY2014, driven by higher sunflower oil and grain sales volumes in a yoy lower pricing environment.
- EBITDA down 33.5% yoy to USD 30.0 million in Q3 FY2014, including a currency devaluation loss of USD 44.8 million.
- Sunflower oil sales in bulk up 52.0% yoy to 264.5 thousand tons in Q3 FY2014, with the segment's EBITDA margin increasing to 16.2% in Q3 FY2014 (versus 12.0% in Q3 FY2013) which reflects a healthy supply of sunflower seed in Ukraine.
- Sales of bottled sunflower oil continued to show premium profitability, with EBITDA margin of 20.2% in Q3 FY2014 compared to 14.4% in Q2 FY2013.
- Grain segment doubled sales volumes yoy and increased EBITDA 6.8x yoy to USD 32.8 million in Q3 FY2014, with EBITDA per ton surging to USD 25.1 in Q3 FY2014, which reflects stronger grain marketing profitability owing to the reinstatement of VAT refunds on grain exports along with the positive reversal of the accounting effect from the previous quarter.
- Infrastructure segments performed well, benefitting from a strong harvest in Ukraine, with export terminals' EBITDA up 61.5% yoy to USD 8.2 million and silo services segment's EBITDA growing by 52.9% yoy to USD 8.1 million in Q3 FY2014.
- Farming segment's EBITDA contribution continued to be negative, with an EBITDA loss of USD 21.5 million in Q3 FY2014, reflecting mostly an expensing of the non-cash IAS 41 fair value component.
- Net loss amounted to USD 25.1 million in Q3 FY2014 (including a USD 64.4 million loss attributable to the hryvnya devaluation) versus USD 3.4 million net loss in Q3 FY2013.
- Updated guidance for FY2014 at EBITDA of USD 170 million mostly reflects the unexpected foreign exchange loss as well as poorer than expected farming segment performance.

Hryvnya devaluation

- The Ukrainian hryvnya devalued 27% during the quarter under review (from 7.99 UAH per USD as of 31 December 2013 to 10.95 as of 31 March 2014).
- Foreign exchange loss from revaluing VAT receivables on export operations decreased EBITDA by USD 44.8 million in Q3 FY2014.
- While the company's export business model benefits from the Ukrainian hryvnya devaluation, primarily in SG&A and the farming segment's costs, paybacks should come gradually and are expected to fully offset the losses from the VAT revaluation within 9-12 months. At the same time, benefits are expected to last longer, as local inflation is likely to lag the devaluation.

Other highlights

- In April, the EU cut import duties for a majority of goods originating from Ukraine. In particular, the import duty on sunflower oil decreased to 0% from 2.9% for unrefined oil and to 0% from 6.1% for refined. Additionally, a material zero-duty import quota was set by the EU for Ukrainian wheat and barley. The regulation is to be effective until 1 November 2014 and could be on a continuous basis should Ukraine sign the Deep and Comprehensive Free Trade Agreement with the EU.
- Completed the divestment of the Nevinnomyssk oilseed crushing plant with annual crushing capacity of 100,000 tons in the Stavropol region of the Russian Federation for the enterprise value of USD 10 million.
- Renewed USD 80 million of syndicated pre-crop financing.
- Since the severe political crisis in Ukraine erupted in November 2013, the Company to date has been operating in a normal course of business both in Ukraine and Russia. None of the Company's production assets are located in the Crimea, Donetsk or Luhansk regions.

Q3 FY2014 results highlights

Amounts in USD million, except for EPS and ratios	Q3 FY2014	Q3 FY2013	yoy	Q2 FY2014	qoq
Revenue	675.0	597.5	13.0%	725.5	(7.0%)
EBITDA ⁽¹⁾	30.0	45.1	(33.5%)	58.1	51.6%
Net profit attributable to equity holders of Kernel Holding S.A.	(25.1)	(3.4)	n/m	(9.1)	n/m
EBITDA margin	4.4%	7.5%	(3.1pp)	8.0%	(3.6pp)
Net margin	(3.7%)	(0.6%)	(3.1pp)	(1.3%)	(2.5pp)
EPS, USD ⁽²⁾	(0.32)	(0.04)	n/m	(0.11)	n/m
Net interest-bearing debt	916.4	943.3	(2.9%)	1 017.7	(10.0%)
of which: readily marketable inventories	446.4	649.1	(31.2%)	615.0	72.6%
Adjusted net debt ⁽³⁾	470.0	294.2	59.7%	402.7	16.7%
Shareholders' equity	1 078.9	1 261.8	(14.5%)	1 291.9	(16.5%)
Net debt/EBITDA	5.2x	3.1x	+2.1x	5.3x	(0.1x)
Adjusted net debt/EBITDA ⁽³⁾	2.6x	1.0x	+1.6x	2.1x	+0.5x
EBITDA/Interest	2.8x	3.7x	(0.9x)	2.9x	(0.1x)

1. Hereinafter, EBITDA is a non IFRS measure 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 the periods under review.

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 ⁽¹⁾ , USD million			EBITDA, USD million			EBITDA margin, %	
	Q3 FY2014	Q3 FY2013	yoy	Q3 FY2014	Q3 FY2013	yoy	Q3 FY2014	Q3 FY2013
Bottled oil	32.7	40.4	(19.1%)	6.6	5.8	13.5%	20.2%	14.4%
Bulk oil	310.0	303.0	2.3%	50.1	36.5	37.3%	16.2%	12.0%
Export terminal	13.2	9.0	46.3%	8.2	5.0	61.5%	61.6%	55.8%
Farming	34.9	12.0	2.9x	(21.5)	(3.5)	6.1x	(61.6%)	(29.3%)
Grain	308.5	239.2	29.0%	32.8	4.8	6.8x	10.6%	2.0%
Silo services	13.1	10.6	23.5%	8.1	5.3	52.9%	61.7%	49.9%
Sugar & Discontinued	9.2	7.8	17.9%	0.5	1.1	(59.0%)	5.1%	14.6%
Other				(54.7)	(10.0)	5.5x		
Reconciliation	(46.7)	(24.6)	90.0%					
Total	675.0	597.5	13.0%	30.0	45.1	(33.5%)	4.4%	7.5%

Sales and throughput

	Q3 FY2014	Q3 FY2013	yoy	Q2 FY2014	qoq
Grain sales, tons	1 310 816	653 745	100.5%	1 335 265	(1.8%)
Bulk oil sales, tons	264 497	173 976	52.0%	261 747	1.1%
Bottled oil sales, '000 liters	22 582	23 153	(2.5%)	30 376	(25.7%)
Sunflower seed crush, tons	708 877	679 311	4.4%	726 087	(2.4%)
Export terminals throughput, tons ⁽¹⁾	1 038 469	625 623	66.0%	1 268 517	(18.1%)

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

Sunflower oil segments performance

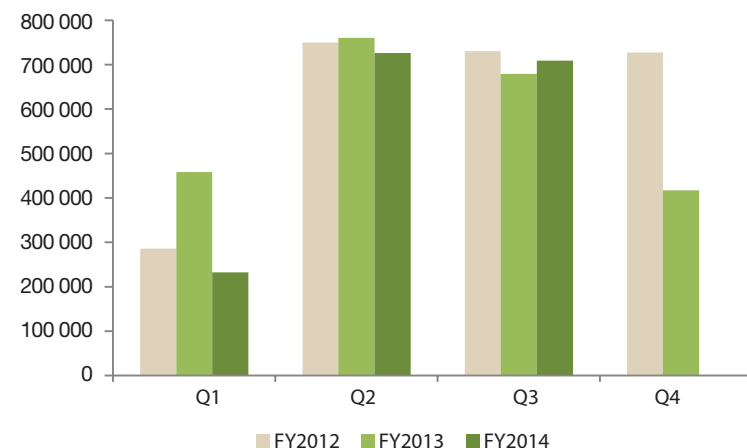
Sunflower oil

- Bulk oil sales volumes up 52.0% yoy to 264.5 thousand tons in Q3 FY2014, with sales close to production levels. The segment's revenues increased 2.3% yoy to USD 310.0 million, lagging volume growth due to the lower global price environment for edible oils.
- Sunflower seed crushing volumes up 4.4% yoy to 708.9 thousand tons on favorable sunflower seed availability resulting in close-to-full capacity utilization.
- Segment's EBITDA margin increased to 16.2% in Q3 FY2014 from 12.0% a year ago, reflecting the healthy supply of sunflower seed resulting in lower competition between crushers.
- Total segment's EBITDA up 37.3% yoy to USD 50.1 million in Q3 FY2014 as a combination of better profitability, higher volumes and lower global prices for sunflower oil.

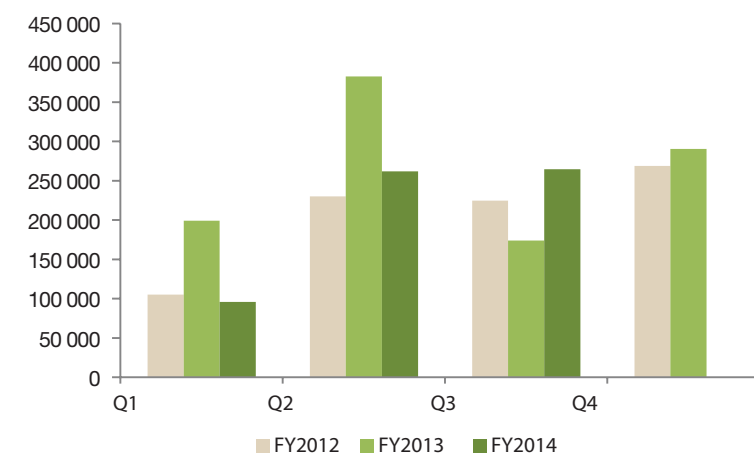
Bottled oil

- Bottled oil sales volumes down 2.5% yoy to 22.6 million liters in Q3 FY2014, with revenues decreasing 19.1% yoy to USD 32.7 million in Q3 FY2014 due to yoy lower global edible oils prices and the Ukrainian currency devaluation.
- The segment's EBITDA up 13.5% yoy to USD 6.6 million in Q3 FY2014 with EBITDA margin increasing to 20.2% in Q3 FY2014 compared to 14.4% in Q3 FY2013, with premium profitability due to the relative stickiness of the branded bottled oil price following the decline of the global sunflower oil price.

Sunflower seed crush, tons



Bulk oil sales, tons



Grain, silo and export terminals segments performance

Grain

- Grain sales volumes up 2x yoy to 1.3 million tons in Q3 FY2014 benefiting from record-high production and export volumes out of Ukraine along with farmers actively selling corn as the government renewed refunds of the VAT on corn exports which increased farm-level prices. Wheat exports from the Russian Federation also continued well. As a combination of doubling volumes and the significant yoy decline in global grain prices, the segment's revenues increased by 29.0% yoy to USD 308.5 million in Q3 FY2014.
- The segment's EBITDA up to USD 32.8 million in Q3 FY2014 versus USD 4.8 million in Q3 FY2013, with an EBITDA margin per ton increasing to USD 25.1/ton in Q3 FY2014 from USD 7.4/ton a year ago. The abnormally high profitability reflects some of the profits carried over from Q2 FY2014 due to a mismatch between the trading book and physical delivery margins as well as to the overall stronger profitability in grain marketing fueled by the reinstatement of VAT refunds.

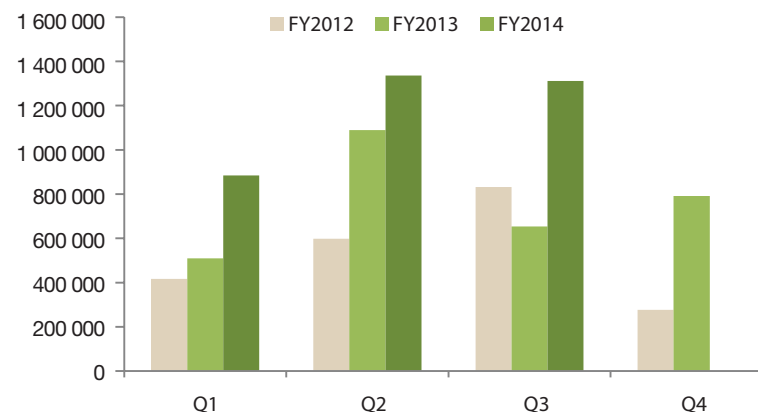
Export terminals

- Export terminals throughput up 66.0% yoy to 1.0 million tons in Q3 FY2014 on higher grain exports through both Ukrainian and Russian facilities.
- Revenues from export terminals services, including intra-group, amounted to USD 13.2 million in Q3 FY2014, up 46.3% yoy.
- The segment's EBITDA increased 61.5% yoy to USD 8.2 million, reflecting growth in Ukrainian volumes and the EBITDA per ton margin rising to USD 10.0/ton in Q3 FY2014 from USD 8.5/ton in Q3 FY2013.

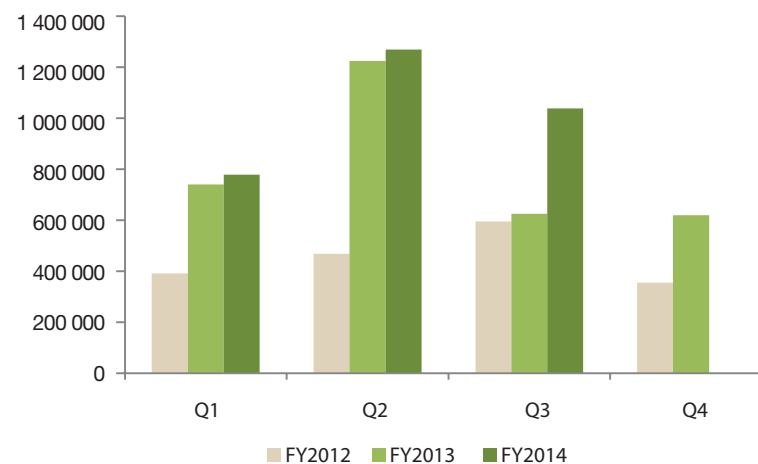
Silo services

- The segment's revenues, including intra-group, increased 23.5% yoy to USD 13.1 million in Q3 FY2014, which corresponds to higher intake of the Group's inland grain storage facilities in FY2014.
- EBITDA from providing silo services increased 52.9% yoy to USD 8.1 million in Q3 FY2014.

Grain sales, tons



Export terminals throughput, tons



Farming segment performance

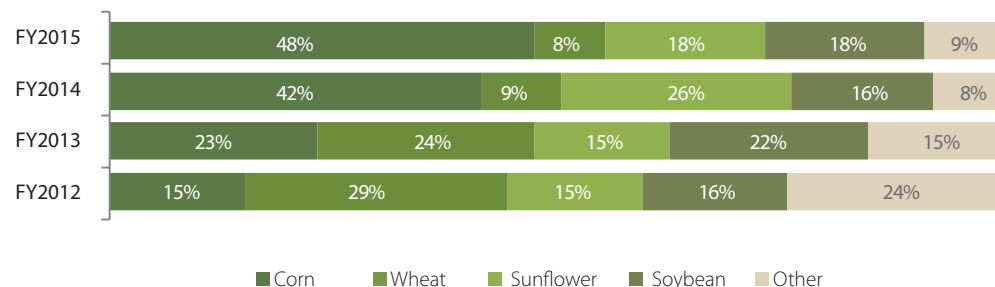
Farming

- Farming segment's sales amounted to USD 34.9 million, up 2.9x yoy, comprised of sales of the crop harvested in autumn 2013.
- The segment's EBITDA loss amounted to USD 21.5 million in Q3 FY2014 (USD 3.5 million loss in Q3 FY2013), which primarily reflects expensing of a non-cash IAS 41 fair value component of USD 15.3 million booked in the previous financial year.
- Spring planting campaign was completed in mid-May with 339 thousand hectares sown with spring crops (corn, sunflower seed, soybean) in addition to 34 thousand of winter crops. All crops are reported to be in good condition.

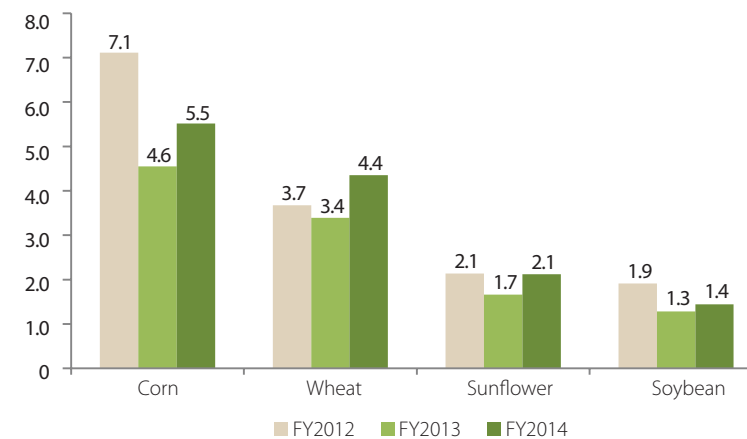
Sugar

- Sugar segment generated USD 9.2 million in revenues in Q3 FY2014, up 17.9% yoy. This represents earnings on the sale of carry-over stock of sugar produced in FY2013, as the company ceased sugar production since FY2014.
- The segment's EBITDA amounted to USD 0.5 million in Q3 FY2014 compared to USD 1.1 million in Q3 FY2013.

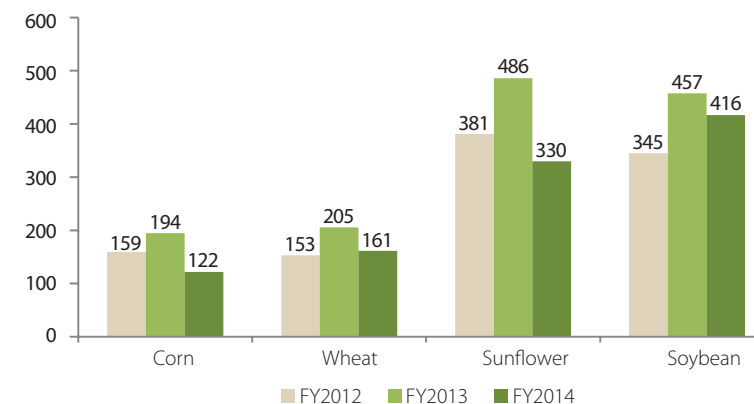
Crop structure



Crop yields, t/ha⁽¹⁾, net



Grain and oilseed prices⁽²⁾, EXW, net of VAT



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

Balance sheet highlights

Amounts in USD million	31 March 2014	30 June 2013	31 March 2013
Invested Capital			
Cash & cash equivalents	99.0	78.8	106.5
Net trade accounts receivable	169.8	149.6	109.9
Inventory	554.5	270.2	802.0
of which: readily marketable inventories	446.4	175.1	649.1
Biological assets	67.3	247.3	45.8
Other currents assets	282.1	351.5	367.1
Net property, plant & equipment	664.1	767.3	716.2
Other non-current assets	428.0	502.1	410.3
Total assets	2 264.8	2 366.9	2 557.8
Financed by			
Short-term liabilities	838.7	705.3	922.7
of which: interest-bearing debt	685.9	458.5	723.0
Long-term liabilities	350.5	309.3	357.7
of which: long-term interest bearing debt	329.5	275.7	326.8
Total liabilities	1 189.2	1 014.6	1 280.4
Total equity	1 075.6	1 352.4	1 277.4

Note: Differences are possible due to rounding.

Cash flow highlights

Amounts in USD million

	Q3 FY2014	Q3 FY2013
Operating profit before working capital changes	25.9	49.0
Changes in working capital	141.4	276.5
Cash obtained from/ (used in) operating activities	167.3	325.4
Finance costs paid	(20.6)	(18.2)
Income tax paid	(12.3)	(12.8)
Net cash obtained from/ (used in) operating activities	134.4	294.4
Net PPE disposals/ (purchases)	(14.2)	(25.6)
Sales/(Purchase) of intangible and other non-current assets	(2.9)	(6.4)
Acquisition and disposal of subsidiaries	(9.4)	(18.4)
Net cash obtained from / (used in) investing activities	(26.4)	(50.4)
Net cash obtained from / (used in) investing & operating activities	108.0	244.0

Note: Differences are possible due to rounding.

Liquidity position & credit metrics

Amounts in USD million, except ratios

	31 March 2014	30 June 2013	31 March 2013
Gross interest-bearing debt	1 015.4	734.2	1 049.9
Cash	99.0	78.8	106.5
Net interest-bearing debt	916.4	655.4	943.3
Readily marketable inventories	446.4	175.1	649.1
Adjusted net financial debt ⁽¹⁾	470.0	480.3	294.2
Shareholders' equity ⁽²⁾	1 078.9	1 334.8	1 261.8
Net debt / EBITDA ⁽³⁾	5.2x	2.3x	3.1x
Adjusted net debt / EBITDA ⁽⁴⁾	2.6x	1.7x	1.0x
EBITDA / Interest ⁽⁵⁾	2.8x	3.8x	3.7x

- 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.
- Total equity attributable to Kernel Holding S.A. shareholders.
- Net debt/EBITDA is calculated based on trailing 12-months EBITDA.
- Adjusted net debt / EBITDA is calculated based on trailing 12-months EBITDA.
- EBITDA / Interest is calculated based on trailing 12-months EBITDA and net finance costs.

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