KERNEL

Kernel Holding S.A.
and Subsidiaries

FY2014

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR 3 MONTHS ENDED 31 MARCH 2014

# Management Discussion and Analysis

for 3 months ended 31 March 2014

### 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.

### Financial Highlights

| Amounts in USD million, except for EPS and ratios | Q3 FY2014 | Q3 FY2013 | yoy | 9M FY2014 | 9M FY2013 | yoy |
|---|---|---|---|---|---|---|
| Revenue | **675.0** | 597.5 | 13.0% | **1,813.4** | 2,065.9 | (12.2%) |
| EBITDA[1] | **30.0** | 45.1 | (33.5%) | **91.1** | 200.9 | (54.7%) |
| Net (loss)/profit attributable to equity holders of Kernel Holding S.A. | **(25.1)** | (3.4) | n/m | **(68.1)** | 66.3 | n/m |
| EBITDA margin | **4.4%** | 7.5% | (3.1pp) | **5.0%** | 9.7% | (4.7pp) |
| Net margin | **(3.7%)** | (0.6%) | (3.1pp) | **(3.8%)** | 3.2% | (7.0pp) |
| EPS, USD[2] | **(0.32)** | (0.04) | n/m | **(0.85)** | 0.83 | n/m |
| Net debt/EBITDA[3] | | | | **5.2x** | 3.1x | +2.1x |
| Adjusted net debt/EBITDA[4] | | | | **2.6x** | 1.0x | +1.6x |
| EBITDA/Interest[5] | | | | **2.8x** | 3.7x | (0.9x) |

### Sales and Throughput

| | Q3 FY2014 | Q3 FY2013 | yoy | 9M FY2014 | 9M FY2013 | yoy |
|---|---|---|---|---|---|---|
| Grain sales, tons | **1,310,816** | 653,745 | 100.5% | **3,530,782** | 2,252,852 | 56.7% |
| Bulk oil sales, tons | **264,497** | 173,976 | 52.0% | **621,954** | 755,650 | (17.7%) |
| Bottled oil sales, '000 liters | **22,582** | 23,153 | (2.5%) | **75,358** | 83,257 | (9.5%) |
| Sunflower seed crush, tons | **708,877** | 679,311 | 4.4% | **1,667,213** | 1,897,624 | (12.1%) |
| Export terminals throughput, tons[6] | **1,038,469** | 625,623 | 66.0% | **3,085,150** | 2,589,359 | 19.1% |

(1) Hereinafter, EBITDA is a non IFRS measure which 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 the periods under review.
(3) Net debt / EBITDA is calculated based on 12-months trailing EBITDA.
(4) 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. Adjusted net debt / EBITDA is calculated based on 12-months trailing EBITDA.
(5) EBITDA / Interest is calculated based on 12-months trailing EBITDA and net finance costs.
(6) Including Kernel's share of volumes transshipped through Taman port, which is owned through a 50%-50% joint venture.

# Segment Results and Discussion

for 3 months ended 31 March 2014

### Segment Results Summary

| | Revenue, 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% |
| Sunflower oil in bulk | **310.0** | 303.0 | 2.3% | **50.1** | 36.5 | 37.3% | **16.2%** | 12.0% |
| Export terminals | **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) | n/m | | | | | |
| **Total** | **675.0** | **597.5** | **13.0%** | **30.0** | **45.1** | **(33.5%)** | **4.4%** | **7.5%** |

| | Revenue, USD million | | | EBITDA, USD million | | | EBITDA, margin % | |
|---|---|---|---|---|---|---|---|---|
| | 9M FY2014 | 9M FY2013 | yoy | 9M FY2014 | 9M FY2013 | yoy | 9M FY2014 | 9M FY2013 |
| Bottled oil | **110.6** | 137.8 | (19.7%) | **23.2** | 21.3 | 9.2% | **21.0%** | 15.4% |
| Sunflower oil in bulk | **727.2** | 1,121.2 | (35.1%) | **99.6** | 138.4 | (28.0%) | **13.7%** | 12.3% |
| Export terminals | **35.0** | 38.9 | (10.0%) | **21.3** | 23.3 | (8.7%) | **60.8%** | 59.9% |
| Farming | **269.8** | 162.9 | 65.7% | **(69.6)** | 9.9 | n/m | **(25.8%)** | 6.1% |
| Grain | **866.1** | 733.5 | 18.1% | **46.1** | 18.1 | 2.5x | **5.3%** | 2.5% |
| Silo services | **73.6** | 42.3 | 73.9% | **42.4** | 17.7 | 2.4x | **57.7%** | 41.8% |
| Sugar & Discontinued | **24.0** | 16.5 | 45.3% | **0.3** | 0.1 | 3.4x | **1.4%** | 0.6% |
| Other | | | | **(72.2)** | (27.9) | 2.6x | | |
| Reconciliation | **(293.0)** | (187.2) | n/m | | | | | |
| **Total** | **1,813.4** | **2,065.9** | **(12.2%)** | **91.1** | **200.9** | **(54.7%)** | **5.0%** | **9.7%** |

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

### Sunflower Oil in Bulk

- 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.

### 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.

### 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.

# Financial Highlights

for 3 months ended 31 March 2014

### Income Statement Highlights

- Revenue increased 13.0% yoy to USD 675.0 million in Q3 FY2014, driven by higher sunflower oil and grain sales volumes yoy albeit lower global price environment.
- Net change in fair value of biological assets and agricultural produce amounted to negative USD 15.3 million in Q3 FY2014 and reflects expensing of the IAS 41 fair value component booked in the previous financial year. The company primarily produces the spring variety of crops; as a result, most of the positive gain from the change in fair value is usually booked in the fourth quarter of the financial year and is thereafter expensed gradually over the course of the next financial year.
- Gross profit increased 30.8% yoy to USD 138.9 million in Q3 FY2014, owing to strong performance of the company's sunflower oil and grain marketing segments. The gross margin was 20.6% in Q3 FY2014 versus 17.8% in Q3 FY2013.
- Other operating loss totaled USD 28.6 million in Q3 FY2014 compared to income of USD 8.6 million in Q3 FY2013. The amount in Q3 FY2014 includes a foreign exchange loss of USD 44.8 million caused by the revaluation of VAT receivables following a sharp hryvnya devaluation during the quarter under review (from 7.99 UAH per USD as of 31 December 2013 to 10.95 UAH per USD as of 31 March 2014). Other key components of other operating income include subsidies on farming operations and foreign exchange gains on the discrepancy between the official and market exchange rate.
- Distribution costs amounted to USD 80.0 million in Q3 FY2014, up 14.6% yoy. As a percentage of revenues, distribution costs equaled 11.9% in Q3 FY2014 versus 11.7% in Q3 FY2013, with dynamics reflecting a combination of a decrease in railway tariffs due to the hryvnya depreciation and higher share of lower priced grain in the revenue mix.
- General and administrative expenses amounted to USD 20.7 million in Q3 FY2014 compared to USD 19.0 million in Q3 FY2013. Relative to revenues, G&A amounted to 3.1% in Q3 FY2014 compared to 3.2% a year ago.
- Profit from operating activities fell to USD 9.6 million in Q3 FY2014 from USD 25.8 million a year ago, with a loss of USD 44.8 million from the hryvnya devaluation and losses in the farming segment being key negative factors, while improved profitability and volumes in sunflower oil, grain marketing and infrastructure were the positive contributors. The operating profit margin fell to 1.4% in Q3 FY2014 compared to 4.3% in Q3 FY2013.
- Finance cost decreased 11.2% yoy to USD 20.4 million in Q3 FY2014, as the Company's gross indebtedness decreased from the previous year.
- Foreign exchange loss amounted to USD 19.6 million in Q3 FY2014 compared to USD 0.2 million a year ago. The loss in Q3 FY2014 reflected a 27% devaluation of the Ukrainian hryvnya in the quarter under review and the respective debt-related losses booked by several of the Group's subsidiaries which have Ukrainian hryvnya as their functional currency.
- Net loss attributable to the shareholders of Kernel Holding S.A. amounted to USD 25.1 million in Q3 FY2014 compared to USD 3.4 million a year ago.

### Cash Flow Highlights

- Operating profit before working capital changes decreased to USD 25.9 million in Q3 FY2014 from USD 49.0 million in Q3 FY2013, with a swing following the EBITDA movement.
- Net cash obtained from operations was seasonally high at USD 134.4 million in Q3 FY2014 (USD 294.4 million in Q3 FY2014), as the company procures most of its inputs in the first half of the financial year, while its sales are less volatile, which results in the decrease of working capital during the second half of the financial year.
- Net cash used in investing activities was USD 26.4 million in Q3 FY2014 (USD 50.4 million in Q3 FY2013) and mostly reflects the payment for the farming entities acquired in previous years and USD 7.6 million in capital expenditures for farming machinery, as well as proceeds from the sale of the Nevinnomyssk oilseed crushing plant in the Russian Federation which the Group sold in February 2014 for the enterprise value of USD 10.0 million.

### Credit Metrics Highlights

- Net debt continued to decrease yoy, amounting to USD 916.4 million as of 31 March 2014 versus USD 943.3 million as of 31 March 2013, which primarily reflects the effect of lower soft commodity prices.
- Adjusted net financial debt, which excludes the value of readily marketable inventories, increased to USD 470.0 million as of 31 March 2014 from USD 294.2 million a year ago, which is due to larger crop farming operations with a respective increase in working capital requirements and the acquisition of the Druzhba Nova farming company.
- Net debt to 12-months trailing EBITDA increased to 5.2x as of 31 March 2014 from 3.1x as of 31 March 2013. Adjusted for readily marketable inventories, net debt to 12-months trailing EBITDA increased to 2.6x as of 31 March 2014 versus 1.0x as of 31 March 2013. The increase in both ratios reflects the lower EBITDA due to the negative impact of the Ukrainian hryvnya devaluation in Q3 FY2014, farming segment losses, and a tight sunflower seed crushing margin in Q4 FY2013 and Q1 FY2014, as well as the acquisition of the Druzhba Nova farming company.

### Credit Metrics

| Amounts in USD million, except ratios | 31 March 2014 | 31 March 2013 |
|---|---|---|
| Gross interest-bearing debt | **1,015.4** | 1,049.9 |
| Cash | **99.0** | 106.5 |
| Net interest-bearing debt | **916.4** | 943.3 |
| Readily marketable inventories | **446.4** | 649.1 |
| Adjusted net financial debt[1] | **470.0** | 294.2 |
| Shareholders' equity[2] | **1,078.9** | 1,261.8 |
| Net debt / EBITDA[3] | **5.2x** | 3.1x |
| Adjusted net debt / EBITDA[3] | **2.6x** | 1.0x |
| EBITDA / Interest[4] | **2.8x** | 3.7x |

(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. Adjusted net debt / EBITDA is calculated based on 12-months trailing EBITDA.
(2) Total equity attributable to Kernel Holding S.A. shareholders.
(3) Net debt / EBITDA and Adjusted Net Debt / EBITDA are calculated based on 12-months trailing EBITDA.
(4) EBITDA / interest is calculated based on 12-months trailing EBITDA and net finance costs.

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# Selected Financial Data

## for 3 months ended 31 March 2014

| | | USD thousand | | Zloty thousand | | EUR thousand | |
|---|---|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| I. | Revenue | **675,010** | 597,491 | **2,061,815** | 1,880,645 | **492,690** | 452,540 |
| II. | Profit from operating activities | **9,618** | 25,827 | **29,378** | 81,292 | **7,020** | 19,561 |
| III. | (Loss)/Profit before income tax | **(37,039)** | 10 | **(113,135)** | 31 | **(27,035)** | 8 |
| IV. | Loss for the period from continuing operations | **(28,965)** | (5,644) | **(88,473)** | (17,765) | **(21,142)** | (4,275) |
| V. | Net cash generated by operating activities | **134,422** | 294,446 | **410,592** | 926,789 | **98,115** | 223,013 |
| VI. | Net cash used in investing activities | **(26,392)** | (50,404) | **(80,614)** | (158,650) | **(19,264)** | (38,176) |
| VII. | Net cash used in financing activities | **(49,556)** | (184,088) | **(151,369)** | (579,430) | **(36,171)** | (139,428) |
| VIII. | Total net cash flow | **58,474** | 59,954 | **178,609** | 188,709 | **42,680** | 45,409 |
| IX. | Total assets | **2,264,789** | 2,557,786 | **6,872,276** | 8,335,824 | **1,647,406** | 1,995,586 |
| X. | Current liabilities | **838,689** | 922,743 | **2,544,918** | 3,007,219 | **610,062** | 719,924 |
| XI. | Non-current liabilities | **350,542** | 357,654 | **1,063,685** | 1,165,594 | **254,983** | 279,043 |
| XII. | Issued capital | **2,104** | 2,104 | **6,384** | 6,857 | **1,530** | 1,642 |
| XIII. | Total equity | **1,075,558** | 1,277,389 | **3,263,673** | 4,163,011 | **782,361** | 996,619 |
| XIV. | Number of shares | **79,683,410** | 79,683,410 | **79,683,410** | 79,683,410 | **79,683,410** | 79,683,410 |
| XV. | Loss per ordinary share (in USD/Zloty/EUR) | **(0.32)** | (0.04) | **(0.96)** | (0.14) | **(0.23)** | (0.03) |
| XVI. | Diluted number of shares | **79,782,404** | 80,037,406 | **79,782,404** | 80,037,406 | **79,782,404** | 80,037,406 |
| XVII. | Diluted loss per ordinary share (in USD/Zloty/EUR) | **(0.32)** | (0.04) | **(0.96)** | (0.14) | **(0.23)** | (0.03) |
| XVIII. | Book value per share (in USD/Zloty/EUR) | **13.54** | 15.84 | **41.08** | 51.61 | **9.85** | 12.35 |
| XIX. | Diluted book value per share (in USD/Zloty/EUR) | **13.52** | 15.77 | **41.03** | 51.38 | **9.84** | 12.30 |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

# Condensed Consolidated Interim Statement of Financial Position

for 3 months ended 31 March 2014

| (in USD thousands unless otherwise stated) | Notes | As of 31 March 2014 (Unaudited) | As of 31 December 2013 (Unaudited) | As of 30 June 2013 (Audited) | As of 31 March 2013 (Unaudited) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash | | **98,956** | 40,140 | 78,827 | 106,521 |
| Trade accounts receivable, net | | **169,750** | 161,820 | 149,600 | 109,905 |
| Prepayments to suppliers and other current assets, net | 12 | **87,019** | 119,581 | 118,353 | 95,195 |
| Corporate income tax prepaid | 10 | **10,316** | 19,645 | 19,323 | - |
| Taxes recoverable and prepaid, net | | **171,049** | 232,252 | 190,695 | 250,787 |
| Inventory | | **554,505** | 742,457 | 270,248 | 802,021 |
| Biological assets | | **67,310** | 21,206 | 247,268 | 45,790 |
| Assets classified as held for sale | | **13,721** | 33,213 | 23,176 | 21,068 |
| **Total current assets** | | **1,172,626** | **1,370,314** | **1,097,490** | **1,431,287** |
| **Non-current assets** | | | | | |
| Property, plant and equipment, net | 6 | **664,142** | 739,881 | 767,317 | 716,237 |
| Intangible assets, net | 7 | **106,582** | 147,405 | 162,287 | 113,392 |
| Goodwill | 7 | **140,995** | 157,431 | 157,431 | 139,455 |
| Investments in joint ventures | | **97,801** | 98,432 | 94,026 | 97,132 |
| Deferred tax assets | 10 | **20,381** | 13,058 | 22,850 | 20,780 |
| Other non-current assets | 10, 12 | **62,262** | 54,668 | 65,541 | 39,503 |
| **Total non-current assets** | | **1,092,163** | **1,210,875** | **1,269,452** | **1,126,499** |
| **Total assets** | | **2,264,789** | **2,581,189** | **2,366,942** | **2,557,786** |
| **Liabilities and equity** | | | | | |
| **Current liabilities** | | | | | |
| Trade accounts payable | 12 | **59,587** | 59,920 | 51,751 | 49,264 |
| Advances from customers and other current liabilities | 12 | **93,629** | 123,190 | 202,051 | 155,789 |
| Short-term borrowings | 8 | **586,770** | 629,637 | 398,700 | 656,676 |
| Current portion of long-term borrowings | 9 | **92,668** | 89,583 | 50,893 | 61,014 |
| Liabilities directly associated with assets classified as held for sale | | **6,035** | 15,454 | 1,909 | - |
| **Total current liabilities** | | **838,689** | **917,784** | **705,304** | **922,743** |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | 9 | **315,780** | 316,776 | 256,630 | 312,809 |
| Obligations under finance lease | | **13,675** | 15,090 | 19,093 | 14,028 |
| Deferred tax liabilities | 10 | **16,117** | 23,215 | 27,721 | 26,397 |
| Other non-current liabilities | | **4,970** | 4,146 | 5,839 | 4,420 |
| **Total non-current liabilities** | | **350,542** | **359,227** | **309,283** | **357,654** |
| **Equity attributable to Kernel Holding S.A. equity holders** | | | | | |
| Issued capital | | **2,104** | 2,104 | 2,104 | 2,104 |
| Share premium reserve | | **463,879** | 463,879 | 463,879 | 463,879 |
| Additional paid-in capital | | **39,944** | 39,944 | 39,944 | 39,944 |
| Equity-settled employee benefits reserve | | **3,028** | 3,028 | 3,028 | 1,211 |
| Revaluation reserve | | **39,456** | 40,053 | 40,053 | 15,049 |
| Translation reserve | | **(348,260)** | (161,000) | (160,941) | (162,173) |
| Retained earnings | | **878,718** | 903,853 | 946,772 | 901,805 |
| **Total equity attributable to Kernel Holding S.A. equity holders** | | **1,078,869** | **1,291,861** | **1,334,839** | **1,261,819** |
| Non-controlling interest | | **(3,311)** | 12,317 | 17,516 | 15,570 |
| **Total equity** | | **1,075,558** | **1,304,178** | **1,352,355** | **1,277,389** |
| **Total liabilities and equity** | | **2,264,789** | **2,581,189** | **2,366,942** | **2,557,786** |
| Book value | | **1,078,869** | 1,291,861 | 1,334,839 | 1,261,819 |
| Number of shares | | **79,683,410** | 79,683,410 | 79,683,410 | 79,683,410 |
| Book value per share (in USD) | | **13.54** | 16.21 | 16.75 | 15.84 |
| Diluted number of shares | | **79,782,404** | 79,932,998 | 80,035,037 | 80,037,406 |
| Diluted book value per share (in USD) | | **13.52** | 16.16 | 16.68 | 15.77 |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

# Condensed Consolidated Interim Statement of Profit or Loss

for 3 months ended 31 March 2014

| (in USD thousands unless otherwise stated) | Notes | 3 months ended 31 March 2014 (Unaudited) | 9 months ended 31 March 2014 (Unaudited) | 3 months ended 31 March 2013 (Unaudited) | 9 months ended 31 March 2013 (Unaudited) |
|---|---|---|---|---|---|
| **Revenue** | | **675,010** | **1,813,403** | **597,491** | **2,065,944** |
| Net change in fair value of biological assets and agricultural produce | 3 | **(15,333)** | **(36,439)** | (2,044) | (29,334) |
| Cost of sales | | **(520,814)** | **(1,513,452)** | (489,320) | (1,709,413) |
| **Gross profit** | | **138,863** | **263,512** | **106,127** | **327,197** |
| Other operating (expenses)/income | 11 | **(28,570)** | **13,213** | 8,588 | 55,064 |
| **Operating expenses** | | | | | |
| Distribution costs | 12 | **(80,012)** | **(198,453)** | (69,841) | (184,464) |
| General and administrative expenses | 12 | **(20,663)** | **(60,238)** | (19,047) | (52,935) |
| **Profit from operating activities** | | **9,618** | **18,034** | **25,827** | **144,862** |
| Finance costs, net | 12 | **(20,434)** | **(53,875)** | (23,019) | (64,543) |
| Foreign exchange (loss)/gain, net | | **(19,641)** | **(17,867)** | (215) | 1,001 |
| Other expenses, net | | **(6,117)** | **(30,096)** | (2,574) | (6,795) |
| Share of (loss)/gain of joint ventures | | **(465)** | **4,465** | (9) | (1,728) |
| **(Loss)/Profit before income tax** | | **(37,039)** | **(79,339)** | **10** | **72,797** |
| Income tax benefit/(expenses) | 10 | **8,074** | **3,297** | (5,654) | (10,113) |
| **(Loss)/Profit for the period from continuing operations** | | **(28,965)** | **(76,042)** | **(5,644)** | **62,684** |
| **Discontinued operations:** | | | | | |
| Profit/(Loss) for the period from discontinued operations | | **175** | **(850)** | 668 | 1,440 |
| **(Loss)/Profit for the period** | | **(28,790)** | **(76,892)** | **(4,976)** | **64,124** |
| **(Loss)/Profit for the period attributable to:** | | | | | |
| **Equity holders of Kernel Holding S.A.** | | **(25,135)** | **(68,054)** | **(3,440)** | **66,297** |
| Non-controlling interest | | **(3,655)** | **(8,838)** | (1,536) | (2,173) |
| **Earnings per share** | | | | | |
| From continuing and discontinued operations | | | | | |
| Weighted average number of shares | | **79,683,410** | **79,683,410** | 79,683,410 | 79,683,410 |
| (Loss)/Profit per ordinary share (in USD) | | **(0.32)** | **(1.00)** | (0.04) | 0.83 |
| Diluted number of shares | | **79,782,404** | **79,892,946** | 80,037,406 | 80,047,307 |
| Diluted (loss)/profit per ordinary share (in USD) | | **(0.32)** | **(0.85)** | (0.04) | 0.83 |
| From continuing operations | | | | | |
| Weighted average number of shares | | **79,683,410** | **79,683,410** | 79,683,410 | 79,683,410 |
| (Loss)/Profit per ordinary share (in USD) | | **(0.32)** | **(0.84)** | (0.05) | 0.81 |
| Diluted number of shares | | **79,782,404** | **79,892,946** | 80,037,406 | 80,047,307 |
| Diluted (loss)/profit per ordinary share (in USD) | | **(0.32)** | **(0.84)** | (0.05) | 0.81 |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

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

for 3 months ended 31 March 2014

| (in USD thousands) | 3 months ended 31 March 2014 (Unaudited) | 9 months ended 31 March 2014 (Unaudited) | 3 months ended 31 March 2013 (Unaudited) | 9 months ended 31 March 2013 (Unaudited) |
|---|---|---|---|---|
| **(Loss)/Profit for the period** | **(28,790)** | **(76,892)** | **(4,976)** | **64,124** |
| **Other comprehensive (loss)/income** | | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| Exchange differences on translating foreign operations | **(198,463)** | **(198,538)** | 1,366 | 4,911 |
| **Items that will not be reclassified to profit or loss:** | | | | |
| Income tax relating to components of other comprehensive income | **(556)** | **(556)** | - | - |
| **Other comprehensive (loss)/income, net** | **(199,019)** | **(199,094)** | **1,366** | **4,911** |
| **Total comprehensive (loss)/income for the period** | **(227,809)** | **(275,986)** | **(3,610)** | **69,035** |
| **Total comprehensive (loss)/income attributable to:** | | | | |
| Equity holders of Kernel Holding S.A. | **(212,992)** | **(255,970)** | (2,106) | 71,206 |
| Non-controlling interest | **(14,817)** | **(20,016)** | (1,504) | (2,171) |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

# Condensed Consolidated Interim Statement of Changes in Equity

for 3 months ended 31 March 2014

| | Attributable to Kernel Holding S.A. shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in USD thousands) | Issued capital | Share premium reserve | Additional paid-in capital | Equity-settled employee benefits reserve | Re-valuation reserve | Translation reserve | Retained earnings | Total | Non-controlling interest | **Total equity** |
| **Balance as of 31 March 2013 (unaudited)** | **2,104** | **463,879** | **39,944** | **1,211** | **15,049** | **(162,173)** | **901,805** | **1,261,819** | **15,570** | **1,277,389** |
| Profit/(Loss) for the period | - | - | - | - | - | - | 44,967 | 44,967 | (4,165) | 40,802 |
| Other comprehensive income/(loss) | - | - | - | - | 25,004 | 1,232 | - | 26,236 | (13) | 26,223 |
| Total comprehensive income/(loss) for the period | - | - | - | - | 25,004 | 1,232 | 44,967 | 71,203 | (4,178) | 67,025 |
| Additional non-controlling interests arising on the acquisition of subsidiaries | - | - | - | - | - | - | - | - | 11,115 | 11,115 |
| Disposal of subsidiaries | - | - | - | - | - | - | - | - | (4,967) | (4,967) |
| Effect of changes of non-controlling interest | - | - | - | - | - | - | - | - | (24) | (24) |
| Recognition of share-based payments | - | - | - | 1,817 | - | - | - | 1,817 | - | 1,817 |
| **Balance as of 30 June 2013 (audited)** | **2,104** | **463,879** | **39,944** | **3,028** | **40,053** | **(160,941)** | **946,772** | **1,334,839** | **17,516** | **1,352,355** |
| Loss for the period | - | - | - | - | - | - | (33,822) | (33,822) | (898) | (34,720) |
| Other comprehensive loss | - | - | - | - | - | (688) | - | (688) | (22) | (710) |
| Total comprehensive loss for the period | - | - | - | - | - | (688) | (33,822) | (34,510) | (920) | (35,430) |
| Effect of changes of non-controlling interest | - | - | - | - | - | - | - | - | (95) | (95) |
| **Balance as of 30 September 2013 (unaudited)** | **2,104** | **463,879** | **39,944** | **3,028** | **40,053** | **(161,629)** | **912,950** | **1,300,329** | **16,501** | **1,316,830** |
| Loss for the period | - | - | - | - | - | - | (9,097) | (9,097) | (4,285) | (13,382) |
| Other comprehensive income | - | - | - | - | - | 629 | - | 629 | 6 | 635 |
| Total comprehensive income/(loss) for the period | - | - | - | - | - | 629 | (9,097) | (8,468) | (4,279) | (12,747) |
| Effect of changes of non-controlling interest | - | - | - | - | - | - | - | - | 95 | 95 |
| **Balance as of 31 December 2013 (audited)** | **2,104** | **463,879** | **39,944** | **3,028** | **40,053** | **(161,000)** | **903,853** | **1,291,861** | **12,317** | **1,304,178** |
| Loss for the period | - | - | - | - | - | - | (25,135) | (25,135) | (3,655) | (28,790) |
| Other comprehensive loss | - | - | - | - | (597) | (187,260) | - | (187,857) | (11,162) | (199,019) |
| Total comprehensive loss for the period | - | - | - | - | (597) | (187,260) | (25,135) | (212,992) | (14,817) | (227,809) |
| Effect of changes of non-controlling interest | - | - | - | - | - | - | - | - | (811) | (811) |
| **Balance as of 31 March 2014 (unaudited)** | **2,104** | **463,879** | **39,944** | **3,028** | **39,456** | **(348,260)** | **878,718** | **1,078,869** | **(3,311)** | **1,075,558** |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

# Condensed Consolidated Interim Statement of Cash Flows

for 3 months ended 31 March 2014

| (in USD thousands) | Notes | 3 months ended 31 March 2014 (Unaudited) | 9 months ended 31 March 2014 (Unaudited) | 3 months ended 31 March 2013 (Unaudited) | 9 months ended 31 March 2013 (Unaudited) |
|---|---|---|---|---|---|
| **Operating activities:** | | | | | |
| **(Loss)/Profit before income tax** | | **(36,967)** | **(82,123)** | **343** | **73,219** |
| Adjustments for: | | | | | |
| Amortization and depreciation | | **20,377** | **73,021** | 19,248 | 57,998 |
| Finance costs, net | | **20,434** | **53,938** | 23,011 | 64,327 |
| Movement in allowance for doubtful receivables | | **2,621** | **4,729** | 1,800 | 1,056 |
| Other accruals | | **405** | **405** | 12 | 12 |
| Loss/(Gain) on disposal of property, plant and equipment | | **465** | **6,001** | (55) | (245) |
| Non-operating foreign exchange loss/(gain) | | **79** | **(36)** | (475) | (555) |
| Write-offs and impairment loss | | **40** | **8,618** | - | - |
| Net change in fair value of biological assets and agricultural produce | 3 | **15,333** | **36,439** | 2,044 | 2,044 |
| Share of loss/(profit) of joint ventures | | **465** | **(4,465)** | 9 | 1,728 |
| Loss on sales of equity investments | 5 | **2,650** | **4,082** | - | 103 |
| Gain on acquisition of of subsidiary | | **-** | **-** | - | (2,196) |
| Other losses | | **-** | **-** | 3,019 | 3,019 |
| **Operating profit before working capital changes** | | **25,902** | **100,609** | **48,956** | **200,510** |
| **Changes in working capital:** | | | | | |
| (Increase)/Decrease in trade accounts receivable | | **(15,295)** | **(26,626)** | 112,834 | 36,295 |
| Decrease in prepayments and other current assets | | **34,716** | **30,066** | 37,176 | 1,179 |
| Decrease/(Increase) in restricted cash balance | | **-** | **6,193** | (664) | (664) |
| Decrease in taxes recoverable and prepaid | | **27,745** | **1,616** | 31,535 | 23,096 |
| (Increase)/Decrease in biological assets | | **(46,622)** | **159,366** | (30,548) | 108,394 |
| Decrease/(Increase) in inventories | | **173,758** | **(300,216)** | 102,673 | (398,237) |
| (Decrease)/Increase in trade accounts payable | | **(12,539)** | **(1,383)** | 15,512 | 22,818 |
| (Decrease)/Increase in advances from customers and other current liabilities | | **(20,398)** | **(74,591)** | 7,959 | (38,142) |
| **Cash generated by/(used in) operations** | | **167,267** | **(104,966)** | **325,433** | **(44,751)** |
| Finance costs paid | | **(20,593)** | **(53,544)** | (18,170) | (55,750) |
| Income tax paid | | **(12,252)** | **(33,912)** | (12,817) | (32,605) |
| **Net cash generated by/(used in) operating activities** | | **134,422** | **(192,422)** | **294,446** | **(133,106)** |
| **Investing activities:** | | | | | |
| Purchase of property, plant and equipment | | **(14,426)** | **(39,831)** | (26,154) | (69,909) |
| Proceeds from disposal of property, plant and equipment | | **255** | **5,844** | 515 | 999 |
| Purchase of intangible and other non-current assets | | **(2,868)** | **(4,076)** | (6,388) | (10,458) |
| Acquisition of Subsidiaries | | **(17,403)** | **(43,684)** | (17,377) | (17,377) |
| Disposal of Subsidiaries | | **8,050** | **8,641** | - | 403 |
| Purchase of investment in joint ventures | | **-** | **-** | (1,000) | (95,907) |
| **Net cash used in investing activities** | | **(26,392)** | **(73,106)** | **(50,404)** | **(192,249)** |
| **Financing activities:** | | | | | |
| Proceeds from short-term and long-term borrowings | | **24,450** | **601,555** | 224,774 | 1,084,900 |
| Repayment of short-term and long-term borrowings | | **(65,069)** | **(300,888)** | (408,845) | (733,580) |
| Acquisition of non-controlling interest | | **-** | **-** | - | (2,371) |
| **Net cash (used in)/generated by financing activities** | | **(40,619)** | **300,667** | **(184,071)** | **348,949** |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | **(8,937)** | **(8,862)** | (17) | (266) |
| Net increase in cash and cash equivalents | | **58,474** | **26,277** | 59,954 | 23,328 |
| Cash and cash equivalents, at the beginning of the period | | **40,508** | **72,705** | 45,903 | 82,529 |
| Cash and cash equivalents, at the end of the period | | **98,982** | **98,982** | 105,857 | 105,857 |

On behalf of the Board

**Andrey Verevskiy**
Chairman of the Board

**Anastasiia Usachova**
Chief Financial Officer

# Notes to the Condensed Consolidated Interim Financial Statements

for 3 months ended 31 March 2014

## 1. Corporate Information

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

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

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

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

As of 31 March 2014, 31 December 2013 and 31 March 2013, the primary subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

| | | | Group's effective ownership interest as of | | |
|---|---|---|---|---|---|
| Subsidiary | Principal activity | Country of incorporation | **31 March 2014** | 31 December 2013 | 31 March 2013 |
| Jerste BV | Holding companies. | Netherlands | **100.0%** | 100.0% | 100.0% |
| Tweelingen Ukraine LLC | | Ukraine | **100.0%** | 100.0% | N/A |
| Inerco Trade S.A. | Trading in sunflower oil, meal and grain. | Switzerland | **100.0%** | 100.0% | 100.0% |
| Restomon Ltd | | British Virgin Islands | **100.0%** | 100.0% | 100.0% |
| Kernel-Trade LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Poltava oil-crushing plant Kernel Group PJSC | Production plants. Production of sunflower oil and meal. | Ukraine | **99.7%** | 99.7% | 99.7% |
| Bandurskiy oil-crushing plant LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Vovchansky OEP PJSC | | Ukraine | **99.4%** | 99.4% | 99.4% |
| Prykolotnjansky OEP LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Kirovogradoliya JSC | | Ukraine | **99.2%** | 99.2% | 99.2% |
| Ekotrans LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Ukrainian Black Sea Industry LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Stavropol oil OJSC | | Russian Federation | **100.0%** | 100.0% | 100.0% |
| Ust-Labinsky EMEK Florentina CJSC | | Russian Federation | **100.0%** | 100.0% | 100.0% |
| Estron Corporation Ltd. | Provision of grain, oil and meal handling and transhipment services. | Cyprus | **100.0%** | 100.0% | 100.0% |
| Poltavske Khliboprieмalne Pidpriemstvo PJSC | Grain elevators. Provision of grain and oil-seed cleaning, drying and storage services. | Ukraine | **94.0%** | 94.0% | 94.0% |
| Kononivsky Elevator LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Unigrain-Agro (Globyno) LLC | Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seeds, barley, soya beans and sugar beet. | Ukraine | **0.0%**[1] | 100.0% | 100.0% |
| Unigrain-Agro (Semenivka) LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Agrofirma Arshytsya LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Hliborob LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Agrofirma Kuybyshevo LLC | | Ukraine | **65.6%** | 65.6% | 65.7% |
| Palmira LLC | | Ukraine | **93.0%** | 93.0% | 93.0% |
| Enselco Agro LLC | | Ukraine | **100.0%** | 100.0% | 100.0% |
| Druzhba-Nova ALLC | | Ukraine | **83.3%** | 83.3% | N/A |

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 26 May 2014.

[1] Merged with Unigrain-Agro (Semenivka) LLC on 14 January 2014.

## 2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding' or the 'Company'). The issued capital of the Company as of 31 March 2014 and 2013 consisted of 79,683,410 ordinary bearer shares without indication of a nominal value, providing 79,683,410 voting rights.

The shares were distributed as follows:

| | As of 31 March 2014 | | As of 31 March 2013 | |
|---|---|---|---|---|
| Equity holders | Shares allotted and fully paid | Share owned | Shares allotted and fully paid | Share owned |
| Namsen LTD (limited company registered under the legislation of Cyprus) | 31,182,711 | 39.13% | 30,460,657 | 38.23% |
| Free-float | 48,500,699 | 60.87% | 49,222,753 | 61.77% |
| Total | 79,683,410 | 100.00% | 79,683,410 | 100.00% |

As of 31 March 2014 and 2013, 100% of the beneficial interest in the 'Major Equity holder' was held by Verevskiy Andrey Mikhaylovich (hereinafter the 'Beneficial Owner').

On 23 November 2007, Kernel Holding was listed on the Warsaw Stock Exchange. The total size of the Offering was PLN 546,402 thousand, comprising 22,766,750 shares, of which 16,671,000 were newly issued shares. Prior to the IPO, the capital of Kernel Holding S.A. consisted of 46,670,000 (forty six million six hundred and seventy thousand) shares without indication of a nominal value. On 27 June 2008, an additional 5,400,000 ordinary bearer shares of the Group were admitted to trading on the main market of the WSE. On 3 June 2010, Kernel issued 4,450,000 new shares. In 2011, Kernel issued 6,492,410 new shares, 1,092,410 of which were subscribed by the stock option beneficiaries under the Management Incentive Plan at an issue price of PLN 24.

Luxembourg companies are required to allocate to the 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 125 thousand as of 31 March 2014, unchanged from 31 December 2012, may not be distributed as dividends.

## 3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies

These condensed consolidated interim financial statements for the 3 months ended 31 March 2014 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and do not include all of the information and disclosures required in the annual financial statements. The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013, except as required by new and amended standards and adopted changes in accounting policies, as described below.

### Adoption of New and Revised Standards

The Group has adopted the following new and amended standards:

- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits (as revised in 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- "Disclosures – Offsetting Financial Assets and Financial Liabilities" (Amendments to IFRS 7).
  The amendments to IFRS 7 were effective 1 January 2013
- Amendments to IFRS 1 (Government Loans)

The adoption of the new or revised Standards did not have any significant effect on the financial position or performance of the Group and did not result in any significant changes to the Group's accounting policies and the amounts reported in the three-month period ended 31 March 2014 or prior periods.

**3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies** (continued)

**Standards and Interpretations Not Yet Adopted**

The Group has not yet applied the following revised and amended standards, which are issued but not yet effective:

| Standard | Effective for annual accounting period beginning on or after |
|---|---|
| IAS 27 Separate Financial Statements (revised 2011) – Investment entities | 1 January 2014 |
| IAS 28 Investments in Associates and Joint Ventures | 1 January 2014 |
| IFRS 10 Consolidated Financial Statements | 1 January 2014 |
| IFRS 11 Joint Arrangements | 1 January 2014 |
| IFRS 12 Disclosure of Interests in Other Entities Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* | 1 January 2014 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" | 1 January 2014 |
| Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities) | 1 January 2014 |
| Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9 | 1 January 2015 |
| Amendments to IFRS 9 and 7 – "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | 1 January 2015 |
| Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)* | 1 January 2014 |
| Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)* | 1 January 2014 |
| IFRIC 21 Levies* | 1 January 2014 |
| IFRS 9 "Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition" | 1 January 2015 |
| Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee contribution* | |
| IFRS 14 "Regulatory Deferral Accounts"* | |
| Amendments to IFRSs – "Annual Improvements to IFRSs 2010-2012 Cycle"* | |
| Amendments to IFRSs – "Annual Improvements to IFRSs 2011-2013 Cycle"* | |

* Standards and interpretations not yet adopted by the European Union.

Management is currently evaluating the impact of the adoption of IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 9 "Financial Instruments", and amendment to IFRS 7 "Financial instruments: Disclosures".

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

**3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies** (continued)

**Change in Accounting Policy**

The Group changed its accounting policy regarding presentation of changes in the fair value of biological assets and agricultural produce in the Condensed Consolidated Interim Statement of Profit or Loss. This effect was previously presented in two parts as:

- "other operating income" (effect of revaluation of biological assets as of reporting date and agricultural produce as of the date of harvest to fair value); and
- "cost of sales" (reversal of the fair value effect related to agricultural produce sold in the reporting period).

In the current reporting period, these effects were presented as a single line item in the Condensed Consolidated Interim Statement of Profit or Loss - "Net change in fair value of biological assets and agricultural produce". Following this change, the Group also changed the presentation of the Condensed Consolidated Interim Statement of Cash Flows in order to reflect the full effect of the net change in the fair value of biological assets and agricultural produce as an adjustment to the "(Loss)/Profit before income tax" in the cash flows from operating activities.

This approach is most commonly used in the industry and the Group's management believes that this change in the accounting policy will result in the financial statements providing more relevant and reliable information about the effect of transactions on the Group's financial performance.

The effect of the retrospective application of this policy on the Condensed Consolidated Interim Statement of Profit or Loss was as follows:

| (in USD thousands) | 3 months ended 31 March 2014 (Unaudited) New Policy | 3 months ended 31 March 2014 (Unaudited) Old Policy | 3 months ended 31 March 2014 (Unaudited) Effect | 3 months ended 31 March 2013 (Unaudited) New Policy | 3 months ended 31 March 2013 (Unaudited) Old Policy | 3 months ended 31 March 2013 (Unaudited) Effect |
|---|---|---|---|---|---|---|
| Revenue | 675,010 | 675,010 | - | 597,491 | 597,491 | - |
| Net change in fair value of biological assets and agricultural produce | (15,333) | - | (15,333) | (2,044) | - | (2,044) |
| Cost of sales | (520,814) | (536,147) | 15,333 | (489,320) | (492,076) | 2,756 |
| Gross profit | 138,863 | 138,863 | - | 106,127 | 105,415 | 712 |
| Other operating income | (28,570) | (28,570) | - | 8,588 | 9,300 | (712) |
| Profit from operating activities | 9,618 | 9,618 | - | 25,827 | 25,827 | - |

The effect of the retrospective application of this policy on the Condensed Consolidated Interim Statement of Cash Flows was as follows:

| (in USD thousands) | 3 months ended 31 March 2014 (Unaudited) New Policy | 3 months ended 31 March 2014 (Unaudited) Old Policy | 3 months ended 31 March 2014 (Unaudited) Effect | 3 months ended 31 March 2013 (Unaudited) New Policy | 3 months ended 31 March 2013 (Unaudited) Old Policy | 3 months ended 31 March 2013 (Unaudited) Effect |
|---|---|---|---|---|---|---|
| Operating activities: | | | | | | |
| (Loss)/Profit before income tax | (36,967) | (36,967) | - | 343 | 343 | - |
| Adjustment for: | | | | | | |
| Net change in fair value of biological assets and agricultural produce | 15,333 | - | 15,333 | 2,044 | 1,682 | 362 |
| Operating profit before working capital changes | 25,902 | 10,569 | 15,333 | 48,956 | 48,594 | 362 |
| Changes in working capital: | | | | | | |
| Decrease in biological assets | (46,622) | (31,289) | (15,333) | (30,548) | (30,186) | (362) |
| Net cash generated by operating activities | 157,486 | 157,486 | - | 294,446 | 294,446 | - |

**3. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies** (continued)

**Relevant Exchange Rates**

The exchange rates used in preparation of these Condensed Consolidated Interim Financial Statements are as follows:

| Currency | Closing rate as of 31 March 2014 | Average rate for the 3 months ended 31 March 2014 | Average rate for the 9 months ended 31 March 2014 | Closing rate as of 31 March 2013 | Average rate for the 3 months ended 31 March 2013 | Average rate for the 9 months ended 31 March 2013 |
|---|---|---|---|---|---|---|
| USD/UAH | **10.9546** | **8.8627** | **8.2787** | 7.9930 | 7.9930 | 7.9930 |
| USD/EUR | **0.7274** | **0.7299** | **0.7399** | 0.7802 | 0.7574 | 0.7762 |
| USD/RUB | **35.6871** | **34.9591** | **33.4189** | 31.0834 | 30.4142 | 31.1715 |
| USD/PLN | **3.0344** | **3.0545** | **3.1118** | 3.2590 | 3.1476 | 3.2095 |

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

**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 the members of the Board of Directors of the Group are identified as the chief operating decision makers.

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

| Operating segments | Activities |
|---|---|
| Bottled sunflower oil | Production, refining, bottling, marketing and distribution of bottled sunflower oil. |
| Sunflower oil in bulk | Production and sales of sunflower oil in bulk (crude and refined) and meal. |
| Grain | Sourcing and merchandising of wholesale grain. |
| Export terminals | Grain handling and transshipment services in the ports of Ilyichevsk and Nikolayev. |
| Silo services | Provision of grain cleaning, drying and storage services. |
| Sugar | Marketing and distribution of sugar. |
| Farming | Agricultural farming. Production of wheat, barley, corn, soya bean, sunflower seed and sugar beet. |
| Other | Unallocated to other segments income and expenses, related to holdings administration. |

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 European Union.

The reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments.

The segment data is calculated as follows:

- The 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 the segments when possible.

Since financial management of the Group companies is carried out centrally, financial liabilities are not allocated directly to the respective operating segments and are presented in the segment entitled "Other". Consequently, the liabilities shown for the individual segments do not include financial liabilities.

### 4. Key Data by Operating Segment

Key data by operating segment for 3 months ended 31 March 2014:

| (in USD thousands) | Bottled sunflower oil | Sunflower oil in bulk | Export terminals | Farming | Grain | Silo services | Sugar | Other | Re-conciliation | Discontinued operations | Continuing operations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (external) | 32,677 | 310,024 | 695 | 10,642 | 308,510 | 3,286 | 9,579 | - | - | (403) | 675,010 |
| Intersegment sales | - | - | 12,541 | 24,291 | - | 9,830 | - | - | (46,662) | - | - |
| **Total revenue** | **32,677** | **310,024** | **13,236** | **34,933** | **308,510** | **13,116** | **9,579** | **-** | **(46,662)** | **(403)** | **675,010** |
| Net change in fair value of biological assets and agricultural produce | - | - | - | (15,333) | - | - | - | - | - | - | (15,333) |
| Other operating income/ (expenses) | 497 | 5,978 | 1 | 6,255 | 3,356 | 184 | 53 | (44,841) | - | (53) | (28,570) |
| **Operating income/ (expenses)** | **6,309** | **45,074** | **7,368** | **(33,870)** | **32,841** | **6,390** | **6** | **(54,961)** | **-** | **461** | **9,618** |
| Finance costs, net | | | | | | | | | | | (20,434) |
| Foreign exchange loss, net | | | | | | | | | | | (19,641) |
| Other expenses, net | | | | | | | | | | | (6,117) |
| Share of losses of joint ventures | | | | | | | | | | | (465) |
| Income tax benefit | | | | | | | | | | | 8,074 |
| Loss for the period from continuing operations | | | | | | | | | | | (28,965) |
| **Total assets** | **84,856** | **1,106,969** | **187,405** | **438,011** | **262,528** | **130,189** | **52,900** | **1,931** | **-** | **-** | **2,264,789** |
| Capital expenditures | 3 | 637 | 123 | 7,634 | - | 578 | - | 336 | - | - | 9,311 |
| Amortization and depreciation | 285 | 5,021 | 783 | 12,352 | - | 1,703 | - | 233 | - | - | 20,377 |
| Liabilities | 2,535 | 34,134 | 1,059 | 65,691 | 23,558 | 21,286 | 1,396 | 1,039,572 | - | - | 1,189,231 |

During 3 months ended 31 March 2014, one of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 92% 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 and sunflower oil in bulk segments in proportion to its production volumes for the reporting period.

The Group operates in two principal geographical areas – Ukraine and the Russian Federation. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of non-current assets are detailed below.

| | Revenue from external customers | Non-current assets |
|---|---|---|
| (in USD thousands) | 3 months ended 31 March 2014 | As of 31 March 2014 |
| Ukraine | 572,954 | 1,064,249 |
| Russian Federation | 102,056 | 27,914 |
| **Total** | **675,010** | **1,092,163** |

### 4. Key Data by Operating Segment (continued)

Key data by operating segment for 3 months ended 31 March 2013:

| (in USD thousands) | Bottled sunflower oil | Sunflower oil in bulk | Export terminals | Farming | Grain | Silo services | Sugar | Other | Re-conciliation | Discontinued operations | Continuing operations |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (external) | 40,413 | 303,012 | 585 | 3,676 | 239,154 | 2,867 | 8,230 | - | - | (446) | 597,491 |
| Intersegment sales | - | - | 8,461 | 8,351 | - | 7,751 | - | - | (24,563) | - | - |
| **Total revenue** | **40,413** | **303,012** | **9,046** | **12,027** | **239,154** | **10,618** | **8,230** | **-** | **(24,563)** | **(446)** | **597,491** |
| Net change in fair value of biological assets and agricultural produce | - | - | - | (2,044) | - | - | - | - | - | - | (2,044) |
| Other operating income/ (expenses) | 417 | 5,004 | - | (1,166) | 4,208 | 122 | 3 | - | | - | 8,588 |
| **Operating profit/(loss)** | **5,214** | **31,972** | **4,221** | **(13,074)** | **4,818** | **3,383** | **(1,121)** | **(10,871)** | **-** | **1,285** | **25,827** |
| Finance costs, net | | | | | | | | | | | (23,019) |
| Foreign exchange loss, net | | | | | | | | | | | (215) |
| Other expenses, net | | | | | | | | | | | (2,574) |
| Share of losses of joint venture | | | | | | | | | | | (9) |
| Income tax expenses | | | | | | | | | | | (5,654) |
| Loss for the period | | | | | | | | | | | (5,644) |
| **Total assets** | **88,986** | **1,100,853** | **257,038** | **401,948** | **427,146** | **174,026** | **101,500** | **6,289** | **-** | | **2,557,786** |
| Capital expenditures | 6 | 18 | 23 | 17,243 | - | 7,810 | - | 253 | - | | 25,353 |
| Amortization and depreciation | 596 | 4,517 | 825 | 9,546 | 21 | 1,911 | 975 | 857 | - | | 19,248 |
| Liabilities | 1,520 | 41,658 | 4,245 | 79,405 | 16,223 | 22,911 | 12,991 | 1,101,444 | - | | 1,280,397 |

During 3 months ended 31 March 2013, none of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 92% of total external sales.

As of 31 March 2013, the Group operated in two principal geographical areas – Ukraine and the Russian Federation. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of non-current assets are detailed below.

| | Revenue from external customers | Non-current assets |
|---|---|---|
| (in USD thousands) | 3 months ended 31 March 2013 | As of 31 March 2013 |
| Ukraine | 567,594 | 1,071,794 |
| Russian Federation | 29,897 | 54,705 |
| **Total** | **597,491** | **1,126,499** |

### 5. Acquisition and Disposal of Subsidiaries

No entities were acquired during 3 months periods ended 31 March 2014.

In February 2014 Kernel Holding S.A. sold one of its oilseed crushing plant located in the Russian Federation - the Nevinnomyssk oilseed crushing plant CJSC. The net assets of the disposed entity as of the date of disposal were equal to USD 10,700 thousand. Total cash considerations received for the Nevinnomyssk oilseed crushing plant CJSC was USD 8,050 thousand. Management is still in the process of assessing the preliminary results of the disposition.

In April 2012, the Group entered into a call option agreement with the purpose to acquire 100% of Stiomi Holding ("Stiomi") – a farming business located in the Khmelnytsk region of Ukraine. This acquisition has been accounted for as a business combination in March 2013 when the Group obtained control over the right to use the land. As of 31 March 2014, the consideration paid for Stiomi Holding by the Group and its related parties was USD 33,472 thousand. The amount payable to the Group's related parties for this acquisition was USD 5,284 thousand as of 31 March 2014. In the meantime, the final settlement on the purchase is subject to the ultimate resolution of the legal case between the Group and the sellers of Stiomi (Note 13). The fair value of acquired assets of Stiomi is USD 33,302 thousand, taking into consideration the devaluation of hryvnya as of 31 March 2014 the value is USD 24,300 thousand.

No entities were disposed during the 3 months ended 31 March 2013.

### 6. Property, Plant and Equipment, net

During 3 months ended 31 March 2014, the Group acquired property, plant and equipment amounting to USD 9,311 thousand (31 March 2013: USD 25,353 thousand). These purchases were related mainly to the construction of two silos and purchases of agricultural vehicles and equipment for the farming segment. Additionally, there was a decreasing effect on the net book value due to a normal depreciation charge.

The decrease in property, plant and equipment in amount of USD 68,961 thousand incurred because of existing translation difference caused by sharp depreciation of Ukrainian hryvnya in 3 months ended 31 March 2014.

### 7. Intangible Assets and Goodwill

The decrease in intangible assets as of 31 March 2014 in comparison with 31 December 2013 was mainly caused by the devaluation of UAH to USD which diminished value of intangible assets by USD 35,581 thousand. The decrease in goodwill as of 31 March 2014 caused by the devaluation of UAH to USD amounted to USD 16,436 thousand.

### 8. Short-term Borrowings

The balances of short-term borrowings were as follows:

| | As of 31 March 2014 | As of 31 March 2013 |
|---|---|---|
| Bank credit lines | 583,299 | 653,273 |
| Interest accrued on short-term loans | 1,282 | 1,379 |
| Interest accrued on long-term loans | 2,189 | 2,024 |
| Total | 586,770 | 656,676 |

The balances of short-term borrowings as of 31 March 2014 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---|---|---|---|
| European bank | LIBOR + 4.75% | USD | August 2014 | 299,000 |
| European bank | LIBOR + 3.75% | USD | June 2014 | 94,500 |
| Ukrainian subsidiary of European bank | LIBOR + 4.8% | USD | September 2014 | 65,000 |
| European bank | LIBOR + 7.5% | USD | October 2014 | 40,000 |
| Ukrainian subsidiary of European bank | 10.0% | USD | February 2015 | 35,000 |
| Ukrainian subsidiary of European bank | LIBOR + 8.0% | USD | July 2014 | 28,600 |
| European bank | LIBOR + 3.0% | USD | June 2014 | 19,000 |
| European bank | 3.75% | USD | October 2014 | 2,199 |
| Total bank credit lines | | | | 583,299 |
| Interest accrued on short-term loans | | | | 1,282 |
| Interest accrued on long-term loans | | | | 2,189 |
| Total | | | | 586,770 |

The balances of short-term borrowings as of 31 March 2013 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---|---|---|---|
| European bank | LIBOR + 4.75% | USD | August 2013 | 159,000 |
| European bank | LIBOR + 8.95% | USD | September 2013 | 100,000 |
| European bank | LIBOR + 3.75% | USD | June 2013 | 90,000 |
| Ukrainian subsidiary of European bank | LIBOR + 7.0% | USD | September 2013 | 80,000 |
| Ukrainian subsidiary of European bank | LIBOR + 4.8% | USD | September 2013 | 55,000 |
| Russian bank | 12.0% | RUB | June 2013 | 54,692 |
| Ukrainian subsidiary of European bank | 7.5% | USD | July 2013 | 35,000 |
| European bank | LIBOR + 7.5% | USD | November 2013 | 30,000 |
| Ukrainian subsidiary of European bank | LIBOR + 8.0% | USD | December 2013 | 30,000 |
| Ukrainian subsidiary of European bank | LIBOR + 5.0% | USD | November 2013 | 8,962 |
| Russian bank | 13.0% | RUB | August 2013 | 7,322 |
| Ukrainian subsidiary of European bank | LIBOR + 5.7% | USD | September 2013 | 3,297 |
| Total bank credit lines | | | | 653,273 |
| Interest accrued on short-term loans | | | | 1,379 |
| Interest accrued on long-term loans | | | | 2,024 |
| Total | | | | 656,676 |

As of 31 March 2014, the overall maximum credit limit for short-term bank credit lines amounted to USD 794,500 thousand (as of 31 March 2013: USD 1,394,858 thousand).

### 8. Short-term Borrowings (continued)

Short-term loans from banks were secured as follows:

| Assets pledged | As of 31 March 2014 | As of 31 March 2013 |
|---|---|---|
| Inventory | 589,766 | 281,926 |
| Property, plant and equipment | 55,836 | 123,670 |
| Intangible assets | - | 5,929 |
| Controlling stakes in Subsidiaries | Not quantifiable | Not quantifiable |
| Total | 645,602 | 411,525 |

### 9. Long-term Borrowings

The balances of long-term borrowings were as follows:

| | As of 31 March 2014 | As of 31 March 2013 |
|---|---|---|
| Long-term bank loans | 408,448 | 373,823 |
| Current portion of long-term borrowings | (92,668) | (61,014) |
| Total | 315,780 | 312,809 |

The balances of long-term borrowings as of 31 March 2014 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---|---|---|---|
| European bank | LIBOR + 8.0% | USD | August 2018 | 140,000 |
| European bank | LIBOR + 5.5% | USD | February 2016 | 72,000 |
| European bank | LIBOR + 6.25% | USD | January 2015 | 65,000 |
| Russian bank | LIBOR + 8.35% | USD | February 2016 | 48,000 |
| Ukrainian subsidiary of European bank | LIBOR + 7.5% | USD | November 2017 | 37,689 |
| European bank | LIBOR + 1.65% | USD | March 2020 | 18,507 |
| Ukrainian subsidiary of American bank | LIBOR + 4.5% | USD | January 2017 | 15,625 |
| European bank | LIBOR + 2.65% | USD | April 2015 | 11,627 |
| Total | | | | 408,448 |

### 9. Long-term Borrowings (continued)

The balances of long-term borrowings as of 31 March 2013 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---|---|---|---|---|
| European bank | LIBOR + 5.5% | USD | February 2016 | 90,000 |
| European bank | LIBOR + 6.25% | USD | January 2015 | 85,000 |
| Ukrainian subsidiary of European bank | LIBOR + 7.5% | USD | November 2017 | 82,447 |
| Russian bank | LIBOR + 8.35% | USD | March 2019 | 52,860 |
| Ukrainian subsidiary of American bank | LIBOR + 4.5% | USD | January 2017 | 25,000 |
| European bank | LIBOR + 3.52% | USD | April 2015 | 19,062 |
| Ukrainian subsidiary of American bank | LIBOR + 1.0% | USD | November 2017 | 14,104 |
| Ukrainian subsidiary of European bank | LIBOR + 11.2% | USD | August 2015 | 5,350 |
| Total | | | | 373,823 |

Long-term loans as of 31 March 2014 include credit lines from banks with the overall maximum credit limit of USD 408,448 thousand (as of 31 March 2013: USD 420,967 thousand).

Long-term loans from banks were secured as follows:

| Assets pledged | As of 31 March 2014 | As of 31 March 2013 |
|---|---|---|
| Property, plant and equipment | 144,232 | 220,243 |
| Controlling stakes in Subsidiaries | Not quantifiable | Not quantifiable |
| Total | 144,232 | 220,243 |

### 10. Income Tax

The Parent is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 22.47% as of 31 March 2014 (22.47% as of 31 March 2013). The corporate income tax rate in Ukraine, where the main operation of the Group is located, was 18% as of 31 March 2014 and 19% as of 31 March 2013.

The new Tax Code of Ukraine, which was enacted on 2 December 2010, introduced a gradual decrease in income tax rates, from 23% effective 1 April 2011 to 16%, effective 1 January 2014, as well as certain changes to the rules of income tax assessment effective 1 April 2011. In December 2013, the Government amended income tax rate effective 1 January 2014 from 16% to 18% with a gradual decrease to 16%, effective 1 January 2016. In March 2014, further amendments to the Tax Code cancelled the gradual decrease to 16%, setting the permanent corporate income tax rate at 18%, effective 1 January 2014. Consequently, the deferred income tax assets and liabilities as of 31 March 2014 were measured based on the revised income tax rates.

As of 31 March 2014, USD 33,533 thousand of prepaid corporate income tax was included in the Condensed Consolidated Interim Statement of Financial Position into the line ‘Other non-current assets’.

### 11. Other operating (expenses)/income

Other operating expenses include:

- USD 44,841 thousand in foreign exchange losses on the revaluation of outstanding VAT receivables following the sharp devaluation of the Ukrainian hryvnya in 3 months period ended 31 March 2014. As an exporter, the Group receives refunds of the VAT paid on inputs used in the production of exported goods. Because the Ukrainian government does not refund VAT immediately, respective VAT receivables, which are nominated in Ukrainian hryvnya, are booked in the line “Taxes recoverable and prepaid, net” in the Condensed Consolidated Interim Statement of Financial Position.
- USD 5,853 thousand income on crop production tax exemptions.

### 12. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

| | Related party balances | Total category as per consolidated statement of financial position | Related party balances | Total category as per consolidated statement of financial position |
|---|---|---|---|---|
| | As of 31 March 2014 | | As of 31 March 2013 | |
| Prepayments to suppliers and other current assets, net | **1,362** | **87,019** | 12,734 | 95,195 |
| Other non-current assets | **4,268** | **62,262** | 17,246 | 39,503 |
| Trade accounts payable | **1,207** | **59,587** | 3,425 | 49,264 |
| Advances from customers and other current liabilities | **29,248** | **93,629** | 85,910 | 155,789 |

As of 31 March 2014 and 31 March 2013, the Group did not create an allowance for the trade accounts receivable, prepayments made and other current assets from related parties.

For 3 months ended 31 March 2014, USD 17,403 thousand were repaid in cash to Namsen for the purchase of Stiomi Holding and Inter-Agro.

Advances from customers and other current liabilities as of 31 March 2014 include amounts due to Namsen Limited. This amount includes:

- USD 5,284 thousand for the purchase of Stiomi Holding;
- USD 20,043 thousand is a loan provided by Namsen to Inter-Agro Group.

Advances from customers and other current liabilities as of 31 March 2013 include amounts due to Namsen Limited. This amount includes:

- USD 18,025 thousand for the purchase of Stiomi Holding;
- USD 39,300 thousand for the purchase of Inter-Agro which is interest bearing at 4% per annum;
- USD 20,043 thousand is a loan provided by Namsen to Inter-Agro Group.

Transactions with related parties were as follows:

| | Amount of operations with related parties | Total category per consolidated income statement | Amount of operations with related parties | Total category per consolidated income statement |
|---|---|---|---|---|
| | 3 months ended 31 March 2014 | | 3 months ended 31 March 2013 | |
| Cost of sales | **(127)** | **(520,814)** | (61) | (489,320) |
| General, administrative and distribution expenses | **(5,141)** | **(100,675)** | (4,515) | (88,888) |
| Finance costs, net | **31** | **(20,434)** | 118 | (23,019) |

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties. For the 3 months ended 31 March 2014, distribution expenses include USD 2,727 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (as of 31 March 2013: USD 4,303 thousand). All other transactions occurred with related parties under common control.

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

As of 31 March 2014, the Board consists 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 (8 Directors) for 3 months ended 31 March 2014 amounted to USD 338.4 thousand (for 3 months ended 31 March 2013: 8 Directors, USD 247 thousand).

The non-executive directors also are refunded, to a reasonable extent, for any expenses incurred by them in performing their duties, including reasonable travelling expenses. Five 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 14 people, amounted to USD 537.5 thousand for 3 months ended 31 March 2014 (for 3 months ended 31 March 2013: 14 people, USD 449.7 thousand).

The Members of the Board of Directors and the Management Team members are not granted any pensions or retirement or similar benefits by the Group. The Management of the Group has been provided with options to purchase the shares of the Holding.

### 13. Commitments and Contingencies

In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 March 2014, the Group companies had ongoing litigations with the tax authorities mainly related to the disallowance of certain amounts of VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues. According to the assessment performed by the management of the Group, the maximum exposure of the Group to such risks as of 31 March 2014 amounted to USD 52,443 thousand (as of 31 March 2013, it amounted to USD 135,456 thousand). Out of this amount, USD 39,383 thousand relates to cases where court hearings took place and where the court in either the first or second instance already ruled in favor of the Group (as of 31 March 2013: USD 64,165 thousand). Management believes that based on 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.

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in the Khmelnitsk region of Ukraine with 79,200 hectares of land under management. Upon signing, the Sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 March 2014, the Group paid Stiomi Holding a consideration of USD 15,447 thousand. Final payment was due and payable only after the fulfillment of certain conditions to the satisfaction of the Group by 1 December 2013 and subject to the right to offset losses in respect to claims against the Sellers. Prior to December 2012, the Group submitted several claims to the Sellers in respect to non-fulfillment of the Seller's obligations. In December 2012, the Group received a Request for Arbitration from the Sellers in which the Sellers claimed amounts due to them. The arbitral tribunal has been formed, the parties have exchanged written statements of the case and directions for the next steps are awaited from the tribunal. The management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

Starting from 1 September 2013, Ukrainian legislation implemented new transfer pricing rules. These rules introduce additional reporting and documentation requirements to transactions with related parties. In accordance with the new rules, the tax authorities obtain additional tools with the help of which they may claim that prices or profitability in transactions with related parties differ from arm's length transactions. As the practice of implementation of the new transfer pricing rules has not yet developed and the wording of some clauses of the rules is unclear, the probability that the Group's transfer pricing positions may be challenged by the tax authorities cannot be reliably estimated as of the date of authorization of these consolidated financial statements for issue.

In accordance with the Tax Code of Ukraine issued in December 2010, the VAT rate should be decreased from the current effective 20% to 17% from 1 January 2014. In December 2013, according to the amendments made to the Tax Code, the decrease of the effective VAT rate from 20% to 17% was postponed from 1 January 2014 to 1 January 2015. In March 2014, the decrease of the effective VAT rate from 20% to 17% from 1 January 2015 was cancelled.

Since November 2013, Ukraine has been going through a political crisis.
On 22 February 2014, the Parliament of Ukraine voted for return to the 2004 Constitution and dismissal of the incumbent President. New presidential elections took place in May 2014 and a transitional Government formation has started.

In January-February 2014, the Ukrainian hryvnya devalued against the major world currencies and significant external financing was required to maintain its stability. The National Bank of Ukraine, among other measures, imposed certain temporary restrictions on processing client payments by banks and on the purchase of foreign currency in the inter-bank market. In February 2014, Ukraine's sovereign rating was downgraded to CCC with a negative outlook.

In March 2014, Crimea, an autonomous region of Ukraine, was effectively annexed by the Russian Federation. In April-May 2014, operating activities of the NBU, the banking system, and enterprises in general were additionally adversely affected by the separatist movements and the collapse of law and order enforcement in Luhansk and Donetsk regions.

Stabilization of the economy and the political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently unpredictable and their adverse affect on the Ukrainian economy may continue. The Group does not have any assets or activities in Crimea, Donetsk and Lugansk regions. Since the start of political crisis in Ukraine, the Group has been operating in the normal course of business.

#### Capital Commitments

As of 31 March 2014, the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 5,570 thousand (31 March 2013: USD 9,600 thousand) for the supply of equipment and services required for the construction of a new silo.

#### Contractual Commitments on Sales

As of 31 March 2014, the Group had entered into commercial contracts for the export of 455,400 tons of grain and 544,230 tons of sunflower oil and meal, corresponding to an amount of USD 113,969 thousand and USD 281,502 thousand, respectively, at prices as of 31 March 2014.

As of 31 March 2013, the Group had entered into commercial contracts for the export of 607,199 tons of grain and 204,717 tons of sunflower oil and meal, corresponding to an amount of USD 195,532 thousand and USD 110,725 thousand, respectively, at prices as of 31 March 2013.

### 14. Subsequent Events

On April 14, 2014, the European Council approved a proposal to remove import duties on Ukrainian exports to the EU for unrefined sunflower oil, the import duty would be cut from 2.9% to 0%; for refined sunflower oil (bottled or sold in bulk), the import duty would be cut from 6.1% to 0%.

The proposed changes also stipulate that the EU will establish new zero-duty import quotas for grain originating from Ukraine. Specifically, in addition to the existing reduced-duty import quotas for wheat and barley originating from any country in the total annual amount of 2.7 million tons, a specific zero-duty quota for wheat and barley originating from Ukraine would be set in the amount of total 1.2 million tons.

The regulation came into effect on 23 April 2014, the day following its publication in the Official Journal of the European Union, and to last until a Deep and Comprehensive Free Trade Agreement between Ukraine and EU becomes effective on or before November 1, 2014.

On 22 May, the government approved a resolution setting the parameters of a new special government bond issue intended to compensate for overdue VAT refunds due to local companies as of end-2013. The bonds will be amortized semi-annually at 10% (implying a total bond life of 5 years) and pay a semi-annual coupon equaling the NBU refinancing rate, currently at 9.5% p.a. The first tranche of UAH 5-7 billion is expected to be issued in June 2014. As at the exchange rate at the end of March, the Group is expected to qualify to receive bonds with a face value up to USD 25 million. This amount represents 15% of the total balance outstanding in Ukraine as of 31 March 2014, with the remainder relating mainly to the VAT generated after 1 January 2014.