

KERNEL HOLDING S.A.

OPERATIONS UPDATE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

Volume and tonnage	Q1 FY2017	Q1 FY2016	y-o-y
Grain sales, tons	1,182,572	927,446	27.5%
Sunflower oil sales in bulk, tons	167,267	158,150	5.8%
Bottled sunflower oil sales, '000 liters	22,322	17,683	26.2%
Oilseed crush, tons	279,951	417,902	(33.0%)
Export terminals' throughput, tons ⁽¹⁾	1,393,474	1,167,697	19.3%

(1) Including 473,779 tons transhipped through Taman port in Q1 FY2017 vs. 594,822 tons in Q1 FY2016, which represents 50% of the total throughput volume of the Taman facility. Kernel Holding S.A. owns a 50% stake in the Taman grain transshipment facility.
Note: The financial year ends 30 June.

Key highlights:

- Strong crop production both in Ukraine and Russia (up 6% and 10% y-o-y respectively) along with higher carried-over stock fueled our grain exports by 28% y-o-y in Q1 FY2017 to 1.2 million.
- Growing export sales of bottled oil was a primary driver to 26% y-o-y increase in volumes sold.
- Lower availability of sunflower seeds in the end of the marketing season resulted in 33% y-o-y decline of oilseeds crushed Q1 FY2017, while sizable brought forward sunflower oil stock resulted in a marginal 5.8% y-o-y increase in volumes of sunflower oil sold in bulk.
- Export terminal throughput rose 19% y-o-y to 1.4 million tons, reflecting growth in grain exports

Harvest update:

- Material increase in crop yields is attributable to continuous improvements in our production technology and favorable weather conditions during pollinating and ripping period.

	Acreage, thousand hectares			Net crop yield ⁽¹⁾ , tons/hectare		
	FY2017	FY2016	y-o-y	FY2017E	FY2016	y-o-y
Corn	138.3	160.7	(13.9%)	8.6	7.2	18.7%
Wheat	82.0	72.5	13.1%	5.9	5.1	15.1%
Sunflower	81.4	62.0	31.3%	3.0	2.8	9.5%
Soybean	58.2	66.9	(13.0%)	2.7	1.8	50.9%
Rapeseed	2.6	9.6	(72.4%)	3.4	4.4	(23.1%)
Other ⁽²⁾	17.8	14.2	25.7%			
Total	380.4	385.9	(1.4%)			

(1) Net crop yields are estimated based on 39% of corn, 98% sunflower seed, 89% soybean acreage harvested as of 21 October 2016, 100% for other crops.

(2) Includes barley, rye, oats, forage crops. Excludes fallow land.

Corporate and regulatory:

- In September 2016, Fitch Ratings upgraded Long-Term Local Currency IDR (LT LC IDR) of Kernel Holdings S.A. to B-, one notch above the sovereign LT LC IDR of 'CCC', reflecting Kernel's export-oriented business model and limited reliance on Ukrainian banking system. Kernel's Long-Term Foreign Currency IDR remains constrained by Ukraine's Country Ceiling of 'CCC', Fitch notes that having a debt service ratio above 1x sustainably for several years, could justify one-notch uplift in accordance with Fitch's criteria.
- In August 2016, Kernel renewed its sunflower oil pre-export credit facility with a syndicate of European banks. A one-year secured revolving facility with a limit of USD 300 million is used by the company to fund the working capital needs of its sunflower oil production export business in Ukraine.

Condensed consolidated financial statements for the three months ended 30 September 2016 will be published prior market opening on 30 November 2016.

For further information, please contact:

Jamil Zakaraiev

+38 044 461 88 01, ext. 70-44

j.zakaraiev@kernel.ua

Yuriy Kovalchuk

+38 044 461 88 01

y.kovalchuk@kernel.ua

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