

KERNEL

Q3 FY2017

Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017



Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017

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Management Discussion and Analysis

for the three months ended 31 March 2017

Key highlights

- In Q3 FY2017, revenues have marginally increased by 1% y-o-y to US\$615 million from previous year results, as a slight rebound in export prices was offset by lesser sales volumes in our key business lines. Export sales stood at 97% of total revenues.
- EBITDA decreased by 19% y-o-y to US\$80.8 million, reflecting lower sales volumes and increased competition across our key businesses.
- In Q3 FY2017, sunflower oil business continued to navigate in a challenging environment. Crushing margin remained at US\$89 per ton of bulk oil sold in Q3 FY2017, but still below US\$105 per ton achieved a year ago. In this intense competition, we managed to maintain nearly full utilization of our crushing facilities in Q3 FY2017, generating US\$30.5 million of EBITDA, for bulk and bottled oil, down 18% y-o-y.
- In Q3 FY2017, grain and infrastructure business delivered mixed performance. Grain exports remained comparable, down 2% y-o-y, to previous year record level of 1.4 million tons in Q3 FY2017, as we sustained utilization of our export terminals at almost full capacity. In contrast, an improved operating performance at Taman boosted our transshipment volumes to a new record of 1.6 million tons, up 10% y-o-y. Although, strong operating performance was offset by the thinner grain trading margins, resulting in US\$26.5 million of overall EBITDA contribution, 27% y-o-y decline.
- During 9M FY2017, the farming segment's earnings mirrored previous year results with EBITDA contribution at US\$138.8 million vs. US\$143.8 million for 9M FY2016, revenues being at a similar level of US\$343.7 million, down 2% y-o-y, and strong 41% EBITDA margins.
- In Q3 FY2017, net profit attributable to equity holders of Kernel Holding S.A. amounted to US\$32.9 million against US\$92.3 million a year ago, stemming from normalization of non-operating forex gains and write-off of amortized expenses on bank loans, which were repaid after Eurobond issue.

USD million except ratios and EPS	Q3 FY2017	Q3 FY2016	y-o-y	9M FY2017	9M FY2016	y-o-y
P&L highlights						
Revenue	615.0	607.2	1.3%	1,658.5	1,605.7	3.3%
EBITDA ⁽¹⁾	80.8	99.5	(18.8%)	282.9	300.8	(6.0%)
Net profit attributable to equity holders of Kernel Holding S.A.	32.9	92.3	(64.4%)	192.4	232.6	(17.3%)
EBITDA margin	13.1%	16.4%	(3.3pp)	17.1%	18.7%	(1.6pp)
Net margin	5.3%	15.2%	(9.9pp)	11.7%	14.6%	(2.9pp)
EPS ⁽²⁾ , USD	0.41	1.16	(64.8%)	2.40	2.92	(17.8%)
Cash flow highlights						
Operating profit before working capital changes	97.5	144.3	(32.4%)	267.9	365.3	(26.7%)
Change in working capital	118.9	67.0	77.5%	(240.5)	(226.4)	6.2%
Cash generated from operations	216.4	211.4	2.4%	27.3	138.9	(80.3%)
Net cash generated by/(used in) operating activities	199.9	200.3	(0.2%)	(17.8)	97.3	n/m
Net cash used in investing activities	(9.7)	(35.6)	(72.8%)	(60.1)	(57.1)	5.3%
Liquidity and credit metrics						
Net interest-bearing debt				370.4	305.1	21.4%
Readily marketable inventories				429.8	180.9	2.4x
Adjusted net debt ⁽³⁾				(59.4)	124.2	n/m
Shareholders' equity				1,129.4	952.7	18.5%
Net debt/EBITDA ⁽⁴⁾				1.1x	0.8x	0.3x
Adjusted net debt/EBITDA ⁽³⁾				(0.2x)	0.3x	(0.5x)
EBITDA/Interest ⁽⁵⁾				5.3x	6.5x	(1.1x)

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

2 EPS is measured in US Dollars per share based on 80.7 (80.1) million shares for Q3 FY2017 (9M FY2017), and 79.7 million shares for Q3 FY2016 and 9M FY2016.

3 Adjusted net financial debt is net debt minus readily marketable inventories. Adjusted net debt/EBITDA is calculated based on 12-month trailing EBITDA.

4 Net debt/EBITDA is calculated based on 12-month trailing EBITDA.

5 EBITDA/Interest is calculated based on 12-month trailing EBITDA and net finance costs.

Note: Our financial year ends 30 June. Differences are possible due to rounding.

Management Discussion and Analysis

for the three months ended 31 March 2017

Segment results summary

	Revenue, USD million			EBITDA, USD million			Volumes, thousand tons			EBITDA margin	
	Q3 FY2017	Q3 FY2016	y-o-y	Q3 FY2017	Q3 FY2016	y-o-y	Q3 FY2017	Q3 FY2016	y-o-y	Q3 FY2017	Q3 FY2016
Sunflower oil											
Sunflower oil sold in bulk	300.1	317.0	(5.3%)	26.1	33.6	(22.3%)	293.8	319.9	(8.2%)	8.7%	10.6%
Bottled sunflower oil	37.9	30.3	25.1%	4.4	3.7	18.9%	34.6	28.6	21.0%	11.6%	12.2%
	338.0	347.3	(2.7%)	30.5	37.3	(18.2%)				9.0%	10.7%
Grain and infrastructure											
Grain trading	268.0	255.3	5.0%	5.3	21.3	(75.1%)	1,390.2	1,414.9	(1.7%)	2.0%	8.3%
Export terminals	15.5	18.1	(14.4%)	12.5	12.0	4.2%	1,614.1	1,471.5	9.7%	80.6%	66.3%
Silo services	12.6	5.3	2.4x	8.7	3.1	2.8x				69.0%	58.5%
	296.1	278.7	6.2%	26.5	36.4	(27.2%)				8.9%	13.1%
Farming	72.5	10.1	7.2x	5.3	8.1	(34.6%)				7.3%	80.2%
Unallocated corporate expenses				(10.2)	(7.0)	45.7%					
Reconciliation	(91.6)	(28.9)	3.2x	28.7	24.7						
Total	615.0	607.2	1.3%	80.8	99.5	(18.8%)				13.1%	16.4%

	Revenue, USD million			EBITDA, USD million			Volumes, thousand tons			EBITDA margin	
	9M FY2017	9M FY2016	y-o-y	9M FY2017	9M FY2016	y-o-y	9M FY2017	9M FY2016	y-o-y	9M FY2017	9M FY2016
Sunflower oil											
Sunflower oil sold in bulk	783.7	803.8	(2.5%)	66.3	91.5	(27.5%)	802.1	775.1	3.5%	8.5%	11.4%
Bottled sunflower oil	98.5	84.7	16.3%	11.6	14.1	(17.7%)	92.2	77.3	19.3%	11.8%	16.6%
	882.2	888.5	(0.7%)	77.9	105.6	(26.2%)				8.8%	11.9%
Grain and infrastructure											
Grain trading	744.8	690.1	7.9%	20.6	42.9	(52.0%)	4,103.0	3,665.2	11.9%	2.8%	6.2%
Export terminals	44.3	44.6	(0.7%)	36.4	29.1	25.1%	4,669.6	4,334.9	7.7%	82.2%	65.2%
Silo services	55.4	36.5	51.8%	38.8	23.7	63.7%				70.1%	65.0%
	844.5	771.2	9.5%	95.8	95.7	0.1%				11.3%	12.4%
Farming	343.7	351.6	(2.2%)	138.8	143.8	(3.5%)				40.4%	40.9%
Unallocated corporate expenses				(26.1)	(23.5)	11.1%					
Reconciliation	(411.9)	(405.6)	1.6%	(3.5)	(20.8)						
Total	1,658.5	1,605.7	3.3%	282.9	300.8	(6.0%)				17.1%	18.7%

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

1 million liters

2 including 438,115 transshipped through Taman port in Q3 FY2017 and 271,202 in Q3 FY2016 (Kernel's share in the joint venture)

3 including 1,328,777 transshipped through Taman port in 9M FY2017 and 1,402,345 in 9M FY2016 (Kernel's share in the joint venture)

Sunflower oil sold in bulk

- Sunflower oil sales in bulk decreased 8% y-o-y to 293.8 thousand tons in Q3 FY2017, as we shifted some of the volumes to the fourth quarter of the current financial year. Moreover, oilseeds crush increased 22% y-o-y to a notable 860.6 thousand tons in Q3 FY2017, with the growth reflecting near full utilization of our crushing capacities.
- During Q3 FY2017, slightly improved sales prices, up 3% y-o-y, offset the decline in volumes. This led to only negligible weakening of revenues to US\$ 300 million vs. US\$317 achieved a year ago. While competition continued its momentum, we managed to maintain our EBITDA margin at US\$89 per ton of bulk oil sold in Q3 FY2017, but still markedly lower than US\$105 per ton reached in previous year.
- As a result, the segment's EBITDA was down 22% y-o-y to US\$26 million in Q3 FY2017.

Bottled sunflower oil

- Bottled oil sales posed a hefty 21% y-o-y growth to 34.6 million liters in Q3 FY2017, as we continued to accelerate our exports to compensate for the sluggish domestic demand. Due to a combination of increased volumes and somewhat improved sales prices, bottled oil revenues increased by 25% y-o-y, to US\$37.9 million in Q3 FY2017.
- The bottled oil segment's EBITDA margin remained relatively unchanged, down 2% y-o-y, at US\$ 126 per thousand liters, as we boosted exports of branded products. Consequently, the segment's total EBITDA was US\$ 4.4 million in Q3 FY2017, up 19% y-o-y.

Management Discussion and Analysis

for the three months ended 31 March 2017

Grain trading

- During Q3 FY2017, grain exports remained at an insignificantly lower level of 1.4 million tons, down 2% y-o-y, as we continued to utilize our export terminals at virtually full capacity.
- Revenues for the Q3 FY2017 improved by 5% y-o-y to US\$268 million, owing to small increase in international grain prices, up 7% y-o-y. In Q3 FY2017, an increased demand for grain exports has fueled farmers' anticipation of further price increases leading to their unwillingness to sell the crops. This resulted in EBITDA margin contraction from abnormally high levels of US\$ 15 per ton last year to US\$ 4 per ton in Q3 FY2017. Consequently, segment's total EBITDA contribution stood at US\$5.3 million vs. US\$21.3 million in previous year.

Export terminals

- The export terminals' operating performance was set to continue its track record with throughputs up by 10% y-o-y, reaching an all-time high of 1.6 million tons in Q3 FY2017, stemming from utilization of Ukrainian facilities at full capacity and boosted results of Taman.
- A combination of accelerated volumes and solid margins of US\$10.6 per ton in Q3 FY2017 (vs. US\$10 per ton a year ago) have translated into 4% y-o-y increase in an overall EBITDA contribution, amounting to US\$ 12.5 million. Taman operating results, accounted below operating profit, totaled to a loss of US\$0.6 million in Q3 FY2017 vs a gain of US\$ 1.2 million last year.

Silo services

- In Q3 FY2017, our silo services segment continued to deliver outstanding results of US\$ 12.3 million in revenues, up 2.4x y-o-y, and EBITDA of US\$ 8.7 million, up 2.8x y-o-y as a relatively wet harvesting campaign significantly elevated demand for grain drying services and increased third-party farmers' use of off-farm storage.

Farming

- 9M FY2017, revenues stood at a solid US\$ 343.7 million, down 2% y-o-y, due to a slightly higher share of harvest contracted for sales in the last quarter of the financial year. Segment's EBITDA margins for 9M FY2017 remained at a healthy 41%, thus yielding US\$ 138.8 million in EBITDA, down 3% y-o-y, reflecting normalization of the cost base.
- By the end of May, we completed our spring planting campaign in normal weather conditions. Total FY2018 planted acreage stands at 381.9 thousand hectares, negligibly lower than 385.6 thousand hectares a year ago. Crop mix remained virtually unchanged for FY2018 with winter wheat at 22% (vs. 21% in FY2017), corn - 37% (vs. 36% in FY2017), sunflower - 22% (vs. 21% in FY2017). Acreage under soybeans decreased to 12% in FY2018 (vs. 15% in FY2017) and rapeseed increased to 1.9% (vs. 0.7% in FY2017) of total areas in FY2018.

Management Discussion and Analysis

for the three months ended 31 March 2017

Income statement highlights

- Revenues stood at US\$ 615 million, up 1% y-o-y, as a slight increase in export prices was offset by lower sales volumes during Q3 FY2017. Export sales amounted to 97% of total revenues.
- The net change in the fair value of biological assets and agricultural produce (IAS 41 effect) was negative at US\$15.8 million in Q3 FY2017 (compared to negative US\$ 16.8 million in Q3 FY2016). As at last year, the IAS 41 effect in the third quarter reflected the expense of the fair value gain component booked during crop development in previous periods.
- Gross profit decreased 12% y-o-y to US\$125 million in Q3 FY2017 compared to US\$142 million a year ago, primarily driven by headwinds experienced by crushing and grain businesses.
- Other operating income amounted to US\$2.7 million in Q3 FY2017 (vs. US\$5.7 million in previous year), with the most contribution stemming from VAT benefits offset by a loss on operating forex.
- Distribution costs were down 8% y-o-y to US\$44.4 million in Q3 FY2017 amid lower sales volumes. As a percentage of revenues, distribution costs amounted to 7% in Q3 FY2017 compared to 8% a year ago.
- General administrative expenses increased 15% y-o-y to US\$16.1 million in Q3 FY2017, owing to increased payroll.
- Profit from operating activities was down 21% y-o-y to US\$67.2 million, reflecting the challenging performance of our segments as discussed above.
- Net finance costs increased 44% y-o-y to US\$21.5 million in Q3 FY2017, stemming from write-off of amortized expenses on repaid bank loans.
- Foreign exchange loss amounted to US\$1.6 million vs. a gain of US\$39.5 million a year ago, reflecting stabilization of Ukrainian currency, and lower revaluation results of intragroup balances.
- Other expenses amounted to US\$2.7 million in Q3 FY2017, down from US\$5.7 million incurred during previous year, with lower fines and fees incurred.
- As a result, net income attributable to equity holders of Kernel Holding S.A. amounted to US\$32.9 million in Q3 FY2017 compared to US\$92.3 million achieved in previous year, with significant effect stemming from a decrease in non-operating forex gains and increased financial costs.

Cash flow highlights

- Operating cash flow before changes in working capital was US\$97.5 million in Q3 FY2017 (vs. US\$144.3 million a year ago). Cash flow was notably higher than EBITDA due to lower monetary financial costs and adjustment for a non-cash IAS 41 operating loss.
- Working capital seasonally decreased, resulting in a positive operating cash flow of US\$118.9 million in Q3 FY2017 (vs. US\$67 million in Q3 FY2016), as the period followed the peak of the procurement season in November-December. Consequently, net cash obtained from operations in Q3 FY2017 stood at a solid US\$199.9 million, unchanged y-o-y.
- Net cash used in investing activities was only US\$9.7 million in Q3 FY2017 as opposed to US\$35.6 million last year, as we focused on maintenance capital expenditures in the quarter under review.

Credit metrics highlights

- Driven by a robust operating performance and obtained financial flexibility, we maintained similar net debt level in Q3 FY2017 of US\$370.4 million vs. US\$305.1 million previous year. Furthermore, all of the indebtedness was comfortably covered by readily marketable inventories such as corn, wheat, sunflower oil and sunflower seed with a total value of US\$429.8 million.

Credit metrics

USD million except ratios	31 Mar 2017	31 Mar 2016	y-o-y
Gross interest-bearing debt	575.2	442.2	30.1%
Cash and cash equivalents	204.7	137.1	49.3%
Net interest-bearing debt	370.4	305.1	21.4%
Readily available inventories	429.8	180.9	2.4x
Adjusted net interest-bearing debt ⁽¹⁾	(59.4)	124.2	n/m
Shareholders' equity ⁽²⁾	1,129.4	952.7	18.5%
Net debt/EBITDA ⁽³⁾	1.1x	0.8x	0.3x
Adjusted net debt/EBITDA ⁽³⁾	(0.2x)	0.3x	(0.5x)
EBITDA/Interest ⁽⁴⁾	5.3x	6.5x	(1.2x)

1 for details for Adjusted net debt calculation, please refer to 'Alternative Performance Measures' section of this report on page 7.

2 Total equity attributable to Kernel Holding S.A. shareholders

3 for details for Net debt calculation, please refer to 'Alternative Performance Measures' section of this report on page 7.

4 for details for EBITDA/Interest calculation, please refer to 'Alternative Performance Measures' section of this report on page 7.

Note: Differences are possible due to rounding

Alternative Performance Measures

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

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

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

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

EBITDA and EBITDA margin

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

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

The following table reconciles profit from continued operations to EBITDA for the periods indicated:

	3 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2017	9 months ended 31 March 2016
Profit for the period from continuing operations	33,403	100,682	194,701	253,547
<i>plus:</i> Income tax	(7,490)	(4,657)	(14,196)	(7,004)
Financial costs, net	(21,482)	(14,919)	(47,373)	(42,734)
Foreign exchange (loss)/gain, net	(1,642)	39,502	14,451	54,260
Other (expenses)/income, net	(2,650)	(5,653)	2,845	(10,791)
Share of (loss)/gain of joint ventures	(641)	1,204	(2,959)	3,363
Depreciation & Amortization	(13,403)	(14,266)	(41,013)	(44,335)
EBITDA	80,711	99,471	282,946	300,788

EBITDA and EBITDA margin have limitations as analytical tools, and investors should not consider these measures in isolation or in any combination with other Supplemental Non-IFRS Measures as a substitute for analysis if the Group's operating results as reported under IFRS. Some of these limitations are as follows:

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

Alternative Performance Measures

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

Working Capital

The Group uses working capital as a measure of its efficiency and short-term liquidity and which is defined as current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term bank borrowings, current portion of long-term borrowings and current portion of obligations under finance lease).

Fixed Assets Investments

The Group uses fixed assets investments as a measure of its expenditures on fixed assets maintenance and which is defined as Net cash used in investing activities less purchase of intangible assets and other non-current assets, less acquisition of subsidiaries, less disposal of subsidiaries, less amount advanced for subsidiaries and less purchase of financial assets.

The following table reconciles total current assets to working capital for the periods indicated:

	As of 31 March 2017	As of 31 March 2016
Total current assets	1,161,506	804,093
<i>less:</i> Cash and cash equivalents	204,703	137,102
Assets classified as held for sale	—	1,981
Total current liabilities	222,310	506,964
<i>plus:</i> Short-term borrowings	55,139	307,773
Current portion of long-term borrowings	12,751	52,086
Current portion of obligations under finance lease	2,908	4,515
Working capital	805,291	522,420

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

	3 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2017	9 months ended 31 March 2016
Net cash used in investing activities	(9,659)	(35,643)	(60,100)	(57,096)
<i>less:</i> Purchase of intangible and other non-current assets	(186)	11	(583)	(500)
Disposal of subsidiaries	—	3,433	2,439	4,426
Acquisition of subsidiaries	—	(37,447)	—	(51,066)
Amounts advanced for subsidiaries	—	1,083	5,273	4,250
Purchases of financial assets	(1,340)	—	(37,664)	—
Fixed assets investments	(8,133)	(2,723)	(29,565)	(14,206)

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

	3 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2017	9 months ended 31 March 2016
Net cash used in investing activities	(9,659)	(35,643)	(60,100)	(57,096)
<i>less:</i> Purchase of property, plant and equipment	(8,649)	(3,446)	(31,153)	(16,114)
Proceeds from disposal of property, plant and equipment	516	723	1,588	1,908
Investing cash flows	(1,526)	(32,920)	(30,535)	(42,890)

Alternative Performance Measures

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

Funds from Operations

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

Free Cash Flows

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

The following table reconciles profit from continuing operations to funds from operations for the periods indicated:

	3 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2017	9 months ended 31 March 2016
Net profit from continuing operations	33,403	100,682	194,701	253,547
<i>plus:</i> Income tax	(7,490)	(4,657)	(14,196)	(7,004)
Financial costs, net	(21,482)	(14,919)	(47,373)	(42,734)
Foreign exchange (loss)/gain, net	(1,642)	39,502	14,451	54,260
Other (expenses)/income, net	(2,650)	(5,653)	2,845	(10,791)
Share of (loss)/gain of joint ventures	(641)	1,204	(2,959)	3,363
Depreciation & Amortization	(13,403)	(14,266)	(41,013)	(44,335)
EBITDA	80,711	99,471	282,946	300,788
<i>less:</i> Purchase of property, plant and equipment	(8,649)	(3,446)	(31,153)	(16,114)
Proceeds from disposal of property, plant and equipment	516	723	1,588	1,908
Finance costs paid	(14,734)	(10,655)	(40,163)	(38,975)
Income tax paid	(1,818)	(406)	(4,947)	(2,675)
<i>less: Other non-cash items, incl.:</i>	16,838	38,138	(15,136)	55,411
Result from discontinued operations	—	(8,202)	—	(18,540)
Movement in allowance for doubtful receivables	1,652	351	4,337	1,653
Net change in fair value of biological assets and agriproduce	15,815	16,791	(19,250)	11,615
Net non-realizable foreign exchange loss	352	32,907	1,171	57,507
Other accruals	675	939	1,925	7,379
Other	(1,656)	(4,648)	(3,319)	(4,203)
Funds from operations	72,864	123,825	193,135	300,343

The following table reconciles profit from continuing operations to free cash flows for the periods indicated:

	3 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2017	9 months ended 31 March 2016
Profit for the period from continuing operations	33,403	100,682	194,701	253,547
<i>plus:</i> Income tax	(7,490)	(4,657)	(14,196)	(7,004)
Financial costs, net	(21,482)	(14,919)	(47,373)	(42,734)
Foreign exchange (loss)/gain, net	(1,642)	39,502	14,451	54,260
Other (expenses)/income, net	(2,650)	(5,653)	2,845	(10,791)
Share of (loss)/gain of joint ventures	(641)	1,204	(2,959)	3,363
Depreciation & Amortization	(13,403)	(14,266)	(41,013)	(44,335)
EBITDA	80,711	99,471	282,946	300,788
<i>less:</i> Cash used in investing activities	(9,659)	(35,643)	(60,100)	(57,096)
Finance costs paid	(14,734)	(10,655)	(40,163)	(38,975)
Income tax paid	(1,818)	(406)	(4,947)	(2,675)
Changes in working capital	118,861	67,005	(240,545)	(226,405)
<i>less: Other non-cash items, incl.:</i>	16,838	38,138	(15,136)	55,411
Result from discontinued operations	—	(8,202)	—	(18,540)
Movement in allowance for doubtful receivables	1,652	351	4,337	1,653
Net change in fair value of biological assets and agriproduce	15,815	16,791	(19,250)	11,615
Net non-realizable foreign exchange loss	352	32,907	1,171	57,507
Other accruals	675	939	1,925	7,379
Other	(1,656)	(4,648)	(3,319)	(4,203)
Free cash flows	190,199	157,910	(77,945)	31,048

Alternative Performance Measures

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

Readily Marketable Inventories

The Group uses Readily marketable inventories (hereinafter 'RMI'), as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements. The Group defines RMI as agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil, which the Group treats as readily convertible into cash because of their commodity characteristics and widely available markets and international pricing mechanisms, carried at cost. Usually, approximately 90% of the Group's key inventories can be traded and approximately 75% of its subsequent year crop to be harvested is directly hedged with futures and forward contracts as well as options, prior to harvesting.

Factors, which the Group considers when classifying inventory as RMI include weather there is an ascertainable price for the inventory established via international pricing mechanism, there are widely available and liquid mar-

kets for the inventory, the pricing and margins on the inventory are hedged through forward sales and can be identified and appropriately valued, there is stable and/or predictable end-user demand for the inventory and the inventory is not perishable in short-term.

Interest-bearing Debt

The Group defines interest-bearing debt as the measure of its leverage and indebtedness, which consists of gross interest-bearing debt, net interest-bearing debt and adjusted interest bearing debt. The Group defines gross interest-bearing debt as the sum of short-term borrowings, current portion of long-term borrowings, long-term borrowings and present value of lease obligations. Moreover, the Group defines net interest-bearing debt as gross interest-bearing debt less cash and cash equivalents. Additionally, the Group defines adjusted net interest-bearing debt, as net interest-bearing debt less readily marketable inventories.

The following table shows the Group's key inventories considered eligible for RMI by type and the amounts of such inventory that the Group treats as RMI as at the periods indicated:

	As of 31 March 2017	As of 31 March 2016
Sunflower oil & meal	164,611	89,842
Sunflower seeds for production	120,831	35,351
Grains	138,999	54,777
Other	115,320	91,419
Total	539,761	271,389
<i>of which:</i> Readily marketable inventories	429,831	180,853

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

	As of 31 March 2017	As of 31 March 2016
Short-term interest bearing debt	67,890	359,859
Long-term interest bearing debt	501,085	74,920
Obligations under finance lease	6,177	7,375
Gross interest-bearing debt	575,152	442,154
Cash and cash equivalents	204,703	137,102
Net interest-bearing debt	370,449	305,052
Readily marketable inventories	429,831	180,853
Adjusted net interest-bearing debt	(59,382)	124,199

Selected Financial Data

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016	31 March 2017	31 March 2016
I. Revenue	615,009	607,179	2,497,921	2,400,482	577,616	550,529
II. Profit from operating activities	67,308	85,205	273,378	336,858	63,216	77,255
III. Profit before income tax	40,893	105,339	166,091	416,458	38,407	95,511
IV. Profit for the period from continuing operations	33,403	100,682	135,670	398,046	31,372	91,288
V. Net cash generated by operating activities	199,858	200,291	811,743	791,850	187,707	181,604
VI. Net cash used in investing activities	(9,659)	(35,643)	(39,231)	(140,915)	(9,072)	(32,318)
VII. Net cash used in financing activities	(50,211)	(138,644)	(203,937)	(548,128)	(47,158)	(125,708)
VIII. Total net cash flow	139,988	26,004	568,575	102,807	131,477	23,578
IX. Total assets	1,917,498	1,589,730	7,565,488	5,975,795	1,792,861	1,400,075
X. Current liabilities	222,310	506,964	877,124	1,905,678	207,860	446,483
XI. Non-current liabilities	562,138	128,718	2,217,915	483,851	525,599	113,362
XII. Issued capital	2,131	2,104	8,408	7,909	1,992	1,853
XIII. Total equity	1,133,050	954,048	4,470,449	3,586,266	1,059,402	840,230
XIV. Number of shares	80,701,230	79,683,410	80,701,230	79,683,410	80,701,230	79,683,410
XV. Profit per ordinary share (in USD/PLN/EUR)	0.41	1.16	1.66	4.58	0.38	1.05
XVI. Diluted number of shares	82,749,426	81,417,875	82,749,426	81,417,875	82,749,426	81,417,875
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	0.40	1.13	1.62	4.48	0.37	1.03
XVIII. Book value per share (in USD/PLN/EUR)	13.99	11.96	55.20	44.94	13.08	10.53
XIX. Diluted book value per share (in USD/PLN/EUR)	13.65	11.70	53.86	43.99	12.76	10.31

Condensed Consolidated Interim Statement of Financial Position

as of 31 March 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 March 2017	As of 31 December 2016	As of 30 June 2016	As of 31 March 2016
Assets					
Current assets					
Cash and cash equivalents	6	204,703	68,906	60,372	137,102
Trade accounts receivable, net		130,247	125,426	75,207	138,046
Prepayments to suppliers and other current assets, net	20	72,652	81,248	52,983	59,608
Corporate income tax prepaid	19	6,615	6,519	7,400	8,534
Taxes recoverable and prepaid, net	7	132,213	199,636	130,378	163,577
Inventory	8	539,761	616,096	200,213	271,389
Biological assets		44,681	27,970	190,312	23,856
Assets classified as held for sale		—	—	3,602	1,981
Other financial assets	11	30,634	29,250	—	—
Total current assets		1,161,506	1,155,051	720,467	804,093
Non-current assets					
Property, plant and equipment, net	9	517,807	522,626	538,728	551,993
Intangible assets, net		29,864	31,512	36,818	39,890
Goodwill		120,276	120,124	121,912	109,377
Investments in joint ventures	10	49,205	49,846	52,164	48,925
Deferred tax assets		12,328	12,817	20,161	10,684
Corporate income tax prepaid	19	6,632	11,455	8,056	12,620
Other non-current assets	20	19,880	17,117	11,049	12,148
Total non-current assets		755,992	765,497	788,888	785,637
Total assets		1,917,498	1,920,548	1,509,355	1,589,730
Liabilities and equity					
Current liabilities					
Trade accounts payable		51,043	41,685	41,910	44,626
Advances from customers and other current liabilities	20	103,377	110,494	76,945	102,479
Short-term borrowings	11	55,139	492,867	179,615	307,773
Current portion of long-term borrowings	12	12,751	76,460	74,835	52,086
Total current liabilities		222,310	721,506	373,305	506,964
Non-current liabilities					
Long-term borrowings	12	8,002	46,177	81,841	74,920
Obligations under finance leases		3,269	3,679	2,275	2,860
Deferred tax liabilities		19,594	18,897	17,143	19,095
Bonds issued	13	493,083	—	—	—
Other non-current liabilities	20	38,190	38,317	37,736	31,843
Total non-current liabilities		562,138	107,070	138,995	128,718
Equity attributable to Kernel Holding S.A. equity holders					
Issued capital	2	2,131	2,131	2,104	2,104
Share premium reserve		471,796	471,796	463,879	463,879
Additional paid-in capital		39,944	39,944	39,944	39,944
Equity-settled employee benefits reserve		8,148	7,315	6,582	6,173
Revaluation reserve		43,815	43,815	43,815	39,456
Translation reserve		(738,180)	(745,002)	(691,885)	(737,183)
Retained earnings		1,301,699	1,268,767	1,130,890	1,138,358
Total equity attributable to Kernel Holding S.A. equity holders		1,129,353	1,088,766	995,329	952,731
Non-controlling interests		3,697	3,206	1,726	1,317
Total equity		1,133,050	1,091,972	997,055	954,048
Total liabilities and equity		1,917,498	1,920,548	1,509,355	1,589,730
Book value		1,129,353	1,088,766	995,329	952,731
Number of shares	2	80,701,230	80,701,230	79,683,410	79,683,410
Book value per share (in USD)		13.99	13.49	12.49	11.96
Diluted number of shares		82,749,426	82,011,841	81,384,851	81,417,875
Diluted book value per share (in USD)		13.65	13.28	12.23	11.70

On behalf of the Board
Andriy Verevskyi
 Chairman of the Board

Anastasiia Usachova
 Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 31 March 2017	9 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2016
Revenue	14, 20	615,009	1,658,353	607,179	1,605,728
Net change in fair value of biological assets and agricultural produce		(15,815)	19,250	(16,791)	(11,615)
Cost of sales	15, 20	(474,151)	(1,300,768)	(448,535)	(1,211,844)
Gross profit		125,043	376,835	141,853	382,269
Other operating income, net	16	2,726	33,434	5,732	42,972
Operating expenses					
Distribution costs	20	(44,354)	(125,549)	(48,414)	(126,542)
General and administrative expenses	20	(16,107)	(42,787)	(13,966)	(42,246)
Profit from operating activities		67,308	241,933	85,205	256,453
Finance costs, net	17, 20	(21,482)	(47,373)	(14,919)	(42,734)
Foreign exchange (loss)/gain, net	18	(1,642)	14,451	39,502	54,260
Other (expenses)/income, net	20	(2,650)	2,845	(5,653)	(10,791)
Share of (loss)/gain of joint ventures	10	(641)	(2,959)	1,204	3,363
Profit before income tax		40,893	208,897	105,339	260,551
Income tax expenses	19	(7,490)	(14,196)	(4,657)	(7,004)
Profit for the period from continuing operations		33,403	194,701	100,682	253,547
Discontinued operations					
Loss for the period from discontinued operations		—	—	(8,402)	(19,450)
Profit for the period		33,403	194,701	92,280	234,097
Profit for the period attributable to:					
Equity holders of Kernel Holding S.A.		32,932	192,434	92,257	232,618
Non-controlling interests		471	2,267	23	1,479
Earnings per share					
From continuing and discontinued operations					
Weighted average number of shares		80,701,230	80,118,027	79,683,410	79,683,410
Profit per ordinary share (in USD)		0.41	2.40	1.16	2.92
Diluted number of shares		82,749,426	82,292,638	81,417,875	81,302,017
Diluted profit per ordinary share (in USD)		0.40	2.34	1.13	2.86
From continuing operations					
Weighted average number of shares		80,701,230	80,118,027	79,683,410	79,683,410
Profit per ordinary share (in USD)		0.41	2.40	1.26	3.16
Diluted number of shares		82,749,426	82,292,638	81,417,875	81,302,017
Diluted profit per ordinary share (in USD)		0.40	2.34	1.24	3.10

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

	3 months ended 31 March 2017	9 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2016
Profit for the period	33,403	194,701	92,280	234,097
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	6,842	(46,591)	(64,952)	(140,877)
Share of other comprehensive income/(loss) of joint ventures	—	—	3,677	(11,475)
Other comprehensive income/(loss), net	6,842	(46,591)	(61,275)	(152,352)
Total comprehensive income for the period	40,245	148,110	31,005	81,745
Total comprehensive income attributable to:				
Equity holders of Kernel Holding S.A.	39,754	146,139	31,303	81,718
Non-controlling interests	491	1,971	(298)	27

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

Attributable to Kernel Holding S.A. shareholders

	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of 31 March 2016	2,104	463,879	39,944	6,173	39,456	(737,183)	1,138,358	952,731	1,317	954,048
(Loss)/Profit for the period	—	—	—	—	—	—	(7,468)	(7,468)	215	(7,253)
Other comprehensive income	—	—	—	—	4,359	45,298	—	49,657	194	49,851
Total comprehensive income/(loss) for the period	—	—	—	—	4,359	45,298	(7,468)	42,189	409	42,598
Recognition of share-based payments	—	—	—	409	—	—	—	409	—	409
Balance as of 30 June 2016	2,104	463,879	39,944	6,582	43,815	(691,885)	1,130,890	995,329	1,726	997,055
Profit for the period	—	—	—	—	—	—	62,944	62,944	128	63,072
Other comprehensive loss	—	—	—	—	—	(30,272)	—	(30,272)	(166)	(30,438)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(30,272)	62,944	32,672	(38)	32,634
Recognition of share-based payments	—	—	—	509	—	—	—	509	—	509
Balance as of 30 September 2016	2,104	463,879	39,944	7,091	43,815	(722,157)	1,193,834	1,028,510	1,688	1,030,198
Profit for the period	—	—	—	—	—	—	96,558	96,558	1,668	98,226
Other comprehensive loss	—	—	—	—	—	(22,845)	—	(22,845)	(150)	(22,995)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(22,845)	96,558	73,713	1,518	75,231
Distribution of dividends	—	—	—	—	—	—	(20,175)	(20,175)	—	(20,175)
Recognition of share-based payments	—	1,687	—	224	—	—	(1,450)	461	—	461
Increase of share capital	27	—	—	—	—	—	—	27	—	27
Issued capital	—	6,230	—	—	—	—	—	6,230	—	6,230
Balance as of 31 December 2016	2,131	471,796	39,944	7,315	43,815	(745,002)	1,268,767	1,088,766	3,206	1,091,972
Profit for the period	—	—	—	—	—	—	32,932	32,932	471	33,403
Other comprehensive income	—	—	—	—	—	6,822	—	6,822	20	6,842
Total comprehensive income for the period	—	—	—	—	—	6,822	32,932	39,754	491	40,245
Recognition of share-based payments	—	—	—	833	—	—	—	833	—	833
Balance as of 31 March 2017	2,131	471,796	39,944	8,148	43,815	(738,180)	1,301,699	1,129,353	3,697	1,133,050

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 31 March 2017	9 months ended 31 March 2017	3 months ended 31 March 2016	9 months ended 31 March 2016
Operating activities: Profit before income tax		40,893	208,897	97,137	242,011
Adjustments for:					
Amortization and depreciation		13,403	41,013	14,388	45,174
Finance costs, net		21,482	47,373	14,942	44,411
Movement in allowance for doubtful receivables		1,652	4,337	351	1,653
Other accruals		1,849	3,099	939	7,379
(Gain)/Loss on disposal of property, plant and equipment		(136)	(356)	(13)	199
Net foreign exchange loss/(gain)		1,994	(13,280)	(6,595)	3,247
Write-offs and impairment loss		—	1,830	1,018	7,216
Net change in fair value of biological assets and agricultural produce		15,815	(19,250)	16,791	11,615
Share of (gain)/loss of joint ventures	10	641	2,959	(1,204)	(3,363)
(Gain)/Loss on sales of subsidiaries	5	—	(7,008)	6,593	5,766
Net gain arising on financial liabilities designated as at fair value through profit or loss		(44)	(1,720)	—	—
Operating profit before working capital changes		97,549	267,894	144,347	365,308
Changes in working capital:					
Change in trade accounts receivable		(4,895)	(54,814)	(48,569)	(78,290)
Change in prepayments and other current assets		12,792	(7,253)	(3,069)	(3,683)
Change in restricted cash balance		4,191	4,171	5,000	5,000
Change in taxes recoverable and prepaid		69,255	(9,525)	(12,014)	(89,868)
Change in biological assets		(926)	169,198	(1,166)	113,029
Change in inventories		45,720	(361,656)	103,729	(220,979)
Change in trade accounts payable		8,913	8,645	17,855	29,160
Change in advances from customers and other current liabilities		(16,189)	10,689	5,239	19,226
Cash generated by operations		216,410	27,349	211,352	138,903
Finance costs paid		(14,734)	(40,163)	(10,655)	(38,975)
Income tax paid		(1,818)	(4,947)	(406)	(2,675)
Net cash generated by/(used in) operating activities		199,858	(17,761)	200,291	97,253
Investing activities:					
Purchase of property, plant and equipment		(8,649)	(31,153)	(3,446)	(16,114)
Proceeds from disposal of property, plant and equipment		516	1,588	723	1,908
(Purchase)/Sale of intangible and other non-current assets		(186)	(583)	11	(500)
Disposal of subsidiaries		—	2,439	3,433	4,426
Acquisition of subsidiaries		—	—	(37,447)	(51,066)
Purchases of financial assets		(1,340)	(37,664)	—	—
Amount advanced for subsidiaries		—	5,273	1,083	4,250
Net cash used in investing activities		(9,659)	(60,100)	(35,643)	(57,096)
Financing activities:					
Proceeds from borrowings		22,781	344,961	53,474	334,576
Repayment of borrowings		(566,553)	(621,940)	(191,424)	(359,269)
Proceeds from bond issue		493,083	493,083	—	—
Proceeds from share premium reserve increase		—	6,230	—	—
Issued capital		—	27	—	—
Net cash (used in)/generated by financing activities		(50,689)	222,361	(137,950)	(24,693)
Effect of exchange rate changes on the balance of cash held in foreign currencies		478	(176)	(694)	(2,483)
Net increase in cash and cash equivalents		139,988	144,324	26,004	12,981
Cash and cash equivalents, at the beginning of the period		64,605	60,269	111,098	124,121
Cash and cash equivalents, at the end of the period		204,593	204,593	137,102	137,102

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

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

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

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

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

As of 31 March 2017, 31 December 2016 and 31 March 2016, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of		
			31 March 2017	31 December 2016	31 March 2016
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%
Inerco Trade S.A.		Switzerland	100.0%	100.0%	100.0%
Restomon Ltd	Trading in sunflower oil, meal and grain.	British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%	100.0%
Prydniprovskiy OEP LLC		Ukraine	100.0%	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	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	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%	100.0%
Vyshneve-Agro ALLC ⁽¹⁾		Ukraine	100.0%	100.0%	100.0%
Palmira LLC		Ukraine	100.0%	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%	100.0%

These Condensed Consolidated Interim Financial Statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 22 May 2017.

¹ The company was renamed on 15 August 2016 from Agrofirma Kuybyshevo LLC into Vyshneve-Agro ALLC.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group has been Kernel Holding S.A. (Luxembourg) (the 'Holding' or the 'Company'). The issued capital of the Company as of 31 March 2017 consisted of 80,701,230 ordinary electronic shares and as of 31 March 2016 79,683,410 ordinary electronic shares without indication of a nominal value, providing 80,701,230 and 79,683,410 voting rights, respectively.

The shares were distributed as follows:

	As of 31 March 2017		As of 31 March 2016	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	31,245,878	38.72%	31,345,878	39.34%
Free float	49,455,352	61.28%	48,337,532	60.66%
Total	80,701,230	100.00%	79,683,410	100.00%

As of 31 March 2017 and 2016, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

As of 31 March 2017, the fair value of the share-based options granted to the management was USD 8,148 thousand and USD 833 thousand was recognized as an expense (part of payroll and payroll related expenses) during the three months ended 31 March 2017, with a corresponding increase in equity over the vesting period (31 March 2016: USD 6,173 thousand and USD 424 thousand respectively).

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

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

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

hereinafter referred to as the 'TFI PZU Funds', that it had acquired 85,024 shares in Kernel Holding S.A., as a result of which it had crossed on 20 January 2017 the threshold of 10%. As of 20 January 2017, TFI PZU Funds owned 8,151,113 shares in the Company, representing 10.10% of the share capital.

3. Basis of Presentation of Financial Statements

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2017 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 consolidated financial statements. The accounting policies and methods of computation adopted during 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 2016.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2016. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Functional and presentation currency

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

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

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

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

Currency	Closing rate as of 31 March 2017	Average rate for the 3 months ended 31 March 2017	Average rate for the 9 months ended 31 March 2017	Closing rate as of 31 March 2016	Average rate for the 3 months ended 31 March 2016	Average rate for the 9 months ended 31 March 2016
USD/UAH	26.9761	27.0611	26.1019	26.2181	25.6537	23.4001
USD/EUR	0.9350	0.9392	0.9205	0.8807	0.9067	0.9063
USD/RUB	56.3779	58.8366	62.2009	67.6076	74.6283	67.8254
USD/PLN	3.9455	4.0616	4.0019	3.7590	3.9535	3.8699

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

All foreign exchange gains or losses that occur on the revaluation of monetary balances, presented in foreign currencies, are allocated as a separate line in the Condensed Consolidated Interim Statement of Profit or Loss.

Operating segments

Operating segments are reported in a manner consistent with internal reporting as provided to the chief operating decision makers in order to allocate resources to segments and to assess their performance. Management and 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 sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
Export terminals	Grain handling and transshipment services in the ports of Chornomorsk and Mykolaiv.
Farming	Agricultural farming. Production of corn, wheat, soybean, sunflower seed and rapeseed.
Grain	Sourcing and merchandising of wholesale grain.
Silo services	Provision of grain cleaning, drying and storage services.
Other	Income and expenses unallocated to other segments, which are related to the administration of the Holding.

The measure of profit and loss, and assets and liabilities is based on the Group's accounting policies, which are in compliance with IFRS, as adopted by the European Union.

Reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments. The segment data is calculated as follows:

- Intersegment sales reflect intergroup transactions effected on an arm's length basis.
- Capital expenditures, amortization and depreciation related to property, plant and equipment and intangible assets are allocated to segments when possible.

Since financial management of the Group's companies is carried out centrally, borrowings, obligations under financial lease and some other assets and liabilities are not allocated directly to the respective operating segments and are presented in the 'Other' segment. Consequently, the assets and liabilities shown for individual segments do not include borrowings, obligations under financial lease and some other assets and liabilities.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

3. Basis of Presentation of Financial Statements (continued)

Seasonality of operations

The bottled sunflower oil segment is not significantly exposed to seasonality factors. The sunflower oil sold in bulk segment normally has seasonally lower sales in the first quarter of the financial year, which corresponds to the end of the crushing season and lower production levels. The operations of the farming segment reflect seasonality in the context of seeding and harvesting campaigns, which are conducted mainly in November-May and June-October, respectively. The grain, export terminals and silo services segments usually experience higher volumes in the several months after the commencement of the harvesting campaign (July for early grains and September for crops harvested in autumn), though the grain and export terminal segments' seasonality could also be affected by government regulations, among other things.

In addition, the farming segment usually reflects a higher effect from the IAS 41 valuation of biological assets in the second half of the financial year when crops in fields are revalued to their fair value less costs to sell; and a higher effect from the IAS 41 valuation of agricultural produce in the first half of the financial year due to the completion of the harvesting campaign.

4. Key Data by Operating Segment

Key data by operating segment for the three months ended 31 March 2017:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re-conciliation	Continuing operations
Revenue (external)	37,918	300,067	233	7,104	267,985	1,702	—	—	615,009
Intersegment sales	—	—	15,231	65,414	—	10,943	—	(91,588)	—
Total revenue	37,918	300,067	15,464	72,518	267,985	12,645	—	(91,588)	615,009
Net change in fair value of biological assets and agricultural produce	—	—	—	(15,815)	—	—	—	—	(15,815)
Other operating income/(loss), net	—	777	1	3,901	(2,207)	254	—	—	2,726
Profit/(Loss) from operating activities	3,933	22,567	11,687	(2,286)	5,272	7,985	(10,522)	28,672	67,308
Finance costs, net									(21,482)
Foreign exchange loss, net									(1,642)
Other expenses, net									(2,650)
Share of loss of joint ventures									(641)
Income tax expense									(7,490)
Profit for the period from continuing operations									33,403
Total assets	89,142	941,659	116,572	326,825	282,605	54,790	105,905	—	1,917,498
Capital expenditures	68	1,690	651	2,216	—	1,627	207	—	6,459
Amortization and depreciation	450	3,552	763	7,571	—	723	344	—	13,403
Liabilities	6,147	42,500	2,083	48,494	9,945	5,427	669,852	—	784,448

During the three months ended 31 March 2017, two of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 97% of total external sales.

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

The Group has changed the presentation of operating profit in the segment reporting with purpose to reflect the farming segment profitability on intersegment sales. The amount of USD 28,672 represents the utilization of unrealized profit which has arisen on intergroup sales of agricultural products of the farming segment during prior reporting periods. The corresponding amendments have been done to the segment disclosure for the period of three months ended 31 March 2016.

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

	Revenue from external customers	Non-current assets
	3 months ended 31 March 2017	As of 31 March 2017
Ukraine	560,431	694,424
Russian Federation	54,578	49,240
Total	615,009	743,664

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment (continued)

Key data by operating segment for the three months ended 31 March 2016:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	Discontinued operations	Continuing operations
Revenue (external)	30,264	316,981	33	3,868	255,273	1,067	—	—	(307)	607,179
Intersegment sales	—	—	18,030	6,267	—	4,269	—	(28,566)	—	—
Total revenue	30,264	316,981	18,063	10,135	255,273	5,336	—	(28,566)	(307)	607,179
Net change in fair value of biological assets and agricultural produce	—	—	—	(16,791)	—	—	—	—	—	(16,791)
Other operating income, net	69	2,335	3	1,091	2,117	117	—	—	—	5,732
Profit/(Loss) from operating activities	3,014	29,638	11,281	180	21,289	2,278	(7,858)	24,662	721	85,205
Finance costs, net										(14,919)
Foreign exchange gain, net										39,502
Other expenses, net										(5,653)
Share of gain of joint ventures										1,204
Income tax expense										(4,657)
Profit for the period from continuing operations										100,682
Total assets	68,723	873,341	120,050	261,443	160,598	52,359	51,235	—	—	1,587,749
Capital expenditures	5	54,935	675	7,196	—	226	19,308	—	—	82,345
Amortization and depreciation	691	3,962	749	7,901	—	811	274	—	(122)	14,266
Liabilities	5,745	33,760	7,823	46,556	15,513	1,295	524,990	—	—	635,682

During the three months ended 31 March 2016, two of the Group's external customers accounted for more than 10% of total external revenue. Also during that period, export sales amounted to 98% of total external sales.

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

The amount USD 24,662 thousand, shown in reconciliation of operating profit, reflects realized profit, arisen upon intragroup sales of agricultural products by the farming segment, which remained unsold to the third parties as of the beginning of the reporting period.

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

	Revenue from external customers	Non-current assets
	3 months ended 31 March 2016	As of 31 March 2016
Ukraine	570,415	725,983
Russian Federation	36,764	48,970
Total	607,179	774,953

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

5. Acquisition and Disposal of Subsidiaries

No entities were acquired or disposed during the three months ended 31 March 2017.

For the three months 31 March 2016, the Group has acquired pledged assets, which were further registered for Prydniprovskiy OEP LLC, which was accounted as the business combination. As of the date of acquisition, the net assets of oilseed crushing plant were USD 59,090 thousand and mostly consisted of property, plant and equipment in the amount of USD 49,132 thousand. As of 31 March 2016, the consideration paid comprised USD 41,957 thousand and the provisional amount due and payable was USD 22,358 thousand, calculated as the present value of amounts payable in arrears within the next five years discount rate 22.96% (out of which USD 20,842 thousand represented the long-term part within the line 'Other non-current liabilities' and USD 1,516 thousand represented the short-term part within the line 'Advances from customers and other current liabilities').

Initial accounting for the acquisition of the plant has only been provisionally determined as of 31 March 2016, the necessary fair value and other calculations were subject to finalization by independent appraisers. During the year ended 30 June 2016, the Group finalized accounting for the acquisition. The adjustment to provisional values has been made to the following accounts: increase of Advances from customers and other current liabilities in the amount of USD 8,000 thousand with corresponding recognition of goodwill.

The Group does not disclose the revenue and net profit of the acquired oilseed crushing plant as if it has been acquired at the beginning of the reporting period as it is impracticable due to the fact that no IFRS financial information is available for the acquired plant as from the beginning of the reporting period and up to the date of acquisition.

The goodwill in the amount of USD 13,225 thousand arising from the accounting for acquisition of Prydniprovskiy OEP LLC as business combination is attributable to the increasing capacity and the synergies expected to be gained in crushing, origination and marketing, decrease in regional competition for raw materials, and efficiency of scale and is not tax deductible.

During the three months ended 31 March 2016, the Group disposed of two oilseed crushing plants located in the Russian Federation. The net assets of the disposed entities as of the date of disposal were equal to USD 16,122 thousand and the cash consideration received was USD 11,944 thousand. Cash balances disposed of comprised USD 11 thousand and were deducted from the cash consideration received in the Consolidated Statement of Cash Flows. As a result of disposal of oilseed crushing plants (sunflower oil sold in bulk operating segment), for the period ended 31 March 2016, their activities were classified as discontinued operations.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

6. Cash and Cash Equivalents

	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Cash with banks in USD	122,545	42,779	130,923
Cash with banks in UAH	79,626	24,195	4,785
Cash with banks in other currencies	2,525	1,930	1,388
Cash on hand	7	2	6
Total	204,703	68,906	137,102
Less restricted and blocked cash on security bank accounts	(110)	(123)	—
Less bank overdrafts (Note 11)	—	(4,178)	—
Cash and cash equivalents for the purposes of cash flow statement	204,593	64,605	137,102

7. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid decreased to USD 132,213 thousand as of 31 March 2017 from USD 199,636 thousand as of 31 December 2016 mostly due to a decrease in VAT recoverable and prepaid as a result of ordinary operating activity.

8. Inventory

	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Raw materials	177,837	237,227	71,334
Finished products	164,482	120,379	89,408
Agricultural products	76,668	134,891	31,403
Goods for resale	67,748	101,328	30,773
Work in progress	45,726	16,358	42,729
Fuel	2,085	1,718	1,567
Packaging materials	927	900	777
Other inventories	4,288	3,295	3,398
Total	539,761	616,096	271,389

As of 31 March 2017, raw materials were represented mainly by sunflower seeds in the amount of USD 126,858 thousand (as of 31 December 2016 and 31 March 2016: USD 218,622 thousand and USD 36,924 thousand, respectively).

As of 31 March 2017, finished products mostly consisted of sunflower oil in bulk in the amount of USD 141,899 thousand (as of 31 December 2016 and 31 March 2016: USD 95,997 thousand and USD 73,620 thousand, respectively).

As of 31 March 2017, no inventory balances were pledged as security for short-term borrowings; as of 31 December 2016 and 31 March 2016: USD 406,350 thousand and USD 132,965 thousand, respectively (Note 11).

9. Property, Plant and Equipment, net

During the three months ended 31 March 2017, the Group acquired property, plant and equipment in the amount of USD 6,272 thousand (31 March 2016: USD 77,109 thousand including finalized amount of PPE for Prydniprovskiy OEP). Acquired property consist of agricultural vehicles and equipment for the farming segment, production machinery for oil segment and equipment of silo segment.

The increase in property, plant and equipment in the amount of USD 771 thousand resulted from the revaluation of the Ukrainian hryvnia during the three months ended 31 March 2017 (31 March 2016: decrease in the amount of USD 7,489 thousand).

During the three months ended 31 March 2017 depreciation of property, plant and equipment amounted USD 11,541 thousand (31 March 2016: USD 12,091 thousand).

As of 31 March 2017, property, plant and equipment with a carrying amount of USD 86,156 thousand (as of 31 December and 31 March 2016: USD 171,466 thousand and USD 107,199 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 11 and 12).

As of 31 March 2017, property, plant and equipment with a carrying amount of USD 28,052 thousand (as of 31 March 2016: USD nil) were pledged by the Group as guarantee for amount due and payable within the acquisition of Prydniprovskiy OEP.

As of 31 March 2017 and 31 March 2016, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 13,187 thousand and USD 6,649 thousand, respectively. There were no additions during the three months ended 31 March 2017 and 31 March 2016.

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for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

10. Investments in Joint Ventures

For the three months ended 31 March 2017, the share of loss of joint venture (Taman) equaled USD 641 thousand (for the three months ended 31 March 2016: gain USD 1,204 thousand). The total Group's share of total comprehensive loss comprised USD 641 thousand (for the three months ended 31 March 2016: gain USD 4,881 thousand). The difference between the share of gain of joint venture and share of total comprehensive income for the three months ended 31 March 2016 was represented mainly by a change in translation reserve.

The aforementioned result includes depreciation and amortization expenses in the amount of USD 521 thousand (for the three months ended 31 March 2016: USD 449 thousand) and interest expenses in the amount of USD 408 thousand (for the three months ended 31 March 2016: USD 446 thousand).

11. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Bank credit lines	54,858	486,052	305,588
Bank overdrafts	—	4,178	—
Interest accrued on short-term borrowings	198	1,364	1,048
Interest accrued on long-term borrowings	83	1,273	1,137
Total	55,139	492,867	307,773

The balances of short-term borrowings as of 31 March 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	11.75%	UAH	April 2017	13,076
Ukrainian subsidiary of European bank	12.0%	UAH	May 2017	9,638
Ukrainian subsidiary of European bank	11.50%	UAH	April 2017	9,267
Ukrainian subsidiary of European bank	12.0%	UAH	April 2017	7,491
Ukrainian subsidiary of European bank	12.0%	UAH	June 2017	5,603
Ukrainian subsidiary of European bank	3.75%	USD	April 2017	4,996
Ukrainian subsidiary of European bank	12.0%	UAH	May 2017	3,785
Ukrainian subsidiary of European bank	11.0%	UAH	April 2017	1,002
Total bank credit lines				54,858
Interest accrued on short-term borrowings				198
Interest accrued on long-term borrowings				83
Total				55,139

The balances of short-term borrowings as of 31 December 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 5.9%	USD	August 2017	229,426
European bank	Libor + 5.65%	USD	June 2017	154,619
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2017	50,000
Ukrainian subsidiary of European bank	12.5%	UAH	January 2017	16,834
Ukrainian subsidiary of European bank	18.5%	UAH	March 2017	13,109
Ukrainian subsidiary of European bank	4.0%	USD	January 2017	7,870
Ukrainian subsidiary of European bank	13.25%	UAH	March 2017	7,355
Ukrainian subsidiary of European bank	6.5%	USD	March 2017	5,000
European bank	5.0%	USD	February 2017	4,178
Ukrainian subsidiary of European bank	12.25%	UAH	January 2017	1,839
Total bank credit lines				490,230
Interest accrued on short-term borrowings				1,364
Interest accrued on long-term borrowings				1,273
Total				492,867

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

11. Short-term Borrowings (continued)

The balances of short-term borrowings as of 31 March 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 6.25%	USD	August 2016	112,000
European bank	Libor + 6.0%	USD	June 2016	71,700
Ukrainian subsidiary of European bank	Libor + 5.8%	USD	September 2016	47,500
Ukrainian subsidiary of European bank	10.0%	USD	May 2016	33,200
Ukrainian subsidiary of European bank	Libor + 6.25%	USD	August 2016	20,000
Ukrainian subsidiary of European bank	20.0%	UAH	May 2016	11,824
Ukrainian subsidiary of European bank	7.5%	USD	March 2017	5,000
Ukrainian subsidiary of American bank	Libor + 4.5%	USD	July 2016	3,125
European bank	Libor + 7.5%	USD	March 2017	1,239
Total bank credit lines				305,588
Interest accrued on short-term borrowings				1,048
Interest accrued on long-term borrowings				1,137
Total				307,773

As of 31 March 2017, undrawn short-term bank credit lines amounted to USD 5,142 thousand (as of 31 December and March 2016: USD 140,079 thousand and 226,637 thousand, accordingly).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Cash and cash equivalents	—	123	—
Inventory	—	406,350	132,965
Other financial assets	15,420	—	—
Property, plant and equipment	72,596	115,238	62,609
Controlling stakes in Subsidiaries	—	—	Not quantifiable
Total	88,016	521,711	195,574

As of 31 March 2017 and 31 December 2016, stakes in Subsidiaries were not pledged to secure short-term borrowings (31 March 2016: twenty one agricultural companies, two sunflower oil production plants and two export terminals).

12. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Long-term bank borrowings	20,753	122,637	127,006
Current portion of long-term borrowings	(12,751)	(76,460)	(52,086)
Total	8,002	46,177	74,920

The balances of long-term borrowings as of 31 March 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 7.3%	USD	April 2018	12,500
European bank	Libor + 1.65%	USD	March 2020	8,253
Total				20,753

The balances of long-term borrowings as of 31 December 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	57,567
European bank	Libor + 7.5%	USD	February 2018	40,367
European bank	Libor + 7.3%	USD	April 2018	15,000
European bank	Libor + 1.65%	USD	March 2020	9,703
Total				122,637

The balances of long-term borrowings as of 31 March 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.0%	USD	August 2018	83,333
European bank	Libor + 5.5%	USD	February 2018	31,333
European bank	Libor + 1.65%	USD	March 2020	12,340
Total				127,006

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

12. Long-term Borrowings (continued)

As of 31 March 2017, 31 December 2016 and 31 March 2016, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 31 March 2017	As of 31 December 2016	As of 31 March 2016
Cash and cash equivalents	110	—	—
Property, plant and equipment	13,560	56,228	44,590
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	Not quantifiable
Total	13,670	56,228	44,590

As of 31 March 2017, stakes in Subsidiaries were pledged to secure long-term borrowings including controlling stakes in one sunflower oil plant (as of 31 December 2016 controlling stakes in one agricultural company, one sunflower oil plant, one export terminal and one holding company and 31 March 2016: controlling stakes in one agricultural company, one export terminal and one holding company).

13. Bonds Issued

In January 2017 the Group issued USD 500,000 thousand unsecured notes ('the Notes'), that will mature on 31 January 2022. The Notes bear interest from 31 January 2017 at the rate of 8.75% per annum payable semi-annually in arrears on 31 January and 31 July each year commencing from 31 July 2017. As of 31 March 2017, carrying amount of the Notes net of unamortized issue costs and unamortized discount was USD 493,083 thousand (31 March 2016: nil).

The Notes are unsecured, ranking equally with all existing and future senior unsecured indebtedness of the Issuer and have been unconditionally and irrevocably guaranteed by designated Group subsidiaries on the joint and several basis to the maximum extent permitted by law.

The Notes contain certain restrictive covenants that limit the ability of the Issuer and, where applicable, its Restricted Subsidiaries to create or incur certain liens, make restricted payments, engage in amalgamations, mergers or consolidations, or combination with other entities; make certain disposals and transfers of assets; and enter into transactions with affiliates.

The Notes may be redeemed in whole, but not in part, at the option of the Issuer at a price equal to 100 per cent of their principal amount, plus accrued and unpaid interest to the redemption date, in case of specified taxation event. The Notes could be redeemed at any time, at the option of the Issuer, up to 35 per cent of the principal aggregate amount of the Notes ('Equity Offering') at redemption price of 108.75 per cent of their principal amount, plus accrued and unpaid interest to the redemption date.

Upon a Change of Control event each Noteholder has the right, but not the obligation, to require an Issuer to purchase the Notes at the purchase price equal to 100 per cent of their principal amount, plus accrued and unpaid interest to the purchase date.

The Notes were rated in line with the Issuer's IDR by Fitch (B+) and S&P (B), which is two notches and one notch above the sovereign.

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for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

14. Revenue

Revenue was as follows:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Revenue from sunflower oil sold in bulk, sunflower meal and cake	307,474	322,159
Revenue from grain sales	267,985	255,273
Revenue from bottled sunflower oil	30,511	24,779
Revenue from farming	7,104	3,868
Revenue from grain silo services	1,702	1,067
Revenue from transshipment services	233	33
Total	615,009	607,179

15. Cost of Sales

Cost of sales was as follows:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Cost of goods for resale and raw materials used	436,728	410,911
Amortization and depreciation	12,910	13,104
Rental payments	11,639	12,542
Payroll and payroll related costs	9,669	8,614
Other operating costs	3,205	3,364
Total	474,151	448,535

16. Other operating income, net

Other operating income, net was as follows:

	3 months ended 31 March 2017	3 months ended 31 March 2016
VAT benefits	3,729	60
Contracts wash-out (price difference settlement)	1,136	2,601
(Loss)/Gain on sale of hard currency	(70)	1,593
Other operating (loss)/income	(2,069)	1,478
Total	2,726	5,732

17. Finance costs, net

Finance costs, net were as follows:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Interest expense on bank loans	13,823	14,053
Interest expense on bonds	7,314	—
Other finance costs, net	345	866
Total	21,482	14,919

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18. Foreign Exchange (Loss)/Gain, net

Foreign exchange (loss)/gain, net was related to the following balances:

	3 months ended 31 March 2017	3 months ended 31 March 2016
Revaluation of balances nominated in foreign currencies	1,292	20,788
VAT recoverable and prepaid	1,171	(7,351)
Borrowings nominated in foreign currencies	(895)	22,706
Cash and cash equivalents nominated in foreign currencies	(418)	(1,621)
Obligations under financial leases	245	(62)
Corporate income tax prepaid	133	(1,786)
Other	(3,170)	6,828
Total	(1,642)	39,502

During the period under review, the Ukrainian hryvnia almost hasn't changed against the US dollar (8% of devaluation during the three months ended 31 March 2016) and the Russian ruble revalued by 8% against the US dollar (8% as well, during the three months ended 31 March 2016). The Company's subsidiaries operate with different functional currencies (namely, the US dollar and Ukrainian hryvnia) and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's enterprises if they had different functional currencies.

19. Income Tax

The difference between the income tax charge reported in the accompanying Condensed Consolidated Interim Financial Statement of Profit or Loss and income before tax, multiplied by the respective statutory tax rates, is mainly due to the non-deductibility of certain expenses for income tax purposes and the effect of the farming companies of the Group, which are subject to a fixed agricultural tax regime and are not subject to corporate income tax. As of 31 March 2017, the Group prepaid USD 13,247 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (as of 31 December 2016 and 31 March 2016: USD 17,974 thousand and USD 21,154 thousand, respectively). The decrease was mostly connected to the ordinary operating activities.

20. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances	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 2017		As of 31 December 2016	
Prepayments to suppliers and other current assets, net	20,496	72,652	19,159	81,248
Other non-current assets	258	19,880	257	17,117
Advances from customers and other current liabilities	17,899	103,377	17,983	110,494
Other non-current liabilities	13,030	38,190	13,030	38,317

As of 31 March 2017 and 31 December 2016, the Group did not create an allowance for prepayments to suppliers and other current and non-current assets from related parties.

As of 31 March 2017 and 31 December 2016, prepayments to suppliers and other current assets include payment made to Namsen Limited in the amount of USD 6,890 thousand as part of settlement of liabilities due to Namsen Limited, which will become legally enforceable for offset subsequently to issue of financial statements.

As of 31 March 2017, advances from customers and other current liabilities included USD 514 thousand in bonuses payable to the management (31 December 2016: USD 1,031 thousand).

As of 31 March 2017 and 31 December 2016, USD 7,836 thousand in dividends payable due to Namsen Limited were included in advances from customers and other current liabilities

Advances from customers and other current liabilities as of 31 March 2017 and 31 December 2016 included an interest-free financial liability in the amount of USD 7,043 thousand due to Namsen Limited.

Other non-current liabilities as of 31 March 2017 and 31 December 2016 included 4% interest-bearing financial liability in the amount of USD 9,977 thousand due to Namsen Limited.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

All remaining outstanding balances with related parties, which are presented in the table above, were represented by amounts due to companies under common control.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

20. Transactions with Related Parties (continued)

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 2017		3 months ended 31 March 2016	
Revenue	77	615,009	—	607,179
Cost of sales	(67)	(474,151)	—	(448,535)
General, administrative and distribution expenses	(4,129)	(60,461)	(4,150)	(62,380)
Finance costs, net	(70)	(21,482)	(24)	(14,919)
Other income/(expenses), net	22	(2,650)	(3,548)	(5,653)

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

For the three months ended 31 March 2017, distribution expenses included USD 2,476 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the three months ended 31 March 2016: USD 1,752 thousand).

All other transactions occurred with related parties under common control.

As of 31 March 2017, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the three months ended 31 March 2017 amounted to USD 128 thousand (31 March 2016: 8 directors, USD 132 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 10 people, amounted to USD 593 thousand for the three months ended 31 March 2017 (31 March 2016: 10 people, USD 1,145 thousand).

Members of the Board of Directors and management team are not granted any pensions, retirement or similar benefits by the Group. The management of the Group has been provided with options to purchase shares of the Holding (Note 2).

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

21. Commitments and Contingencies

Taxation and legal issues

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 March 2017, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. In the meantime, the final payment shall be due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect to claims against the sellers. The Group submitted several claims to the sellers in respect to the non-fulfillment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case and directions on next steps are awaited from the tribunal. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 31 March 2017, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for a total amount of USD 37,527 thousand (31 December 2016: USD 38,321 thousand), from which USD 19,154 thousand related to VAT recoverability (31 December 2016: USD 20,083 thousand), USD 18,099 thousand related to corporate income tax (31 December 2016: USD 17,966 thousand) and USD 274 thousand related to other tax issues (31 December 2016: USD 272 thousand).

As of 31 March 2017, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 17,696 thousand (31 December 2016: USD 17,556 thousand) of the aforementioned amount. Of this amount, USD 4,921 thousand related to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (31 December 2016: USD 4,882 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Ukraine's tax environment is characterized by complexity in tax administration, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties and interest, and these amounts could be material.

Starting from 1 January 2016, the approach to special VAT regime for the agricultural industry in Ukraine in a part of VAT payments has been changed. According to the Law 'On amending the Tax Code of Ukraine and certain legislative acts of Ukraine in terms of ensuring the balanced budget receipts in 2016', agricultural producers are entitled to retain only a portion of VAT on agricultural operations.

Thus, starting from 1 January 2016, as a result of the new legislation, the Group's agricultural farms, engaged in growing crops, retained only 15% of the net VAT liability versus 100% retained previously.

Special tax treatment of agricultural enterprises continued to apply only up to 1 January 2017. Starting from 1 January 2017, 100% of net VAT liabilities are paid to the Government.

The Group imports goods and services, which may potentially be in the scope of the new Ukrainian TP regulations. The Group has submitted a controlled transaction report within the required deadline. Management believes that the Group is in compliance with TP requirements.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2017 (in thousands of US dollars, unless otherwise stated)

21. Commitments and Contingencies (continued)

Operating environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2017, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity and volatility of financial markets. In January 2016, the agreement on the free trade area between Ukraine and the EU came into force. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In 2016, average inflation amounted to 13.9% comparing to 48.7% in 2015. Despite the fact that the cumulative inflation in Ukraine for the three latest years slightly exceeded 100%, management believes that the Ukrainian economy is not hyperinflationary due to slowing down of inflation during 2016 and lack of qualitative characteristics of the hyperinflationary economic environment.

The economic situation began to stabilize in 2016, which resulted in GDP growth around 1% and stabilization of Ukrainian Hryvnia. This allowed the National Bank of Ukraine to ease some foreign exchange restrictions imposed during 2014-2015, including decrease of the required share of foreign currency proceeds sale to 50% and permission of dividends remittance. However, certain other restrictions were prolonged. Significant external financing is required to support the economy. During 2015-2017, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

Capital commitments

As of 31 March 2017, the Group had commitments under contracts with a group of suppliers for a total amount of USD 5,092 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal (31 March 2016: the Group had commitments under contracts with a group of suppliers for a total amount of USD 8,578 thousand).

Contractual commitments on sales

As of 31 March 2017, the Group had entered into commercial contracts for the export of 945,628 tons of grain and 755,037 tons of sunflower oil and meal, corresponding to an amount of USD 183,901 thousand and USD 261,131 thousand, respectively, in contract prices as of the reporting date.

As of 31 March 2016, the Group had entered into commercial contracts for the export of 629,304 tons of grain and 382,115 tons of sunflower oil and meal, corresponding to amounts of USD 109,996 thousand and USD 120,474 thousand, respectively, in contract prices as of the reporting date.

22. Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for the year ended 30 June 2016. Management considers that the carrying amounts of financial assets and financial liabilities recognized in the condensed consolidated interim financial statements approximate their fair values as of 31 March 2017 and 2016. The estimation of the fair value of borrowings was made using level 2 inputs according to IFRS 13, in accordance with valuation pricing models based on discounted cash flow analysis and observable interest rates available on the market within the three months ended 31 March 2017 and 2016.

As of 31 March 2017, other financial assets included financial assets classified as at fair value through profit or loss, which are presented by government bonds in the amount of USD 25.5 million classified as held for trading since they had been acquired principally for trading purposes in the near time (as of 31 December 2016 and 31 March 2016: USD 25.8 million and nil, respectively).

Financial assets at fair value through profit or loss are stated at fair value, with any gain or losses arising on remeasurement recognized in profit or loss and included in the 'Other income/(expenses), net' line item. Fair value was determined by using the fair value measurement in the three hierarchy levels, whereas Level 1 is prescribed by IFRS 13 Fair value remeasurement through quoted bid prices on an active market.

23. Subsequent Events

No subsequent events occurred after the reporting date.